

**Cabinet Sub-Committee
(Medway Development Company Ltd Shareholder Board)**

23 June 2026

**Medway Development Company Governance Self-
Assessment and Independent Validation**

Portfolio Holder: Councillor Louwella Prenter, Portfolio Holder for Housing and Homelessness

Report from / author: Phil Watts, Chief Operating Officer / James Larkin, Head of Internal Audit & Counter Fraud Shared Service (Chief Audit Executive)

Summary

This report seeks to provide Members with assurance over the governance arrangements in place at Medway Development Company (MDC), by presenting the outcomes of the governance self-assessment undertaken by MDC against the Local Partnerships Local Authority Company Review Guidance (2023), and the results of the subsequent independent validation carried out by Internal Audit.

The validation review confirms that MDC's governance arrangements are broadly aligned with good practice, with evidence demonstrating effective board oversight, business planning, financial management, and risk management. However, a number of areas for further strengthening were identified, primarily relating to formalisation of governance documentation, policies, and director development arrangements.

1. Recommendations

- 1.1. The Sub-Committee is asked to note the outcome of the self-assessment and Internal Audit validation review.
- 1.2. The Sub-Committee is asked to endorse the overall conclusion that governance arrangements are broadly effective but require further strengthening in specific areas.

2. Suggested reasons for decision

- 2.1. To ensure the Council maintains effective oversight and assurance over its Local Authority Trading Company in line with best practice.

2.2. To strengthen governance arrangements and mitigate risks identified through independent validation.

3. Budget and policy framework

3.1. Medway Council is the sole shareholder of Medway Development Company Ltd. and its subsidiaries, with the exercise of the shareholder's powers and responsibilities being an executive function of the Cabinet. Cabinet has delegated these powers and responsibilities to this Cabinet Sub-Committee.

4. Background

4.1. The Local Partnerships Local Authority Company Review Guidance (2023) highlights the importance of robust governance arrangements to ensure council-owned companies are effectively managed, accountable, and aligned with council objectives. These arrangements should balance company autonomy with appropriate shareholder oversight.

4.2. In line with this guidance, Medway Council implemented a governance self-assessment process for its trading companies, based on the checklist set out in Section 4 (Entity Governance Arrangements). This covers areas including:

- Board roles and behaviours
- Business planning
- Financial management
- Risk management
- Director skills and oversight.

4.3. The self-assessment was completed by MDC and supported by an Assurance Statement signed by the Chair. Internal Audit then undertook an independent validation, reviewing supporting evidence and testing the accuracy of the self-assessment conclusions.

5. Validation Conclusions

5.1. Internal Audit validation concluded that MDC's governance arrangements are broadly aligned with good practice, with effective structures in place across key areas including:

- Regular board meetings with appropriate reporting,
- Established business planning and KPI framework,
- Active risk management and reporting, and
- Evidence of challenge and oversight by Non-Executive Directors.

5.2. This aligns with good practice principles which emphasise effective oversight, transparency, and accountability within company governance.

5.3. Key strengths identified include:

- An established governance framework with regular board and shareholder engagement,

- A clear business planning cycle with KPI monitoring,
 - Active financial reporting and external audit arrangements, and
 - A risk register maintained and regularly reviewed.
- 5.4. However, the validation identified several areas where governance arrangements could be strengthened.
- 5.4.1. Formal adoption of governance documents.
- The Articles of Association and Memorandum of Understanding had not yet been formally adopted by the Board.
- 5.4.2. Policies and procedures.
- A lack of company-specific policies in areas such as bribery and corruption,
 - The gifts and hospitality policy not yet approved, and
 - Whistleblowing, disciplinary, and code of conduct policies requiring development or clarification.
- 5.4.3. Board composition and development.
- The Board currently below target size (four NEDs vs expected five to ten), and
 - The formal induction and training arrangements required strengthening.
- 5.4.4. Director governance and accountability.
- Letters of appointment did not explicitly reference the Nolan Principles.
- 5.4.5. Financial governance documentation.
- Financial policies were in development and not yet formally approved.

5.5. A total of 12 actions aimed at ensuring consistency with the guidance expectation that governance should be underpinned by clear documentation, effective board composition, and ongoing director development, were suggested as part of the validation conclusions.

6. Progress against Internal Audit recommended actions

6.1. MDC has provided an update on progress against the recommended actions arising from the Internal Audit validation review. Overall, good progress has been made, with the majority of actions now completed and the remaining items nearing completion. This reflects a positive and proactive response by the company to strengthen its governance arrangements.

- 6.2. The Memorandum of Understanding and Articles of Association have now been formally adopted by the MDC Board. A resolution was signed on 5 December 2025, and the Articles have subsequently been filed at Companies House.
- 6.3. The company has also made significant progress in strengthening its governance framework through the approval of key policies, including the Bribery and Corruption Policy, Gifts and Hospitality Policy and Register, Financial Policies, and the Whistleblowing Policy, all of which were approved by the Board on 9 April 2026. The Bribery and Corruption Policy is currently being rolled out to employees. The company has also developed its own disciplinary and grievance procedures, updated employment contracts accordingly, and rolled these out to staff.
- 6.4. Board governance has also been strengthened, with the company now operating with a full complement of five Non-Executive Directors following the appointment of two new Board members on 9 April 2026, offset by one resignation on 31 March 2026. Training relating to legal roles and responsibilities was completed by all existing Non-Executive Directors on 21 January 2026, with further training arranged for newly appointed directors. In addition, a structured induction pack has been developed and formalised to support the onboarding of new directors.
- 6.5. Further improvements have been made in relation to governance oversight and accountability. The Chairman review has been completed and reported, and work is progressing to update the Letter of Appointment template to explicitly reference the Nolan Principles, with implementation expected shortly.
- 6.6. Taken together, these actions demonstrate a strong commitment by MDC to addressing the findings of the validation review and to ensuring that its governance arrangements continue to align with good practice.

7. Risk Management

- 7.1. The company maintains a risk register which has been separately reviewed by the Council's Chief Operating Officer.

Risk	Description	Action to avoid or mitigate risk	Risk rating
Weak governance framework	Lack of formalised policies and documents could lead to governance inconsistencies	Implement recommended governance improvements and formal approvals	B2
Board capacity and skills gap	Insufficient NED numbers may limit challenge and oversight	Recruit additional NED and implement training programme	B2

Risk	Description	Action to avoid or mitigate risk	Risk rating
Policy gaps	Absence of key policies (e.g. whistleblowing) could increase fraud or compliance risk	Develop and approve required policies	C2
Reputational risk	Weak governance could impact public confidence in council companies	Strengthen oversight and reporting mechanisms	C2

Likelihood	Impact:
A Very likely B Likely C Unlikely D Rare	1 Critical 2 Major 3 Moderate 4 Minor

8. Consultation

8.1. The validation process included engagement with MDC management and review of documentation and evidence supporting the self-assessment.

9. Financial implications

9.1. There are no direct financial implications arising from this report. However, improved governance arrangements contribute to better financial oversight and value for money from the Council's investment in its companies.

10. Legal implications

10.1. There are no legal implications arising directly from the contents of this report.

Lead officer contact

James Larkin, Head of Internal Audit & Counter Fraud

james.larkin@medway.gov.uk

Appendices

Appendix 1 - Governance Self-Assessment (MDC)

Appendix 2 - Internal Audit Validation Report – MDC Governance Self-Assessment
(2025–26)

Background papers

[Local Partnerships: Local Authority Company Review Guidance \(2023\)](#)