

Medway Council

Statutory Recommendations relating to the year
ending 31 March 2026

1 October 2026

Medway Council
Gun Wharf
Dock Road
Chatham
ME4 4TR

1 October 2026

Dear Sirs / Madams

Recommendations made under Section 24 schedule 7 of the Local Audit and Accountability Act 2014

Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Authority's use of resources, we have additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

We have concluded that it is appropriate for us to use our powers to make a written recommendation under section 24 of the Act due to the Council's forecast General Fund deficit for 2026/27, after accounting for Exceptional Financial Support which has been agreed in principle, the low level of unearmarked useable reserves relative to the scale of the forecast deficit, and the impact of this on the financial sustainability of the Council. We have also concluded that it is appropriate for us to use our powers to make a second associated written recommendation under section 24 of the Act due to the Council's arrangements for preparation of its annual financial statements and ability to respond to the requirements of external audit.

Further details are set out in the attached report.

What does the Council need to do next?

Schedule 7 of the Local Audit and Accountability Act 2014 requires the following actions.

The Council must consider the recommendation at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Council. At that public meeting the Council must decide:

- whether the recommendations are to be accepted, and
- what, if any, action to take in response to these recommendations.

Schedule 7 specifies the meeting publication requirements that the Council must comply with.

Grant Thornton UK LLP

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Chartered Accountants

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Context and background to the recommendations

We have concluded that it is appropriate for us to use our powers to make a written recommendation under section 24 of the Act, due to the Council's forecast General Fund budget deficit for 2026/27 after accounting for Exceptional Financial Support which has been agreed in principle, the low level of unearmarked useable reserves relative to the scale of the forecast deficit, and the impact of this on the financial sustainability of the Council.

We have also concluded that it is appropriate for us to use our powers to make a second associated written recommendation under section 24 of the Act due to the Council's arrangements for preparation of its annual financial statements and ability to respond to the requirements of external audit.

Context

Grant Thornton UK LLP were re-appointed as the Council's auditors for a second five-year period from 1 April 2023, having originally been appointed from 1 April 2018. During the period of our appointment the Council's arrangements for preparation of the annual financial statements and responding to the requirements of external audit have deteriorated. The last set of financial statements to have received an unmodified audit opinion covered year ended 31 March 2021, with the opinion being issued on 13 October 2023, over two and a half years after the end of the period to which the statements related. In each subsequent year, the audit opinion on the financial statements has been disclaimed under the national backstop arrangements as we have been unable to gain sufficient assurance ahead of the backstop dates that the financial statements presented a true and fair view of the Council's financial performance and position and were free from material misstatement.

Concurrently, the financial position of the Council has become more challenging, with the Council having been reliant on Exceptional Financial Support (EFS) from Central Government, allowing a designated amount of revenue costs to be capitalised, to balance its annual revenue budget since 2024/25. The main driver for this has been overspends in demand-led services. During this period, the Council has also engaged in activities which require more complex accounting judgements to be made and reflected in the financial statements, including the advance of long-term loans to its subsidiary companies. Owing to the disclaimers of opinion on the financial statements, we have no assurance over the accounting entries made in relation to these areas and consequently over their potential impact on the Council's reported financial performance or position.

The audit of the financial statements for 2025/26 is ongoing and we anticipate that the opinion will be disclaimed due to similar factors as those experienced in previous years. The challenges faced by the Council, including managing revenue expenditure and ensuring sufficient capacity and capability in the finance team to prepare an auditable set of financial statements and respond to the requirements of external audit, must be owned by all members. This is a corporate responsibility, and we expect members to engage constructively with our recommendations. We will report our overall 2025/26 VFM and financial statement audit findings separately.

Context and background to the recommendations (cont'd)

Statutory Recommendation 1: Strengthening Financial Planning Arrangements

The 2025/26 budget, when approved, required **£18.2 million** of Exceptional Financial Support (EFS) to balance the position. However, the outturn position required a further **£9.8 million** of EFS to balance the year-end deficit, equating to a total EFS requirement of **£28.0 million**. The Council therefore increased its dependency on EFS compared to 2024/25, when **£20.2 million** was required to balance the revenue budget. The Council continues to rely on one-off resources to balance the 2026/27 budget, which is supported by **£9.8 million** of EFS. However, there is a significant risk that further EFS will be required to balance 2026/27 outturn as the budget monitoring reported to Cabinet in August 2026 identified a forecast net overspend of **£26.7 million**, after **£16.1 million** of management actions.

The Council experienced significant pressures from demand led services in 2025/26, including a **£14.7 million** overspend on Adults Services and **£2.0 million** overspend on Children's Services. These pressures have continued into 2026/27 with forecast overspends of **£18.7 million** for Adults and **£5.2 million** for Children's Services due to demand and cost pressures above the budgeted level.

Treasury management costs are a significant concern, delivering a **£5.9 million** overspend for 2025/26 as interest rates were higher than budgeted and borrowing increased by **£130 million**, which was **£50 million** more than budgeted. This pressure continues into 2026/27 with a forecast **£4.2 million** overspend for interest and financing costs. The Treasury Management Strategy 2026/27 forecasts the non-housing capital financing requirement to increase from **£545.9 million** in 2024/25 to **£851.8 million** by 2028/29 due to the requirements of financing the capital programme, EFS and loans to Medway Development Company, leading to further affordability of borrowing risk. There is no Capital Board in place to provide consistency and oversight in the approval of capital projects and this is an area where arrangements should be strengthened.

We understand that no expenditure control panels or other spend controls were put in place for 2025/26, but that these are currently being considered for 2026/27. The Council should urgently consider a range of strategies to mitigate the forecast overspend for 2026/27, including spend control panels, reviewing earmarked reserves, and maximising income.

The current medium term financial plan considered by Members in February 2026 identified a forecast budget gap of **£8.4 million** for 2027/28. Due to the continuing budget pressures reported for 2026/27 there is a significant risk that this gap could increase and require further EFS to balance the position.

The Council has a critically low level of reserves, with a General Fund Balance of only **£10.0 million**, representing 1.9% of the net budget compared to the generally recognised minimum prudent balance of 5%. While the Council holds **£33.9 million** of other earmarked reserves, much of these are unavailable to manage financial risk as they are ringfenced as schools' balances, DSG and developer contribution reserves.

There is evidence that the Finance Improvement and Transformation Plan, supported by Medway 2.0, is now delivering savings. Savings and additional income of **£30.4 million** were delivered in 2025/26 against the **£28.8 million** target. However, transformation is not delivering savings at the scale and urgency required to remove reliance on EFS and deliver financial sustainability. The savings target for 2026/27 is much reduced at **£16.4 million**, and there is not a worked-up pipeline of savings covering the period of the medium-term financial plan. We raised a key recommendation in 2024/25 that the Council should urgently accelerate delivery of transformation savings but there is not sufficient evidence that this is being progressed with the momentum required.

Recommendations made under Section 24 Schedule 7 of the Local Audit and Accountability Act 2014

Recommendation 1

The Council must urgently strengthen financial planning arrangements by the end of March 2027 in order to reduce its cost base to financially sustainable levels, replenish reserves, and reduce reliance on EFS. This must include:

1. Updating medium term financial plan projections to reflect the latest 2026/27 budget monitoring position and develop a detailed strategy with worked up plans to address the budget gaps identified in 2027/28 and over the next three years in order to facilitate financial sustainability;
2. Ensuring that the demand led services budgets, with a particular focus on Adult Social Care, are rebased and realistic in relation to current levels of demand and cost. Robust cost and demand mitigation plans must be developed to ensure services can be delivered within the resources available to the Council for 2026/27 and 2027/28;
3. Ensuring a proper grip on the impact of borrowing on the General Fund, through establishing a Capital Board to review the capital programme with a view to reducing its size and reliance on borrowing to ensure the programme is affordable and that significant increases to the Capital Financing Requirement are mitigated, and by accurately rebasing interest and financing budgets.
4. Developing a worked up multi-year pipeline of savings that are sufficient to address budget gaps over the next three years through accelerating the scale and urgency of savings delivery through the Finance Improvement and Transformation Plan and Medway 2.0;
5. Putting robust mitigating actions in place to address the forecast overspend for 2026/27, including consideration of spend control panels, reviewing earmarked reserves, and maximising income.

Management's response

The Council accepts this recommendation and recognises that strengthening financial planning arrangements is essential to achieving long-term financial sustainability. The Council acknowledges the significant financial challenges highlighted through both the CIPFA Assurance Review and the external auditor's Value for Money work, including the forecast overspend in 2026/27 and the projected budget gap in 2027/28. The Council has already commenced a programme of actions to address these challenges and will continue to build upon this work through a strengthened medium-term financial strategy and transformation programme.

The Council's latest financial monitoring reports a forecast overspend of £26.7 million in 2026/27, while the published Medium Term Financial Outlook identifies a projected budget gap of £65.9 million in 2027/28. Management has been clear that achieving financial sustainability will require a combination of expenditure reduction, service transformation, productivity improvements, income generation and, in the short term, continued support through Exceptional Financial Support whilst the Council implements its recovery plan.

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Recommendations made under Section 24 Schedule 7 of the Local Audit and Accountability Act 2014

Management's response (continued)

To address this recommendation, the Council will implement the following actions:

1. Strengthening the Medium-Term Financial Strategy and Delivery Plans

The Medium-Term Financial Outlook (MTFO) will be updated regularly to reflect the latest revenue monitoring position, emerging risks and changing assumptions.

Detailed, deliverable plans will be developed to address the forecast budget gaps identified for 2027/28 and subsequent years, with clear ownership, milestones and expected financial benefits.

The Draft Budget (November) and Final Budget (February) reports will include updated medium-term financial projections and scenario planning based on expected, best-case and worst-case assumptions, particularly in relation to Adult Social Care, Children's Services, Temporary Accommodation and treasury management costs.

The Council's longer-term financial recovery strategy will support the objective of achieving a balanced budget and reducing reliance on EFS over time.

2. Re-basing Demand-Led Budgets and Strengthening Demand Management

The Council agrees that demand-led budgets, particularly within Adult Social Care, require rebasing to reflect current levels of demand and cost pressures.

Additional senior finance capacity has already been deployed to support the rebasing of Adult Social Care budgets and the development of more realistic forecasts, which will be reflected in the Draft Budget reported to Cabinet in November.

The Adult Social Care Recovery Programme and associated task force will continue to drive improvements in forecasting, business intelligence, commissioning and operational practice to better understand and manage demand.

Benchmarking and comparative data will be used to inform budget setting and identify opportunities to improve efficiency and productivity.

A programme of demand mitigation and cost control actions will be developed and monitored through the task force, with regular reporting to senior management.

The Council has also commissioned an Adult Social Care Practice Review to strengthen practice, improve decision-making and support better outcomes at sustainable cost.

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Recommendations made under Section 24 Schedule 7 of the Local Audit and Accountability Act 2014

Management's response (continued)

3. Strengthening Capital and Treasury Management

A Capital Board will be established to provide strategic oversight and challenge of the capital programme, ensuring that investment proposals are prioritised appropriately and remain affordable. The first monthly meeting is scheduled for the end of October.

The Board will review the size and phasing of the capital programme and identify opportunities to reduce reliance on borrowing and mitigate further increases in the Capital Financing Requirement.

Treasury forecasts will continue to be strengthened through the work already underway to review cashflow and treasury forecasting arrangements.

The Council will separately monitor and report the financial impact of EFS-related borrowing within treasury management and financial monitoring reports, ensuring transparency regarding interest and Minimum Revenue Provision costs.

The Council has agreed that future capital receipts generated through its property disposal programme will be used to reduce borrowing associated with EFS where appropriate. To date, property disposals have generated £19 million of capital receipts, with a further £40 million anticipated over the coming years.

4. Accelerating Savings Delivery and Transformation

The Council will strengthen and accelerate delivery of its Financial Improvement and Transformation (FIT) Plan and wider transformation programme, including the development of Medway 2.0.

A multi-year pipeline of savings, transformation initiatives and income generation opportunities will be developed to address forecast budget gaps across the planning period.

Monitoring of savings delivery will be integrated more closely with revenue budget monitoring, with quarterly reporting bringing together financial performance and transformation delivery into a single framework.

Directorate management teams will be required to identify alternative actions where approved savings are not being delivered as planned.

The Council's longer-term strategy will include significant transformation of operating models and service delivery arrangements to deliver sustainable reductions in expenditure.

A Transformation Board will be established to develop the programme and monitor delivery of the projects and savings.

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Recommendations made under Section 24 Schedule 7 of the Local Audit and Accountability Act 2014

Management's response (continued)

5. Delivering Robust In-Year Financial Control

The Council will implement a range of measures to address the 2026/27 forecast overspend and strengthen spending controls.

Expenditure control arrangements are being introduced, including strengthened placement panels, enhanced procurement scrutiny and a new corporate vacancy panel.

Earmarked reserves will continue to be reviewed to identify opportunities for reclassification where appropriate, whilst balancing the need to maintain financial resilience.

Opportunities to maximise income and improve cost recovery will be considered as part of budget development and service planning processes.

Progress against mitigating actions will be monitored through revenue budget monitoring, the FIT governance framework and Corporate Management Team oversight.

Conclusion

The Council acknowledges the seriousness of its financial position and has already begun implementing a range of measures to strengthen forecasting, rebalance demand-led budgets, improve financial controls and accelerate transformation activity. These actions will form part of a comprehensive financial sustainability programme designed to reduce reliance on EFS, rebuild financial resilience and place the Council on a sustainable financial footing over the medium term.

Target completion date: March 2027

Responsible officer: Chief Operating Officer, supported by the Chief Finance Officer

Context and background to the recommendations (cont'd)

Statutory Recommendation 2: Strengthening Financial Reporting and Audit Readiness Arrangements

Against the backdrop of significant financial challenges, the Council continues to experience significant and persistent weaknesses in its financial reporting arrangements. Detailed plans were developed and agreed in March 2026 to audit all of the in-year transactions for 2025/26 and closing balances as at 31 March 2026, with a proposed completion date of 30 November 2026. Being able to audit these areas in full is critical as the first step to regaining assurance over the Council's reported financial performance and position following several years of disclaimed audit opinions, and rebuild a sustainable annual accounts and audit process. Similar plans were put in place for 2024/25 but were unsuccessful as a result of capacity constraints within the Council's finance team, as reported to the Audit Committee in our 2024/25 Auditor's Annual Report in February 2026.

The draft 2025/26 financial statements were published on 29 July 2026, almost a month later than the statutory deadline of 30 June, and two months later than originally envisaged in the Council's accounts closedown timetable. Delays have since been experienced in provision of key supporting working papers and audit evidence. Officers within the finance team have acknowledged that there are some areas of the financial statements where there is insufficient technical knowledge and capacity within the Council to respond to audit queries. These include the Council's group accounts, which consolidate the financial results of the Council's subsidiary companies, as well as valuation of long-term loans and investments held in the balance sheet, and associated revenue charges and disclosures. There is a risk that, should these items have been accounted for incorrectly during the period where audit opinions have been disclaimed, this could adversely impact upon the Council's already significantly challenged financial position.

Capacity constraints and a lack of resilience within the Council's finance team remain a key contributing factor. Technical knowledge and experience is heavily concentrated within a very small number of key individuals who also hold a range of wider responsibilities.

The delays have significantly disrupted the planned audit of the 2025/26 financial statements and are highly likely to prevent us from completing the required audit work before the planned deadline of 30 November. We therefore anticipate that our audit opinion for 2025/26 will be disclaimed and that the trajectory for regaining assurance will be set back by a further year to that outlined in our Regaining Assurance Strategy, presented to the Audit Committee in June 2026. Without significant and immediate intervention, this situation is likely to recur in 2026/27 and 2027/28, meaning that the Council's successor authority following Local Government Reorganisation will inherit an extremely complex position to resolve.

Recommendations made under Section 24 Schedule 7 of the Local Audit and Accountability Act 2014

Recommendation 2

The Council must strengthen its financial management reporting and audit readiness arrangements by increasing capacity and capability within the finance team and implementing a structured improvement plan by the end of 2026, in preparation for the closedown of the 2026/27 financial statements. This must include:

1. recruitment of additional permanent financial reporting specialists to address current capacity constraints, supported by interim staff as required
2. provision of access to additional financial reporting training to a wider pool of finance officers
3. consideration of engagement of specialist consultants to support with the closedown of the financial statements
4. recalibrating the balance of responsibilities amongst individuals within the finance team to allow for sufficient time and focus on the financial statements and responding to the requirements of external audit
5. strengthening of project management arrangements to facilitate the closedown of the financial statements and delivery of the audit
6. ensuring there is sufficient capacity and capability to undertake core financial management and treasury management functions.

Management's response

The Council accepts this recommendation and recognises the importance of strengthening financial management reporting, financial statement preparation and audit readiness arrangements. This recommendation aligns with findings from the recent CIPFA Assurance Review and supports the wider programme of financial improvement currently being implemented across the organisation.

Significant progress has already been made in strengthening the leadership and capacity of the Finance service. The Council has appointed a new Chief Finance Officer and a new Head of Financial Planning and Business Partnering. In addition, two experienced former Chief Finance Officers/Directors of Resources have been engaged on fixed-term contracts to provide additional leadership capacity, specialist expertise and support for the ongoing improvement of the finance function.

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Recommendations made under Section 24 Schedule 7 of the Local Audit and Accountability Act 2014

Management's response (continued)

To address the specific requirements of this recommendation, the Council will implement a structured Financial Reporting and Audit Readiness Improvement Plan by December 2026. This plan will include the following actions:

Recruitment and resourcing

The Council will review the establishment of the Finance service and recruit additional permanent financial reporting and technical accounting specialists to strengthen resilience and reduce reliance on a small number of key individuals.

Interim specialist resources will continue to be utilised where necessary to support delivery of the 2026/27 accounts closedown and audit process while permanent capacity is developed.

Training and professional development

The Council will expand access to technical accounting, financial reporting and audit readiness training across a wider cohort of finance officers.

A structured training, mentoring and development programme will be implemented, building on work already underway to strengthen the capability of Finance Business Partners and other finance staff.

Specialist external support

The Council will consider the engagement of specialist consultants to provide technical accounting, financial reporting and closedown support, ensuring that appropriate expertise is available throughout the preparation and audit of the 2026/27 Statement of Accounts.

Existing consultancy support within the finance function will be reviewed to ensure it is focused on areas of greatest organisational risk and improvement need.

Operating model and allocation of responsibilities

The Finance Management Team will review the distribution of responsibilities across the service to ensure that sufficient senior officer capacity is protected for year-end accounts preparation, technical accounting matters and engagement with external audit.

This review will seek to improve resilience, reduce single points of dependency and provide clearer accountability for financial reporting and audit readiness activities.

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Recommendations made under Section 24 Schedule 7 of the Local Audit and Accountability Act 2014

Management's response (continued)

Project management and governance

The Council will establish strengthened project management arrangements for the 2026/27 closedown and audit process, including clear milestones, risk management arrangements, ownership of key deliverables and routine progress reporting to senior management.

A formal accounts closedown and audit readiness plan will be maintained and regularly reviewed by the Chief Finance Officer and Corporate Management Team.

Core financial management and treasury management capacity

As part of the wider review of Finance service structures and resources, the Council will ensure sufficient capacity and capability is available to deliver core financial management, treasury management and financial reporting functions.

Particular focus will be given to strengthening treasury forecasting, cashflow management and financial resilience arrangements, building on the work already commissioned through the additional senior consultancy support.

The Chief Finance Officer will oversee delivery of the improvement plan and report progress through the Council's governance arrangements. The Council expects the measures outlined above to strengthen financial resilience, improve the quality and timeliness of financial reporting, and support the successful preparation and audit of the 2026/27 financial statements. However, whilst work has already commenced on a fundamental review of the Finance structure and we expect to have a clear improvement plan, structure and direction of travel in place by December 2026, we cannot guarantee that it will be completely implemented by this date, and March 2027 feels more realistic. We will of course seek to ensure that we meet the agreed timetable for closing the accounts and audit preparedness.

Target completion date: March 2027

Responsible officer: Chief Finance Officer



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