



Medway Council

Interim Auditor's Annual Report
Year ending 31 March 2025

26 February 2026



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

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01 Introduction and context

Introduction

This report brings together a summary of all the work we have undertaken for Medway Council during 2024/25 as the appointed external auditor. The core element of the report is the commentary on the Value for Money (VfM) arrangements. The responsibilities of the Council are set out in Appendix A. The Value for Money Auditor responsibilities are set out in Appendix B.

Opinion on the financial statements

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

- give a true and fair view of the financial position of the Council as at 31 March 2025 and of its expenditure and income for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2024/25
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014

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

Auditor's powers

Under Section 30 of the Local Audit and Accountability Act 2014, the auditor of a local authority has a duty to consider whether there are any issues arising during their work that indicate possible or actual unlawful expenditure or action leading to a possible or actual loss or deficiency that should be referred to the Secretary of State. They may also issue:

- Statutory recommendations to the full Council which must be considered publicly
- A Public Interest Report (PIR).

Value for money

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 (referred to as Value for Money). The National Audit Office (NAO) Code of Audit Practice ('the Code'), requires us to assess arrangements under three areas:

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

Our report is based on those matters which come 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. The NAO has consulted on and updated the Code to align it to accounts backstop legislation. The new Code requires auditors to share a draft Auditor's Annual Report (AAR) with those charged with governance by a nationally set deadline each year, and for the audited body to publish the AAR thereafter. This new deadline requirement is introduced from November 2025.

Local government – context

Local government has remained under significant pressure in 2024/25

National

Past



Funding Not Meeting Need

The sector has seen prolonged funding reductions whilst demand and demographic pressures for key statutory services has increased; and has managed a period of high inflation and economic uncertainty.



Workforce and Governance Challenges

Recruitment and retention challenges in many service areas have placed pressure on governance. Recent years have seen a rise in the instance of auditors issuing statutory recommendations.

Local

Medway Council is a unitary authority serving a population of approximately 280,000 residents across the Medway towns in Kent. The Council operates under a Leader and Cabinet executive model, which oversees the development and implementation of major policies, strategies, and plans. Formal decision-making is carried out through Full Council and the Cabinet, supported by a structure of Overview and Scrutiny Committees that hold the executive to account.

The Council comprises 59 councillors, elected every four years across 24 wards. The most recent elections were held in May 2023, resulting in a Labour majority. However, following by-elections in early 2025, the Council briefly entered a period of no overall control, before Labour regained a majority in April 2025.

It is within this context that we set out our commentary on the Council's value for money arrangements in 2024/25.

Present



Financial Sustainability

Many councils continue to face significant financial challenges, including housing revenue account pressures. There are an increasing number of councils in receipt of Exceptional Financial Support from the government.



External Audit Backlog

Councils, their auditors and other key stakeholders continue to manage and reset the backlog of annual accounts, to provide the necessary assurance on local government finances.

Future



Funding Reform

The UK government plans to reform the system of funding for local government and introduce multi-annual settlements. The state of national public finances means that overall funding pressures are likely to continue for many councils.



Reorganisation and Devolution

Many councils in England will be impacted by reorganisation and / or devolution, creating capacity and other challenges in meeting business as usual service delivery.

02 Executive Summary

Executive Summary – our assessment of value for money arrangements

Our overall summary of our Value for Money assessment of the Council's arrangements is set out below. Further detail can be found on the following pages.

Criteria	2023/24 Assessment of arrangements	2024/25 Risk assessment	2024/25 Assessment of arrangements
Financial sustainability	Red Significant weakness in arrangements identified in relation to arrangements for achieving a balanced budget and improvement recommendations also raised.	One risk of significant weakness identified in relation to achieving a balanced budget and reserves balances.	Red Significant weakness in arrangements for achieving a balanced budget were identified and a key recommendations raised relating to acceleration of savings and 2 improvement recommendations related to contingency planning and risk mitigations related to provision of loans.
Governance	Red Significant weaknesses identified in relation to preparing draft accounts and improvement recommendations raised.	One risk of significant weakness identified in relation to the accounts and audit timetable	Red Significant weakness identified in relation to preparing draft accounts and supporting the audit process. A contributing factor has been capacity issues within the Council's finance team. We have raised a key recommendation as a result.
Improving economy, efficiency and effectiveness	Amber No significant weaknesses identified; improvement recommendations raised in relation to around Local Government and Social Care Ombudsman findings	No risks of significant weakness identified	Green No significant weaknesses in arrangements identified.

Green No significant weaknesses or improvement recommendations.

Amber No significant weaknesses, improvement recommendation(s) made.

Red Significant weaknesses in arrangements identified and key recommendation(s) made.

Executive summary

We set out below the key findings from our commentary on the Council's arrangements in respect of value for money.



Financial sustainability

Medway Council faces significant financial challenges, with recurrent overspending in Adult and Childrens Services and reliance on Exceptional Financial Support (EFS) to balance its budget. While the Financial Improvement and Transformation (FIT) Plan delivered 87% of savings in 2024/25, early 2025/26 reporting shows risk to full delivery. The Financial Outlook projects an annual budget gap of **£51 million** by 29/30 after delivery of planned savings, with limited reserves. Financial planning is improving, but scenario modelling remains limited, and transformation savings are uncertain. Governance and monitoring have strengthened, yet resilience is fragile. Urgent action is needed to accelerate savings delivery and embed contingency measures to safeguard financial sustainability and as a result there is still a significant weakness in financial sustainability.



Governance

The Council has a structured governance framework that supports financial management, informed decision-making, and compliance. Risks and internal controls are monitored through regular reporting and internal audit, with fraud prevention supported by dedicated plans.

Performance is tracked through established reporting mechanisms, supporting statutory obligations and enabling corrective action. Decision-making is transparent and supported by assessment of impacts, with scrutiny and audit functions providing assurance. Standards of conduct and compliance are maintained through codes of practice, organisational values, and procurement rules.

Whilst statutory accounts were produced in line with deadlines, there continues to be issues to address over the quality of the preparation of the accounts and backing working papers due to delays and capacity challenges within the Authority.



Improving economy, efficiency and effectiveness

There is a clear and structured approach to evaluating its performance and driving improvements. It uses financial and performance data to monitor progress against strategic objectives, with quarterly reports highlighting achievements and areas needing attention. Evaluations are informed by external reviews, such as Ofsted and CQC inspections, and has led to targeted improvement plans. The Council engages actively with stakeholders and partners to ensure its objectives are met, and it monitors the impact of commissioned services through structured procurement oversight and risk management. These arrangements support continuous improvement and alignment with strategic goals.

Executive summary – auditor’s other responsibilities

This page summarises our opinion on the Council’s financial statements and sets out whether we have used any of the other powers available to us as the Council’s auditors.

Auditor’s responsibility

2024/25 outcome

Opinion on the Financial Statements

We have now completed our audit of your financial statements and plan to issue a disclaimer of opinion, following the February Audit Committee meeting.

Detailed commentary on the audit of the 2024/25 financial statements will be provided separately in the respective Audit Findings Reports (AFR) for the Council. Requests for this Audit Findings Report should be directed to the Council.

Use of auditor’s powers

We have not yet issued any written statutory recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

We did not make an application to the Court or issue any Advisory Notices under Section 28 of the Local Audit and Accountability Act 2014.

We did not make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We did not identify any issues that required us to issue a Public Interest Report (PIR) under Schedule 7 of the Local Audit and Accountability Act 2014.



03 Opinion on the financial statements and use of auditor's powers

Opinion on the financial statements

These pages set out the key findings from our audit of the Council's financial statements, and whether we have used any of the other powers available to us as the Council's auditors.

Audit opinion on the financial statements

We have now completed our audit of your financial statements and plan to issue a disclaimer of audit opinion, following the February Audit Committee meeting.

The full opinion is included in the Council's Annual Report for 2024/25, which can be obtained from the Council's website.

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 2025 and of its expenditure and income for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2024/25
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with: International Standards on Auditing (UK), the Code of Audit Practice (2024) 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.

Findings from the audit of the financial statements

We have not been able to complete our testing in number of areas ahead of backstop deadline as explained in the Audit Findings Report presented alongside this report. As a result, we will be issuing a disclaimer of audit opinion for the 2024/25 audit.

Audit Findings Report

We report the detailed findings from our audit in our Audit Findings Report. A final version of our report was presented to the Council's Audit Committee on 26 February 2026. Requests for this Audit Findings Report should be directed to the Council.

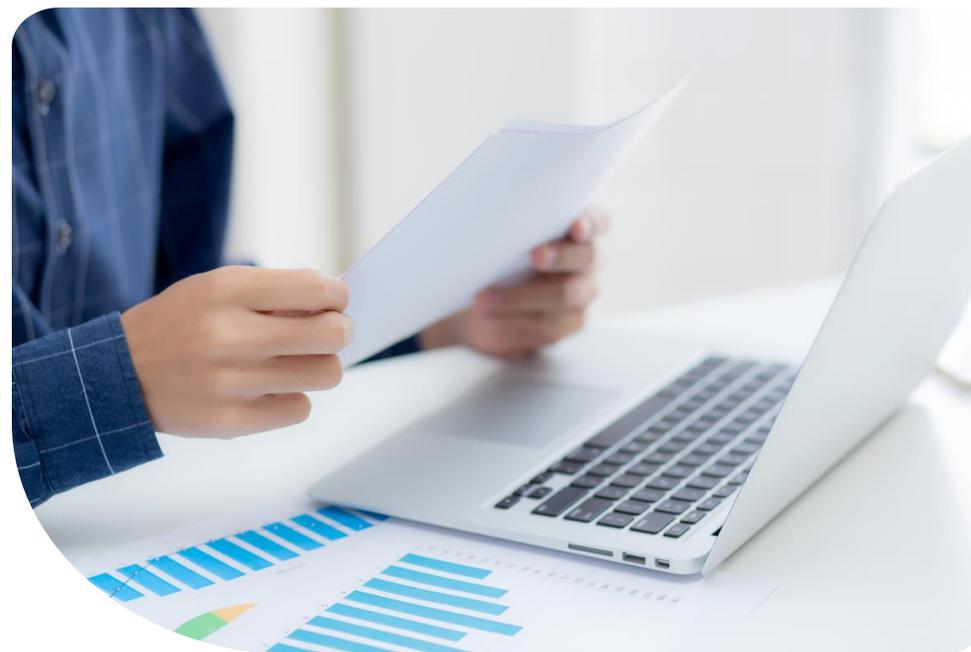
Other reporting requirements

Annual Governance Statement

Under the Code of Audit Practice published by the National Audit Office we are required to consider whether the Annual Governance Statement does not comply with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting, or is misleading or inconsistent with the information of which we are aware from our audit.

We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

Due to the disclaimer of opinion, we have not formed a view on the whether the Annual Governance Statement complies with the relevant requirements.



Use of auditor's powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body.

We have not issued any written statutory recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

Public Interest Report

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

We do not plan to issue a report in the Public Interest with regard to arrangements at the Council for 2024/25.

04 Value for Money commentary on arrangements

Value for Money – commentary on arrangements

This page explains how we undertake the value for money assessment of arrangements and provide a commentary under three specified areas.

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. Council's 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 (NAO) Code of Audit Practice ('the Code'), requires us to assess arrangements under three areas:



Financial sustainability

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



Governance

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

Financial sustainability – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	<p>The Council continues to face significant financial challenges, with a recurring pattern of overspending in Adult and Children’s Services. The 2024/25 budget included £33 million of planned savings however the Council remained reliant on Exceptional Financial Support (EFS) to balance its budget, with £20.239 million used in 2024/25. Despite increased budget allocations, Adult and Children’s Services reported overspends of £9.7 million in 2024/25, and forecasts for 2025/26 show that these pressures are ongoing. The council is unable to contain the overspend in 2024-25 and is required to fund any shortfall from reserves.</p> <p>For the 2025/26 budget a further programme of £28.8 million savings have been identified with further £18 million of EFS approved to balance the budget. EFS is assumed to be financed through additional borrowing, the costs of which are incorporated in the budget. Council unallocated general reserve was £10.6m as at 31 March 2025, and without EFS support, the Council’s reserves would likely have been depleted.</p> <p>The Medium Term Financial Outlook identifies future financial pressures and is reporting a budget gap by 2028/29 of £51.4 million, but with no specific savings plans to balance the budget beyond the current financial year.</p> <p>The Council’s debt levels have increased, with borrowing rising by £58.3 million in 2024/25, and the Capital Financing Requirement continues to grow, reflecting the scale of capital commitments, use of EFS and loans to its subsidiaries.</p> <p>The Council continue to not charge Minimum Revenue Provision (MRP) to its revenue budget for the capital value of £76 million in loans made to its wholly owned subsidiary, Medway Development Company. This is based on judgement between ‘performing’ and ‘non-performing’ loans. Medway Development Company had negative reserves of £10m at 31 March 2025 and therefore the approach to not charge MRP defers potential revenue costs but increases risk. We have raised an improvement recommendation related to the financial risk this presents to the Council’s financial sustainability.</p> <p>Overall, the Council has arrangements in place to identify and deliver savings, supported by a medium-term financial strategy and transformation programme. However, the scale of the financial challenge and continued reliance on government support underline the importance of robust delivery and monitoring.</p>	Red

Financial sustainability – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
plans to bridge its funding gaps and identify achievable savings	The Council has adopted a 'One Medway Financial Improvement and Transformation Plan' (FIT) starting in the prior year which is regularly reported through to Cabinet. The Council achieved £28.6m (87%) of its 2024/25 savings target and has embedded stakeholder consultation and Member scrutiny in the development of future plans. The 25/26 budget includes a plan of £28 m in addition to £18m of EFS. Development and monitoring of savings has improved however plans remain focussed on the single year rather than a longer medium term approach. The introduction of the FIT is a critical condition relating to the Council's request for EFS	Red
ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system	<p>The Council has developed and integrated a suite of strategic plans—including the Medium Term Financial Outlook (MTFO), Capital Strategy, Treasury Management Strategy, Property Asset Management Strategy, and the Financial Improvement and Transformation (FIT) Plan—which collectively underpin its financial planning framework. These plans are broadly consistent with operational and corporate priorities, including workforce planning, asset management, and service redesign. The MTFO incorporates key assumptions from the Workforce Strategy and capital programme, while the FIT Plan outlines targeted service transformation aligned with inspectorate findings and financial recovery objectives.</p> <p>The updated Property Asset Management Strategy, approved by Cabinet in October 2024, sets out a phased approach to reviewing and rationalising the Council's property portfolio. It identifies assets for disposal based on financial return thresholds and strategic relevance, with governance oversight provided by the Corporate Landlord Board. This strategy is embedded within the MTFO and supports the Council's objective to reduce borrowing and reliance on Exceptional Financial Support (EFS).</p> <p>We note on page 16 that the Council's approach to charging minimum revenue provision needs to be clarified.</p>	Green

- Green No significant weaknesses or improvement recommendations.
- Amber No significant weaknesses, improvement recommendations made.
- Red Significant weaknesses in arrangements identified and key recommendation(s) made.

Financial sustainability – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	Medway Council has established a structured financial planning framework through its FIT Plan and Medium Term Financial Outlook (MTFO), which supports the sustainable delivery of services aligned to statutory and strategic priorities. The 2025/26 budget incorporates targeted investment in high-pressure areas. Discretionary spend is assessed through a prioritisation matrix and subject to Member scrutiny, with capital reallocation used to support core transformation programmes.	Green
identifies and manages risk to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions in underlying plans	<p>The Council has arrangements in place to identify and manage risks to financial resilience, particularly in relation to demand-led pressures in Adult Social Care and Children’s Services. These include regular budget monitoring, the use of reserves, and the implementation of a corporate transformation programme to deliver long-term savings. The Council has also taken steps to strengthen financial resilience through reserve reclassification, investment in prevention, and the use of tools such as Care Cubed to scrutinise provider costs. The Section 151 Officer has confirmed the robustness of budget assumptions, subject to the approval of Exceptional Financial Support.</p> <p>Scenario planning has been undertaken in the Medium Term Financial Outlook, with three scenarios modelled around the availability of EFS and Council Tax flexibility. However, this analysis is currently limited in scope and does not yet incorporate broader variables such as demand volatility, income risks, or delivery of transformation savings. We recommend that the Council enhance its scenario planning to include a wider range of financial risks and assumptions.</p>	Amber

- Green No significant weaknesses or improvement recommendations.
- Amber No significant weaknesses, improvement recommendations made.
- Red Significant weaknesses in arrangements identified and key recommendation(s) made.

Financial sustainability (continued)

Significant weakness identified in relation to financial sustainability

Key Finding: The Council has made progress in developing and delivering savings through its Financial Improvement and Transformation (FIT) Plan. However, the Council remains heavily reliant on Exceptional Financial Support (EFS) and faces significant financial risks due to recurrent overspending and limited financial resilience due to low levels of reserve balances.

Evidence: Medway continues to face financial pressures, particularly in Adult and Children's Services, where overspending has persisted despite increased budgets. In 2024/25, the Council relied on **£20.2 million** in Exceptional Financial Support (EFS) to balance its budget, with further support assumed for 2025/26. General reserves remain just above the minimum threshold, and earmarked reserves have been drawn down. The Council's FIT Plan delivered 87% of its **£33 million** savings target in 2024/25, and a refreshed plan for 2025/26 sets out **£28.8 million** in savings. Governance and monitoring have improved, but early performance in 2025/26 shows only 10.6% of savings achieved by Q1. The Council's financial strategy remains optimistic, and its ability to deliver savings consistently across services is uncertain.

Impact: The Council's financial sustainability is fragile, with limited capacity to absorb shocks. Continued reliance on EFS and optimistic savings assumptions increase the risk of unplanned spending controls. Without robust scenario planning and contingency measures, the Council may face service reductions or emergency budget revisions. The FIT Plan is a positive development, but delivery risk remains high, especially in demand-led services.

Key recommendation 1

KR1: The Council should urgently accelerate delivery of transformation savings and develop robust contingency measures to manage overspending and financial risk and start to plan savings over a longer period.

Financial sustainability (continued)

Area for Improvement identified: identifying and delivering recurrent savings

Key Finding: Scenario planning within Medway Council’s Medium Term Financial Outlook (MTFO) is limited in scope. Current modelling focuses primarily on the availability of Exceptional Financial Support (EFS) and Council Tax flexibility, without incorporating broader variables such as demand volatility, income risks, inflationary pressures, or delivery risk on transformation savings. The Council has history of continued pressures in Adults and Childrens Services and under delivery of in-year savings, the impact of risk of these should be clearly defined in the budget setting

Evidence: The MTFO models three scenarios: No support; Capitalisation direction only; Capitalisation direction with Council Tax flexibility

No evidence of sensitivity analysis is reported for other key planning assumptions such as major demand-led pressures (e.g., Adult Social Care, Children’s Services), income streams, or savings delivery.

Impact: Narrow scenario planning reduces the Council’s ability to anticipate and respond to financial shocks.

Risks include:

- Over-reliance on EFS without contingency for non-approval.
- Insufficient preparation for demand spikes in statutory services.
- Limited visibility of downside risks to transformation savings

This constrains informed decision-making and weakens financial resilience.

Improvement Recommendation 1

IR1: The Council should enhance its scenario planning framework by:

Developing multiple scenarios beyond EFS assumptions and reporting results to Cabinet and Audit Committee as part of the MTFO and annual budget-setting process to support proactive risk management, incorporating:

- Demand volatility in Adult Social Care and Children’s Services.
- Variations in income streams (e.g., Council Tax collection, Business Rates).
- Inflationary and workforce cost pressures.
- Delivery risk on transformation savings.

Financial sustainability (continued)

Area for Improvement identified: identifying and delivering recurrent savings

Key Finding: The Council has provided £115.1m in loans to its subsidiary companies which is funded through prudential borrowing however the Council aren't charging Minimum Revenue Provision (MRP), classifying them as performing loans. This approach assumes repayment through housing sales and rental income, but market changes have shifted the business model, creating uncertainty around repayment timelines and sustainability.

Evidence:

- £77m loan to MDC Land & Projects and £38.1m to MDC Private Rented Sector, funded through prudential borrowing. No MRP charged on these loans, increasing exposure if repayment is delayed. Business plan revised from property sales to private rental due to market conditions.
- MDC had a negative profit and loss reserve of £10m as at 31 March 2025, reflecting working capital costs.
- Current repayment ability appears viable, but is highly exposed to risk with limited contingency for adverse market conditions.

Impact:

Failure to secure timely repayment or restructure these loans could:

- Significantly worsen the Council's financial position, already under strain from overspends and savings delivery risks and impact financial sustainability
- Increase borrowing costs and pressure on reserves.

Improvement Recommendation 2

IR2: Implement a robust risk mitigation approach regarding loans to MDC, including:

- Review and stress testing: Conduct a detailed financial resilience review of MDC's business plan, including sensitivity analysis on rental income and asset values.
- Introduce MRP or alternative provision: Consider applying MRP or creating an earmarked reserve to cover potential non-repayment risk to mitigate exposure if MDC cannot meet repayment obligations.
- Governance and Monitoring: Establish enhanced oversight with regular reporting to Cabinet on loan performance, repayment schedules, and risk indicators.

Governance – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
monitors and assesses risk and how the Council gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud	The Council has a comprehensive framework in place to monitor and assess risk and gain assurance over internal controls. Risks are identified, scored, and recorded in a structured register, with regular reporting to the Audit Committee and Cabinet. Internal Audit provides assurance through a risk-based audit plan, despite recent resource constraints, and has maintained focus on strategic priorities. Fraud prevention is supported by proactive measures, data sharing, and a Counter Fraud Plan, with oversight from a shared Internal Audit & Counter Fraud Service. The prior year IR has been cleared due to the observed improvements and increased visibility of the counter fraud team.	Green
approaches and carries out its annual budget setting process	There is a structured and constitutionally mandated process for setting its annual budget. The Cabinet develops initial proposals approximately three months before finalisation, which are reviewed by overview and scrutiny committees over a six-week period. Feedback is incorporated before the final budget is presented to Full Council for approval. This process is supported by the Medium-Term Financial Outlook 2023–2028, ensuring strategic and forward-looking financial planning. The prior year improvement recommendation will remain due to reported issues with resource planning over the summer period.	Amber
monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour	Medway Council has established robust governance mechanisms to ensure compliance with legislative and regulatory standards, including Members' Code of Conduct, Organisational Values and Behaviours Framework, Contract Procedure Rules (CPRs), compliance monitoring, reporting and oversight: A recent CIPFA governance review found no weaknesses, supporting the council's financial resilience. However, the prior year key recommendation around the accounts production and quality is upheld. This is because though the accounts were produced on time, the quality was lacking significantly. It did not include the AGS and key notes to the group accounts were missing. In addition, the accounts were not quality checked.	Red

Green

No significant weaknesses or improvement recommendations.

Amber

No significant weaknesses, improvement recommendations made.

Red

Significant weaknesses in arrangements identified and key recommendation(s) made.

Governance – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships	There are well established robust arrangements to ensure effective financial management and reporting. Budgetary control is governed by the Council’s Constitution and Financial Rules, with Cabinet oversight and regular monitoring reports (e.g., Revenue Budget Monitoring and Capital Outturn Reports). These reports provide detailed financial performance analysis and are used to inform statutory reporting, including the Statement of Accounts. The FIT Plan tracks savings delivery and is reviewed monthly by the Corporate Management Team, with real-time updates via SharePoint and Teams. Treasury management is subject to regular reporting and scrutiny by both the Audit Committee and full Council, ensuring compliance and risk mitigation. Governance responsibilities are clearly defined, with the Chief Finance Officer and Monitoring Officer ensuring legal and financial compliance.	Green
ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency, including from audit committee	Medway Council has robust arrangements in place to ensure decisions are properly informed, evidence-based, and transparent. Cabinet meeting papers include comprehensive background information, financial and legal implications, risk assessments, and options appraisals. The Forward Plan promotes transparency and allows for scrutiny. Overview and Scrutiny Committees (OSCs) provide independent challenge, policy review, and pre-decision scrutiny, with the ability to “call-in” decisions. The Audit Committee offers independent assurance on risk management and financial oversight and has demonstrated its ability to challenge effectively. Governance is further supported by the Annual Governance Statement and the Code of Corporate Governance, which align with CIPFA/SOLACE principles and ensure timely, accurate information flows to decision-makers.	Green

- Green No significant weaknesses or improvement recommendations.
- Amber No significant weaknesses, improvement recommendations made.
- Red Significant weaknesses in arrangements identified and key recommendation(s) made.

Governance (continued)

Significant weakness identified in relation to governance

Key finding: There was insufficient time to complete the 2022/23 audit of financial statements which resulted in them being backstopped, and the 2024/25 financial statements were not published in line with statutory reporting guidelines for audit purposes. Capacity issues in the finance team have continued to impact the audit of the 2024/25 audit of accounts, including delays in the provision of information and responsiveness to audit queries.

Evidence: The Council continues to experience significant and persistent weaknesses in its financial reporting arrangements. Recent financial statements have been incomplete, requiring substantial adjustments, and the Council has repeatedly been unable to provide audit evidence in a timely manner. Although the 2024/25 audit began in July 2025 with an agreed completion target of October 2025, delays and quality issues meant the audit could not be completed as planned, resulting in the accounts being backstopped. Plans were agreed in 2024/25 to rebuild assurance by auditing all in-year income and expenditure balances and beginning work to re-establish assurance over balance sheet items. However, the Council was unable to provide the necessary working papers or responses to audit queries. Key areas, including the implementation of IFRS 16, were not ready for audit despite the standard taking effect from 1 April 2024.

Capacity constraints within the finance team remain a key contributing factor. An imbalance between management accountants and financial accountants is hindering the timely production of the accounts. Although restructuring is planned, this alone is unlikely to deliver the capacity required to regain assurance. Additional permanent or interim financial reporting expertise is likely to be necessary. Leadership capacity is also under pressure. The Section 151 Officer has been without a Director of Finance since autumn 2025, with two financial accountants currently acting up to cover the role. Recruitment has been challenging, partly due to uncertainty arising from the upcoming Local Government Reorganisation. This situation increases operational risk and further limits the Council's ability to address long-standing weaknesses.

Impact: The delays have significantly disrupted the planned audit of the 2024/25 accounts and prevented us from completing the required audit work before the statutory backstop date of 27 February 2026, resulting in the accounts being backstopped rather than fully audited.

Key recommendation 2

KR2: The Council should urgently strengthen its financial reporting and audit readiness arrangements by increasing capacity and capability within the finance team and implementing a structured improvement plan. This should include; recruiting additional permanent or interim financial reporting specialists to address current capacity constraints; restoring senior leadership capacity through securing a Director of Finance (or interim support); and ensuring timely production of high-quality working papers, including the full implementation of IFRS 16. This strengthened resource base and governance structure is essential for the Council to produce compliant accounts, support a timely audit, and begin the process of regaining audit assurance.

Improving economy, efficiency and effectiveness – commentary on arrangements

We considered how the Council:	Commentary on arrangements	Rating
uses financial and performance information to assess performance to identify areas for improvement	<p>Medway Council has an established framework to assess performance using financial and performance information. This includes quarterly Performance Monitoring Reports presented to Cabinet, which track progress against the One Medway Council Plan (OMCP) 2024–28 using 108 performance indicators. Of these, 82 were fully reported in Q4 2024/25, with narrative commentary and mitigating actions provided for underperforming areas. Strategic risks are reviewed quarterly by risk owners and reported alongside performance data.</p> <p>The Council have updated their climate change action plan as well as their local plan, so the 22/23 recommendation has now been satisfied.</p>	Green
evaluates the services it provides to assess performance and identify areas for improvement	<p>The Council has several arrangements in place to evaluate its services and identify areas for improvement:</p> <p>External Assessments: The Care Quality Commission (CQC) conducted a local authority assessment in January 2025, providing benchmarking data on financial performance, service delivery, and demographic context.</p> <p>SEND Inspection and Improvement Plan: Following a joint Ofsted and CQC inspection in February 2024 that highlighted inconsistent outcomes for children with SEND, the council developed a co-produced SEND Local Area Partnership Improvement Plan. This plan is overseen by a multi-agency board and progress is reported biannually to the DfE and CQC.</p> <p>Financial Assurance Review: A CIPFA review in September 2024 assessed the council’s financial management and its request for Exceptional Financial Support (EFS). The review acknowledged efforts toward financial sustainability and recommended further actions to manage financial fragility.</p> <p>The 23/24 IR has been cleared as the council has addressed the Ombudsman complaints to ensure clear visibility of performance.</p>	Green

- Green** No significant weaknesses or improvement recommendations.
- Amber** No significant weaknesses, improvement recommendations made.
- Red** Significant weaknesses in arrangements identified and key recommendation(s) made.

Improving economy, efficiency and effectiveness – commentary on arrangements (continued)

We considered how the Council:	Commentary on arrangements	Rating
<p>ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives</p>	<p>The Council has arrangements in place to ensure it delivers its role effectively within significant partnerships and engages with identified stakeholders. The Council commissioned consultancy SQW to lead the refresh of the Medway 2037 Strategy, involving wide-ranging consultations that informed key strategic documents. Oversight is provided by committees such as the Regeneration, Culture and Environment Overview and Scrutiny Committee, which reviews strategic outputs and ensures alignment with council goals. For large-scale health and community services, the council works with the Kent and Medway Integrated Care Board to manage risks and ensure service continuity.</p> <p>Stakeholder engagement is embedded as a core principle, with active collaboration involving residents, businesses, and community groups. Strategic priorities are monitored through mechanisms like annual KPI refreshes, performance tracking, and delegated authority for responsive adjustments.</p>	<p>Green</p>
<p>commissions or procures services, assessing whether it is realising the expected benefits</p>	<p>Medway Council evaluates the benefits of commissioned and procured services through a structured framework that ensures alignment with strategic goals and value for money. A dedicated Category Management Team supports procurement activity, with all contracts over £5,000 tracked via an online register and subject to regular assessment.</p> <p>The Council's procurement strategy is aligned with national legislation, including the Procurement Act 2023, and promotes continuous improvement across service delivery and compliance is governed by through Contract Procedure Rules, with oversight from Legal and Governance Services.</p> <p>Major capital projects, such as the Gun Wharf refurbishment, are managed through dedicated boards and monitored through regular budget reporting.</p>	<p>Green</p>

- Green No significant weaknesses or improvement recommendations.
- Amber No significant weaknesses, improvement recommendations made.
- Red Significant weaknesses in arrangements identified and key recommendation(s) made.

05 Summary of Value for Money Recommendations raised in 2024/25

Key recommendations raised in 2024/25

	Recommendation	Relates to	Management Actions
KR1	The Council should urgently accelerate delivery of transformation savings and develop robust contingency measures to manage overspending and financial risk.	Financial sustainability (page 19)	<p>Actions: Both the Financial Improvement and Transformation Plan and Medway 2.0 Delivery Plan identify a large number of projects and actions many of which have significant savings targets attached. These plans are monitored regularly by both CMT and the Cabinet and officers are held accountable for delivery. Both plans will be refreshed for 2026/27 and the anticipated savings reflected in the 2026/27 revenue and capital budgets.</p> <p>Responsible Officer: Corporate Management Team</p> <p>Due Date: March 2026</p>
KR2	The Council should urgently strengthen its financial reporting and audit readiness arrangements by increasing capacity and capability within the finance team and implementing a structured improvement plan. This should include; recruiting additional permanent or interim financial reporting specialists to address current capacity constraints; restoring senior leadership capacity through securing a Director of Finance (or interim support); and ensuring timely production of high-quality working papers.	Governance (page 24)	<p>Actions: The Council recognises that the planning process needs to ensure time is allowed for quality assurance of the draft Statements and accepts that this was not strong enough for the 2024/25 financial year. In order to correct this, officers will ensure that the timetable builds in both time and the resources to enact a robust quality assurance process. This will be enhanced by monthly focus meetings where appropriate knowledge and guidance will be given to all members of the Technical Accounting team to ensure that they are fully prepared for the production, and quality assurance relating to the financial statements for 2025/26. We will also ensure that ample time is afforded to the Chief Operating Officer to review the draft statements prior to signing them off as a true and fair view of the Councils financial position.</p> <p>Responsible Officer: Head of Corporate Accounts</p> <p>Due Date: March 2026</p>

Improvement recommendations raised in 2024/25

Recommendation	Relates to	Management Actions
<p data-bbox="333 462 830 525">The Council should enhance its scenario planning framework by:</p> <p data-bbox="333 539 894 736">Developing multiple scenarios beyond EFS assumptions and reporting results to Cabinet and Audit Committee as part of the MTFO and annual budget-setting process to support proactive risk management, incorporating:</p> <ul data-bbox="333 751 894 989" style="list-style-type: none"> <li data-bbox="333 751 894 813">• Demand volatility in Adult Social Care and Children’s Services. <li data-bbox="333 828 894 891">• Variations in income streams (e.g., Council Tax collection, Business Rates). <li data-bbox="333 905 894 939">• Inflationary and workforce cost pressures. <li data-bbox="333 953 894 989">• Delivery risk on transformation savings 	<p data-bbox="907 676 1080 773">Financial sustainability (pages 20)</p>	<p data-bbox="1116 565 2262 793">Actions: Agreed. Officers will ensure that when the MTFO is refreshed for Cabinet in August 2026, that assumptions will be presented in the form of a range of possible but realistic outcomes, from the most pessimistic to more optimistic projections. We will work with colleagues from the more volatile, demand driven services to model these scenarios, specifically Adult Social Care, Children’s Services, SEND and Housing and Homelessness. The accountants will also work with the Chief Information Officer and his team to project a range of possible outcomes from the transformation programme, including Medway 2.0.</p> <p data-bbox="1116 808 1702 836">Responsible Officer: Head of Revenue Accounts</p> <p data-bbox="1116 851 1403 879">Due Date: August 2026</p>

Improvement recommendations raised in 2024/25

Recommendation	Relates to	Management Actions
<p data-bbox="333 462 884 522">Implement a robust risk mitigation approach regarding loans to MDC, including:</p> <ul data-bbox="333 539 884 1025" style="list-style-type: none"> <li data-bbox="333 539 884 701">• Review and stress testing: Conduct a detailed financial resilience review of MDC's business plan, including sensitivity analysis on rental income and asset values. <li data-bbox="333 718 884 879">• Introduce MRP or alternative provision: Consider applying MRP or creating an earmarked reserve to cover potential non-repayment risk to mitigate exposure if MDC cannot meet repayment obligations. <li data-bbox="333 896 884 1025">• Governance and Monitoring: Establish enhanced oversight with regular reporting to Cabinet on loan performance, repayment schedules, and risk indicators. 	<p data-bbox="912 696 1080 791">Financial sustainability (page 21)</p>	<p data-bbox="1116 551 2272 843">Actions: Plans are in place for a complete review of MDC's business plan, including a forensic analysis of projected cashflows, both for units for sale and those held for private rental. MDC Ltd. is also exploring alternative sources of investment, including large institutional investors, with a view to potentially moving the loans off of Medway Council's balance sheet and to a third party. The Section 151 Officer stands by his position, in treating all loans to MDC as performing loans and therefore making no MRP in line with CIPFA advice. If the review referred to above identifies significant risks, then consideration may have to be given to impairing the loans. Management will work with MDC's CEO on strengthening the quarterly reporting to the Cabinet sub-committee to include enhanced reporting of loan performance.</p> <p data-bbox="1116 861 1663 891">Responsible Officer: Chief Operating Officer</p> <p data-bbox="1116 908 1396 938">Due Date: March 2026</p>

06 Follow up of previous Key recommendations

Follow up of 2023/24 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR1	<p>The Council must urgently address the forecast budget overspend for 2024/25. The Council should be clear about its strategy for replenishing reserves to appropriate levels.</p> <p>The Council is not at present charging minimum revenue provision to the revenue budget for the capital value of the £76 million loans. Our view is that this is not consistent with the current capital financing regulations and the Council should clarify the position and any potential financial impact as a matter of urgency.</p>	2023/24	The MRP approach to borrowing related to capital loans to subsidiary companies has not changed.	Not implemented	We have included 2024-25 improvement recommendation to address (see page 21)

Follow up of 2023/24 Key recommendations

	Prior Recommendation	Raised	Progress	Current status	Further action
KR2	Draft accounts for 2024/25 should be published in line with their statutory deadline (30 June 2025) and supported by a comprehensive set of working papers, and sufficient capacity to service an audit to completion.	2023/24	Whilst accounts were produced by the end of June, this did not have the AGS included and key notes to the group accounts were missing. In addition, the accounts were not quality checked. This meant that the audit process has identified several issues with the accounts for management to address	Partially implemented	We have included 2024-25 key recommendation to address (see page 24)

07 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 Council's Chief Finance Officer is responsible for preparing the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Appendix B: Value for Money Auditor responsibilities

Our work is risk-based and focused on providing a commentary assessment of the Council’s Value for Money arrangements

Phase 1 – Planning and initial risk assessment

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

Phase 2 – Additional risk-based procedures and evaluation

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

Phase 3 – Reporting our commentary and recommendations

The Code requires us to provide a commentary on your arrangements which is detailed within this report. Where we identify weaknesses in arrangements we raise recommendations.



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

Statutory recommendations – recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.

Key recommendations – the actions which should be taken by the Council where significant weaknesses are identified within arrangements.

Improvement recommendations – actions which are not a result of us identifying significant weaknesses in the Council’s arrangements, but which if not addressed could increase the risk of a significant weakness in the future.

Information that informs our ongoing risk assessment

Cumulative knowledge of arrangements from the prior year	Key performance and risk management information reported to the Executive or full Council
Interviews and discussions with key stakeholders	External review such as by the LGA, CIPFA, or Local Government Ombudsman
Progress with implementing recommendations	Regulatory inspections such as from Ofsted and CQC
Findings from our opinion audit	Annual Governance Statement including the Head of Internal Audit annual opinion

Appendix C: Follow up of 2023/24 improvement recommendations

	Prior Recommendation	Raised	Progress	Current position	Further action
IR1	For the FIT Plan, the Council should consider introducing more granular reporting on savings progress to members. Momentum should be maintained around savings delivery over the rest of 2024/25.	2023/24	Granular reporting has been introduced through a live FIT Plan Tracker, which includes directorate-level spreadsheets and detailed savings lines with assigned lead officers, milestone dates, and links to Council priorities. Monthly monitoring by the Corporate Management Team (CMT) and quarterly reporting to Cabinet ensures member oversight.	Addressed	As per key recommendation 1
IR2	For the medium-term financial strategy, the Council should consider enhancing the scenario planning it introduced in 2023/24 to include more detailed scenarios around revenue account income and expenditure assumptions.	2023/24	Medway Council has made partial progress in enhancing scenario planning within its medium-term financial strategy. While the MTFO models three scenarios based on Exceptional Financial Support and Council Tax flexibility, it does not yet incorporate detailed assumptions around income volatility, expenditure pressures, or transformation delivery risks. Broader modelling remains limited.	Partially Implemented	We have included 2024-25 improvement recommendation to address (see page 20)
IR3	Staff awareness around the Counter Fraud and Corruption Strategy should be increased.	2023/24	The Counter Fraud Plan 2024-25 for Medway was approved by the Audit Committee in March 2024. The Plan is intended to provide a clear picture of how the council will use the Counter Fraud resource, reflecting all work to be carried out by the team for Medway during the financial year.	Addressed	No

Appendix C: Follow up of 2023/24 improvement recommendations

	Prior Recommendation	Raised	Progress	Current position	Further action
IR4	Additional resourcing should be directed towards the budget setting process. When new resources are recruited, close working between the finance team and individual budget holders will be important.	2023/24	During the 24/25 audit, there were resource constraints in Medway due to sickness and general unavailability in the summer. Whilst this cannot be avoided at times, the time period for the audit is planned to remain the same (i.e. the deadline for 2025/26 is end of November), therefore will still coincide with summer period. Resource planning will be needed to help service the audit	Ongoing	Yes
IR5	The Council should ensure that there is sufficient capacity in place and staff are suitably trained to respond to Local Government and Social Care Ombudsman investigations sufficiently and within agreed timescales. Oversight of progress made against recommendations should be enhanced to ensure that any slippage is remedied as soon as possible.	2023/24	The Customer Relations Manager provides complaints data and analysis to directorate management teams on a quarterly basis, which includes reporting activity around Ombudsman complaints to ensure clear visibility of performance.	Addressed	No



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