

Business Support and Digital Overview and Scrutiny Committee

19 June 2025

CIPFA Assurance Report

Report from: Phil Watts, Chief Operating Officer (Section 151 Officer)

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Summary

This report presents the Assurance Report produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of Medway Council's agreed Exceptional Financial Support (EFS) for 2024/25.

1. Recommendations

1.1. The Committee note the findings of the CIPFA Assurance Report 2024/25.

2. Budget and policy framework

2.1. The Cabinet is responsible for proposing a capital and revenue budget to Full Council for approval each year having first consulted the Overview and Scrutiny Committees.

3. Background

3.1. In December 2023 the Cabinet instructed officers to engage with the Ministry of Housing, Communities and Local Government (MHCLG) to request EFS in order to close the then projected budget gap for 2024/25. In February 2024 MHCLG confirmed that it was 'minded to' approve a capitalisation direction of up to £14.472 million for the financial year 2024/25.

3.2. As with all support through the EFS scheme, this capitalisation direction was subject to the completion of an independent review to provide assurance to the Government over the financial position, whether the Council has appropriate financial management arrangements and whether the level of EFS requested was warranted. MHCLG commissioned CIPFA to deliver the review for Medway and the work took place during the period July to September 2024. The final report was published via the Government's website on 13 March 2025 and is provided as Appendix 1 to this report.

4. Assurance Review findings and recommendations

4.1. MHCLG required CIPFA to review the Council against four key areas and a brief summary of their findings, along with details of all risks and recommendations raised in each area, is provided below. An update on progress in delivering the recommendations is provided at section 4.6 of this report. In summary, the report noted that the Council “is making great efforts to achieve a financially sustainable position and to balance spending with funding in the medium-term, and it is achieving some measure of success, [...] has taken what might be regarded as “politically unattractive” decisions and is both receptive and responsive to the advice given to it, to achieve greater financial resilience.” The report concluded that the Council would require EFS of the sum identified and that it would be necessary for the Council to seek support beyond the 2024/25 financial year. In response to the review, MHCLG issued a further ‘minded to’ letter setting out expanded support required to fund the 2024/25 outturn position alongside the support required to balance the 2025/26 budget.

4.2. Review Area 1: Financial Management/Sustainability

4.2.1. The review found that the Council has made significant progress in strengthening its financial management following CIPFA’s January 2024 review, including improved forecasting, enhanced budget holder accountability, and better alignment of financial planning. The finance function has been reinforced with additional investment and is regarded as strong, with high-quality reporting and effective leadership. Risk management processes are well-established, with regular assessments and clear mitigation strategies reported to Cabinet and oversight by the Audit and Scrutiny Committees considered effective.

4.2.2. The report highlights that the Council is facing significant financial pressures in Adult Social Care and Children’s Services, despite having the lowest Council Tax in Kent and spending less per capita than similar authorities. The report notes that the Medium-Term Financial Outlook produced in 2024 projected a substantial funding gap and flags the risk that the Council may be unable to contain the drivers of financial fragility, recommending that the preventative and cost reduction measures being taken be reviewed to contain or limit the impact of these drivers. At the time of review, a £15.815 million overspend was forecast for 2024/25, exceeding general fund reserves. The report warns that the Council may be unable to contain this overspend and could need to draw on reserves. The report recommended that the Council should act to limit spending, and to undertake a review of earmarked reserves to preserve the general fund balance.

4.2.3. The review found that the Council has maintained a strategy for the Flexible Use of Capital Receipts (FUCR) since 2020/21, applying it to key initiatives like the Children’s Improvement and Transformation Programmes. While no new capital receipts are included in the 2024/25 budget, the report notes the Council was carrying out a review of its property portfolio to identify assets for disposal to support future funding needs. The report notes that the 2024/25 budget was balanced using £14.742 million of Exceptional Financial

Support (EFS), and that at that stage the Medium-Term Financial Outlook projected significant funding gaps in 2025/26 and 2026/27, resulting from a low tax base and limited control over funding and demand pressures. The review concludes that the Council is making determined efforts to achieve financial sustainability, including politically difficult decisions, but may need to take further such steps. The report flagged the risk that the Council may not be able to identify measures to close the projected budget gaps and recommended that a realistic level of EFS required be identified, in combination with radical plans to curb spending and maximise funding.

4.3. Review area 2: capital programme, debt, investment and assets

4.3.1. The review provides assurance over the Council's arrangements to manage the capital programme and for sound treasury management in line with the Council's Treasury Management Strategy. In the Council-commissioned Resilience Review published in early 2024, CIPFA reviewed the companies and made a number of recommendations, including the establishment of Cabinet Sub-Committees as Shareholder Boards. At the time of this review, while MDC and Kyndi Boards had met, Medway Norse's inaugural meeting took place in June 2024. The Council had made significant loans to MDC and the report notes that these loans are considered compliant with Minimum Revenue Provision (MRP) guidance.

4.3.2. The review noted that Kyndi Limited was identified as needing a refreshed business plan and strategic direction. A Shareholder Board meeting in June 2024 reviewed proposals for restructuring and growth, concluding that further work is required. The Council has also provided Kyndi with a working capital loan of £1.144million, due for repayment by May 2028. The report flagged the risk that plans for Kyndi's restructuring and renewed strategic direction might not be finalised in a timely manner and recommended that plans be finalised and approved by the Kyndi Shareholder Board.

4.3.3. The report noted that Medway Norse had continued to operate without a formal contract since the expiry of its Service Agreement in May 2023. Although a letter of intent was issued and negotiations began, a new agreement has yet to be executed, limiting the Council's ability to realise potential savings. While overarching terms and agreements for key services such as SEND transport, waste management, and street cleaning have been agreed, they had not been signed at the date of the review. The report identified the risk that the Council continued to engage Medway Norse without an executed service agreement and recommended that the overarching service agreement and terms for services be signed. The report also identified the risk that failure to agree terms for services with Medway Norse could mean opportunities to deliver efficiencies and cost reductions, and recommended an interim agreement be executed and sufficient focus and capacity be directed to completing negotiations and executing terms.

4.4. Review area 3: governance

4.4.1. The review noted that despite a change in leadership in 2023, Medway Council continues to operate under robust and well-understood governance

arrangements, with the quality of reports to Council and committees consistently high, and governance arrangements widely understood and considered effective across the organisation. The review notes that the One Medway Council Plan 2024/28 is underpinned by core values, behaviours, and five key principles, including a focus on financial sustainability in response to the January 2024 Financial Resilience Review, and the plan provides a clear and cohesive strategic direction for the Council.

- 4.4.2. The report notes that the January 2024 Financial Resilience Review raised cultural issues that appear to have been addressed at the time of this review, and the review concluded that CIPFA's impression is of a strong leadership at both Member and Officer level, which encourages collaboration and challenge in achieving the council's vision based around a common agenda and common values. The report concludes that the Council has fully acknowledged the serious challenges highlighted in the January 2024 Financial Resilience Review and has shown a commendable openness to constructive criticism, with no defensiveness even when facing difficult issues. Through initiatives such as the FIT Plan, the One Medway Council Plan, the Medway 2.0 Roadmap, and the successful implementation of monthly forecasting, the Council has demonstrated both the capacity and willingness to drive necessary change. While significant operational improvements are still needed, the Council recognises this as an ongoing journey and has actively sought external advice and support from organisations like CIPFA, LG Improve, and Partners in Care and Health to aid its transformation efforts.

4.5. Review area 4: service delivery

- 4.5.1. The report sets out that the Council has made notable progress in aligning its strategic and financial planning through the Financial Improvement and Transformation (FIT) Plan, which supports the One Medway Council Plan 2024/2028. Performance in 2023/24 was tracked using 46 metrics focused on outputs and outcomes, however CIPFA identified a risk that a lack of focus on efficiency measures may not best support Member decision making and the report recommended efficiency measures be developed. Spending on statutory services including Adult Social Care and Education was below the median of statistical neighbours, suggesting relative efficiency however higher-than-average spending on Housing, Environmental, and Cultural Services were flagged as areas for review. The report concluded that at the time of the review, monitoring of progress against the FIT plan was broadly on track but noted a risk that some areas including Adult Social Care lack overarching transformation plans and clear milestones. The report notes the FIT plan activity to improve procurement and contract management but flags the risk that unless working practices are changed, progress might be undermined. The report recommended that Internal Audit carry out an assessment of compliance with the revised arrangements and the suitability of KPIs being developed.

4.6. Update on recommendations

- 4.6.1. **Recommendation 1: Review the preventative and cost reduction measures the Council is taking to contain or limit the impact of these drivers of financial fragility.** Update: See the 2025/26 Revenue Budget and the 2025-27 FIT Plan.
- 4.6.2. **Recommendation 2: The council acts to limit spending to within the approved budget and, if this proves unfeasible, undertakes a further review of Earmarked Reserves to fund any shortfall and preserve the General Fund Balance at £10 million.** Update: A review of earmarked reserves was carried out and identified £5.7million of earmarked reserves that were no longer required for their original purpose. In February 2024 alongside the budget for 2024/25, Council agreed that these sums be declassified and alongside the Outturn for 2023/24, a further £807,000 was declassified taking general reserves to £16.8million. It was however necessary to use £6.7million of reserves to fund the outturn position for the 2023/24 year, taking general reserves to £10.065million as at 31 March 2024.
- 4.6.3. **Recommendation 3: Identify realistic level of EFS required in combination with radical plans to curb spending and maximise funding.** Update: In December 2024 a request was submitted to the Government seeking a further £11.221million in respect of 2024/25, in addition to the £14.742million incorporated in the budget, to fund the overspend projected at Round 2 should that arise at year end. Strict spending control and management action resulted in a reduction in the overspend forecast in 2024/25 and the outturn, reported to Cabinet in June 2025 was reduced to £5.497million.
- 4.6.4. **Recommendation 4: Ensure Kyndi finalises plans for approval by the Kyndi Shareholder Board.** Update: Kyndi's Strategic Plan 2024-27 was approved by the Cabinet Sub-committee on 11 June 2024.
- 4.6.5. **Recommendation 5: Ensure execution of overarching Service Agreement and terms for the services for which agreement have been reached.** Update: This remains work in progress.
- 4.6.6. **Recommendation 6: Execute interim agreement and then ensure sufficient focus and capacity to complete negotiations and execute terms for services where negotiations are yet to commence in a timely manner.** Update: The joint venture continues to operate under an updated letter of intent, signed by all parties and a clear timeline to reach agreement about the services to be delivered from April 2026
- 4.6.7. **Recommendation 7: That the Council develop efficiency measures associated with key One Medway Council Plan priorities and sub-priorities.** Update: The Council measures efficiency through the FIT Plan and the refreshed Plan comprises a combination of savings targets and actions to deliver improved service delivery and efficiency.

4.6.8. **Recommendation 8: Medway should set out clear plans for the changes required in adult social care and waste management services to enable progress to be monitored.** Update: The FIT Plan identifies a number of savings targets and actions to deliver improved service delivery and efficiency within Adult Social Care, under Priority 1. The Waste Strategy is a key action within the FIT Plan.

4.6.9. **Recommendation 9: Internal Audit should be invited to review compliance with the revised procurement arrangements and the suitability of the KPIs being developed for key contracts.** Update: This features on the 2025/26 Internal Audit Plan.

5. Risk management

5.1. The risks identified by the review are set out in Appendix 1 along with recommended action.

6. Financial implications

6.1. The Assurance Review was commissioned and funded by MHCLG.

6.2. The Council's budget for 2024/25 agreed in February 2024 included funding of £14.742million through a capitalisation direction through the EFS scheme. In December 2024 a request was submitted to the Government seeking a further £11.221million in respect of 2024/25, in addition to the £14.742million incorporated in the budget to fund the overspend projected at Round 2 should that arise at year end. As set out in the 2024/25 Outturn reported to the Cabinet on 3 June 2025, it was only necessary to take £5.497million of this additional EFS agreed. The request submitted in December 2024 also included support of £26.177million as per the potential budget gap projected for 2025/26 at that stage. The final 2025/26 budget approved by Council in February includes funding of £18.184million through a capitalisation direction through the EFS scheme.

7. Legal implications

7.1. There are no direct legal implications to this report. The Council has a statutory duty to set a balanced budget no later than 11 March in the financial year preceding the one in respect of which the budget is set. It has been necessary to secure EFS in order to balance the budget agreed for both 2024/25 and 2025/26.

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Appendices

Appendix 1 – CIPFA Assurance Review 2024/25

Background papers

None