

Medway Council

External Assurance Review

September 2024 (Final January 2025)

A Report by:

The Chartered Institute of Public Finance and Accountancy

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

Any questions arising from this submission should be directed to:

John O'Halloran

CIPFA

77 Mansell Street

London

E1 8AN

Tel: +44 (0)20 7543 5600

Email: john.o'halloran@cipfa.org

Contents

1	Executive Summary	3
1.1	Summary of Findings, Issues, Evidence and Analysis	3
1.2	Key Risks and Recommendations	4
2	Introduction	6
2.1	Background	6
2.2	Requirement	6
2.3	Methodology	7
3	Areas Reviewed	8
3.1	Review Area 1: Financial Management/Sustainability	8
3.2	Review Area 2: Capital Programme/Debt/Investments /Assets	15
3.3	Review Area 3: Governance	23
3.4	Review Area 4: Service Delivery	27
Annex		36
A1	Risk Assessment – Method	36
A2	Documents Reviewed	37
A3	Interviews Conducted	38

1 Executive Summary

1.1 Summary of Findings, Issues, Evidence and Analysis

The review is focused primarily on providing assurance on the financial position of Medway Council (the council), assessing whether the council has appropriate arrangements for financial management in place and whether the request for Government support in the form of Exceptional Financial Support (EFS) in 2024-25 is warranted.

The council's request was for EFS amounting to £14.742 million in relation to a projected budget gap in 2024-25. At the time of their submission for EFS, the council also indicated a need for EFS in 2025-26 and 2026-27.

The council is currently identifying a forecast overspend in 2024-25 of £15.815 million. It is expected that this will reduce over the course of the financial year, as it did in 2023-24 though there remained an overspend of £6.706 million at outturn which was funded from reserves. In a similar scenario in 2024-25, any shortfall would again have to be met from reserves.

The Medium Term Financial Outlook (MTFO) identifies a continuing need for EFS in 2025-26 (estimated at £16.303 million) and in 2026-27 (estimated at £10.299 million). Even if such levels of EFS were approved for those financial years, the MTFO projects a remaining gap in 2025-26 of £28.844 million and £29.336 million in 2026-27, which would have to be met from savings. Further budget gaps are projected in 2027-28 and 2028-29. These projections are also expected to reduce but do demonstrate the difficulty the council will face in achieving financial sustainability, starting from a low tax base and given an inability to significantly influence the funding envelope or the pressures which are driving spend. These are primarily arising in four key statutory service areas of Adult Social Care, Children's Services, SEND Transport and Homelessness. The council reports it continues to see growth in excess of projections in volume of demand and complexity of need, with scarcity of provision driving up the unit costs across these services.

Even so, the council is making great efforts to achieve a financially sustainable position and to balance spending with funding in the medium-term, and it is achieving some measure of success.

In doing so, the council has taken what might be regarded as "politically unattractive" decisions and is both receptive and responsive to the advice given to it, to achieve greater financial resilience. Despite this, there may be no option but for the council to make even more "politically unattractive" decisions which would impact on services and not necessarily resolve the challenge of financial sustainability.

Our overall assessment is that Medway will require further EFS beyond 2024-25.

1.2 Key Risks and Recommendations

This table provides the improvement plan and roadmap that we recommend the council follows with priority actions indicated by the RAG rating and the recommended timeline included with the recommendations.

Key risk	Risk rating (see details in Annex 1)	Recommendation (including Timeline)
1. The council is unable to contain the drivers of financial fragility which are creating financial pressure in 2024-25 and in subsequent years.	9	Review the preventative and cost reduction measures the council is taking to contain or limit the impact of these drivers of financial fragility. In developing the 2025-26 Budget/MTFP and ongoing
2. The council is unable to contain the forecast overspend in 2024-25 and is required to fund any shortfall from reserves.	6	The council acts to limit spending to within the approved budget and, if this proves unfeasible, undertakes a further review of Earmarked Reserves to fund any shortfall and preserve the General Fund Balance at £10 million. Now until March 2025
3. The council is unable to identify measures to close the projected gaps in 2025-26 and 2026-27 even with the projected level of EFS required.	9	Identify realistic level of EFS required in combination with radical plans to curb spending and maximise funding. Now until March 2025
4. Plans for the Kyndi's restructuring, renewed strategic direction and business growth are not finalised in a timely manner leading to delay in the council benefiting from these plans.	4	Ensure Kyndi finalises plans for approval by the Kyndi Shareholder Board. As soon as possible
5. The council continues to engage with Medway Norse without an executed Service Agreement leading to the council failing to secure the benefits expected from the revised Service Agreement where new terms have been agreed.	3	Ensure execution of overarching Service Agreement and terms for the services for which agreement have been reached. As soon as possible
6. Failure to agree terms for services with Medway Norse where negotiations for future years are yet to commence resulting in these services remaining outside of the Service Agreement and opportunities for	4	Execute interim agreement and then ensure sufficient focus and capacity to complete negotiations and execute terms for services where negotiations are yet to commence in a timely manner.

efficiencies and cost reductions not being secured.		Interim agreement by end of December 2024 Final agreement by end of May 2025
7. Lack of focus on efficiency measures of service delivery to support Members in scrutinising the cost-effectiveness of outcomes and the efficiency of outputs more effectively	3	That the council develop efficiency measures associated with key One Medway Council Plan priorities and sub-priorities. As soon as possible
8. Without fully developed transformation plans and associated milestones, there is a risk of slippage.	3	Medway should set out clear plans for the changes required in adult social care and waste management services to enable progress to be monitored As soon as possible
9. Unless the changes in approach to procurement being implemented are accompanied by a change in working practices, progress might be undermined.	3	Internal Audit should be invited to review compliance with the revised procurement arrangements and the suitability of the KPIs being developed for key contracts. As soon as possible

2 Introduction

2.1 Background

Medway Council formally requested Exceptional Financial Support (EFS) from the Department for Levelling Up, Housing and Communities (DLUHC), now the Ministry of Housing, Communities and Local Government (MHCLG).

In principle, EFS support of £14.742 million, as a capitalisation direction in respect of the financial year 2024-25, was approved. This review constitutes one of the conditions laid out in the 'in-principle' decision.

The council had, as part of its submission, also requested flexibility to increase the Council Tax above the relevant referendum limits but this was not granted.

2.2 Requirement

MHCLG asked CIPFA to undertake the external assurance review on which the EFS is conditional. They invited us to provide an assessment of the financial position of Medway Council including its financial resilience, financial management and capital programme.

To provide this assessment, we were asked to look at five key themes:

- *financial management and sustainability*: An assessment of the Local Authority's financial management and management of risk to reach a view on the Local Authority's overall financial resilience and sustainability.
- *capital programme, debt, investments and assets*: An assessment of the Local Authority's capital programme / overall debt position including short- and long-term borrowing, and its approach to investment / asset management to reach a view on the suitability, Value for Money (VfM) and risk exposure of the Local Authority in this space, and how this may impact on the overall financial resilience / sustainability of the Authority.
- *governance*: an assessment of the council's approach to overall governance / management processes, leadership, operational culture, capacity and capability to reach a view on whether the council is operating in line with the Nolan Principles in a way to secure continuous improvement.
- *service delivery*: an assessment of the effectiveness of council service delivery reflecting the importance of delivering outcome orientated, citizen focused services in order to reach a view on the council's ability to deliver services that are economic, efficient and effective, striking the right balance between cost and quality of service.
- *improvement plan and roadmap*: In consideration of the findings of the review areas, targeted, tangible and timely recommendations to assist the Local Authority in designing and implementing an improvement plan that will address the identified risks and issues.

2.3 Methodology

Desktop analysis

MHCLG provided appropriate background. We reviewed the material and made supplementary document requests to the council. The team has analysed around 60 documents and other artefacts that have been shared by the council as relevant for the review. We also examined relevant comparator material. We would like to record our thanks to officers for their ready compliance with our request for reports and data.

Interviews

The bulk of the fieldwork comprised of interviews. These provided the invaluable ‘triangulation’ of our analysis. Council officers, members, auditors, and other experts were invited to give views and respond to queries provoked by documentary evidence. We would like to thank everyone involved for their courtesy and constructiveness.

Report drafting, feedback and fact-checking

The above inputs were then analysed and subjected to our professional and expert judgement. The result is this report.

The report was fact checked, as far as possible, and is based on the fieldwork completed within the time frame for the review. It is not a comprehensive audit of the council’s finances or its governance arrangements. Consequently, the conclusions do not constitute an opinion on the status of the council’s financial accounts. Our review of the council’s Minimum Revenue Provision (MRP) considers the reasonableness of the council’s MRP policy and does not constitute an audit of the full application of the policy. Similarly, our review of the council’s productivity does not constitute an audit of the council’s productivity plan but represents an overview of the arrangements in place to consider productivity and takes account of any publicly available information on historic or relevant performance.

Report Structure

The key findings and analysis, together with supporting evidence, are set out under each of the review areas requested (as detailed in the commission). Risks and recommendations are detailed under each of the review areas.

3 Areas Reviewed

3.1 Review Area 1: Financial Management/Sustainability

An assessment of the Local Authority's financial management and management of risk to reach a view on the Local Authority's overall financial resilience and sustainability.

The Local Authority's financial management, governance processes including the effectiveness of the audit and scrutiny committee(s), as well as compliance with Local Government accounting codes and international finance reporting standards.

Key findings and analysis

When CIPFA undertook a review of Financial Resilience for the council, which reported in January 2024, we referred to a number of matters in relation to financial management which the council has taken onboard and have either actioned or are planning to action to improve financial management.

The council has, in 2024-25 implemented a more robust, monthly forecasting process to provide improved 'in-flight' financial management information. This has been embraced by budget holders, who have taken greater ownership, encouraging accountability and improving financial management information provided to Members. The council, following discussions with CIPFA during the course of this work, is examining how to streamline the process and shorten the time taken to produce forecasts and is also seeking to improve the consistency of commentaries/analysis of budget variances.

The council is also aligning the Medium Term Financial Plan (MTFP) with the annual budget setting process as recommended in the January 2024 report. Taken together, these two measures are important enhancements to the current financial management arrangements.

As part of the Financial Improvement and Transformation (FIT) Plan 2024, the council is committed to:

- Completing a self-assessment of Medway Council's financial management against the CIPFA Financial Management Code by October 2024
- Developing a quarterly 'Financial Resilience Report' to provide a more comprehensive picture of the council's financial health by September 2024

We have been assured by the council that these will be completed on schedule.

The FIT Plan, which was approved by the Cabinet on 30 April 2024, is monitored on a fortnightly basis by the Corporate Management Team (CMT) as a core agenda item, with members of CMT having responsibility for savings and actions assigned to them. FIT Plan monitoring is focused on tracking savings. The council's external auditor had, in November 2023, recommended that Medway should introduce separate monitoring of savings proposals.

At present monitoring of the FIT Plan is separate from monthly budget monitoring but the council has examined the alignment between the two and recognises the need to ensure

that the savings tracked through the FIT Plan monitoring are reflected in the forecast outturn produced through budget monitoring, given the council's financial position.

Quarterly budget monitoring reports are considered by the Cabinet. Whilst FIT Plan monitoring was not reported to Cabinet in Round 1 (R1), FIT Plan monitoring and progress against savings targets will be built in from R2 to Cabinet budget monitoring reports.

The Medium-Term Financial Outlook (MTFO) considered by the Cabinet on 27 August 2024 "provides the framework that underpins the budget setting process for 2025-26 and beyond". The MTFO projections are developed by Directorate Management Teams. Work is ongoing to refine the assumptions and develop proposals to address the potential budget gap identified in the MTFO in advance of the council approving the 2025-26 budget in February 2025. At that time, a Medium Term Financial Plan (MTFP) setting out the best estimates of the council's position through to 2029-30 will be produced.

Medway has four Overview and Scrutiny Committees:

- Business Support and Digital
- Children and Young People
- Health and Adult Social Care
- Regeneration, Culture and Environment

In addition, there is a Kent and Medway NHS Joint Overview and Scrutiny Committee administered by Kent County Council.

Based on the evidence reviewed and discussions with the Chair of the Audit Committee and others, the Audit Committee and the Overview and Scrutiny Committees operate effectively.

The council complies with local government accounting codes and international financial reporting standards. The last audited accounts relate to 2020-21. The external auditor has raised no issues of compliance with accounting codes and international reporting standards. Draft Statements of Account for 2021-22, 2022-23 and 2023-24 have been published.

Risks

None identified.

Recommendations

None identified.

The capacity and capability of the Local Authority to deliver an effective finance function to the authority commensurate with the complexity of its particular circumstances, this should include the ability to undertake any transformation activity as required, and consider whether officers / members are provided with the right information and training to take necessary financial decisions.

Key findings and analysis

In the January 2024 Financial Resilience review, reference was made to the stripping back of central functions, such as finance, in order to address previous overspends with a consequent reduction in capacity. The 2024/25 budget provided £0.94 million to increase capacity in the Finance, HR and Digital teams. In relation to Finance, this has resulted in an

additional seven posts, five of which have been filled. The remaining two are currently being interviewed for.

Our impression of the council's finance function, having worked with Medway since late 2023, is that it is strong. The Chief Operating Officer (COO), who is the S.151 Officer, and the Chief Finance Officer (CFO) have a firm grasp of the financial challenges facing the council and have responded positively to suggestions for improvements in financial management.

With the increased capacity in 2024-25, it is considered there is sufficient resourcing to deliver an effective finance function and provide support to any required transformation activity. The council has a team of four established senior Business Partners who work closely with Directorates in all aspects of transformation, from identification of opportunities through to delivery. They participate in delivery groups and boards and are, we are informed by the CFO, respected and valued by the broader organisation.

Finance is embedded at a senior leadership level and this has been enhanced by CMT's role in monitoring the FIT Plan. The Leader of the council is also the Finance Portfolio Holder.

The reports produced by Medway to support financial decisions are of a very high, even exemplary, quality.

Risks

None identified.

Recommendations

None identified.

The Local Authority's approach to financial risk management including identification, management and treatment of risk.

Key findings and analysis

In November 2023, the council's external auditor stated in the 'Interim Auditor's Annual Report 2022/23' that "Medway has in place effective processes for risk management and internal control".

To ensure it remains up to date and continues to reflect the council's approach to risk management, the council produces an annual risk strategy. The Audit Committee is responsible for providing independent assurance on the adequacy of the risk management framework and the associated control environment, including consideration of the council's approach to risk management. The Cabinet is responsible for ensuring the effective operation of risk management in the council. Cabinet approved the 'Medway Council Risk Strategy 2024/25' on February 10 2024.

'Finances' is identified as a strategic risk and, along with other strategic risks, a thorough assessment of risk together with proposed treatments is reported to Cabinet quarterly.

Key financial reports include a section on risk management with a risk rating of the specific risk for likelihood and impact (as defined in the annual risk strategy) together with actions to avoid or mitigate the risk.

Risks

None identified.

Recommendation

None identified.

The underlying drivers of any financial fragility and risk and the Local Authority's ability to successfully manage those drivers so that issues do not materialise.

Key findings and analysis

Council Tax in Medway is the lowest in Kent and below the English average.

The January 2024 Financial Resilience report states “The most significant financial challenge and hence threat to Medway’s financial sustainability arises in relation to Children and Adult Services, more particularly in relation to Adult Social Care and Children’s Services”.

Paradoxically, Medway is not a high spending local authority on these service areas. CIPFA’s benchmarking data indicates that Medway Council spends less per capita on both Adult Social Care and Children’s Services than other similar authorities, even taking into account the significant investment in Children’s Services since the service was assessed by Ofsted as ‘inadequate’ in 2019. It was assessed as ‘good’ in 2023. A CQC inspection of Adult Social Care is scheduled for 2024-25.

In 2023-24 the Children and Adult Services Directorate recorded an overspend of £11.289 million, £8.810 million relating to Adult Social Care but only £0.385 million relating to Children’s Services. SEND Transport is also a particular pressure, accounting for £2.060 million of the £2.770 million overspend on Education with the Children and Adult Services Directorate. Finally, Homelessness was overspent by £1.625 million in 2023-24.

The latest 2024-25 budget monitoring reported to CMT on 7 August 2024 identifies a current forecast overspend of £7.341 million on Adult Social Care, £1.622 million on Children’s Services and £2.803 million on Education. A £2.573 million forecast overspend on Homelessness was also reported.

Whilst work is ongoing to reduce these forecast overspends, there are underlying pressures that the council has to cope with including, for example, demographic pressures, price pressures and an increasing level of complex needs in Adult Social Care. While these pressures are not unique to Medway, the council has identified a series of factors that exacerbate the financial impact on the council. These include the NHS funding a lower proportion of the cost of social care than in other local authorities, the proximity to London with the availability of higher pay making recruitment and retention of the social care workforce difficult and driving up costs, and the relatively low cost of property in the area attracting (and making the area suitable for other local authorities to place) individuals and families who require the support of statutory services.

The council has embarked on a number of initiatives to address the pressures in these services. A comprehensive transformation programme has commenced in Adult Social

Care. Demand management is a key focus and includes initiatives to, for example, reduce reliance on adult residential care through the use of assistive technology and to support younger adults (often care leavers) on the edge of needing social care to enable independent living rather than going into supported living. Capital investment of £42 million in temporary accommodation to address homelessness was approved in January 2024.

However, the MTFO identifies that, for example, £21.822 million is required in the Children and Adult Services Directorate in 2025-26 but that savings of £12.201 million would be needed to fit with the projected 2025-26 resource envelope.

Whilst the council is focused and taking action to address the underlying drivers of financial fragility, the financial challenges, based on the 2023-24 outturn, the current forecast outturn for 2024-25 and the MTFO together are daunting since these drivers are mostly outside of the council's control.

Risks

1. The council is unable to contain the drivers of financial fragility that are creating financial pressure in 2024-25 and in subsequent years.

Recommendations

1. Review the preventative and cost reduction measures that the council is taking to contain or limit the impact of these drivers of financial fragility.

An assessment of steps the Local Authority is undertaking to ensure it remains within its spending envelope, including deliverability and appropriateness of current savings / transformation plans, income generating activity, and ensuring activities that are no longer required are being scaled back (e.g. teams that were previously expanded during COVID) etc.

Key findings and analysis

The FIT Plan is a comprehensive and detailed plan to transform and achieve savings across the council. A great deal of effort and focus went into developing the FIT Plan and a similar level of effort and focus is going into delivering it. The FIT Plan encompasses service focused efficiencies, cost reductions, income generation and transformational change to constrain spend together with initiatives in relation to corporate property and procurement.

The Medway 2.0 Roadmap directly supports the delivery of the FIT Plan's targets by providing dedicated service design and improvement capability, which will enable services to streamline and improve their operations, in particular customer-facing activity.

Monitoring of the FIT Plan 2024-28 identifies that savings are being achieved in 2024-25 so whilst early indications are good, it is too early to determine the extent to which it is achievable given it is a multi-year programme. However the latest budget monitoring reported to CMT is currently identifying a forecast overspend in 2024-25 of £15.815 million. Based on our discussions with the council, it is expected this will reduce over the course of the financial year, as it did in 2023-24 from a forecast R1 overspend of £17.267 million to an overspend of £6.706 million at outturn.

In 2023-24 this was met from reserves. Declassification of balances on Earmarked Reserves allowed the council to preserve the General Fund Balance just above the minimum level of £10.0 million set by the Section 151 Officer at £10.065 million at 31 March

2024. This would be insufficient to cover the currently forecast overspend in 2024-25. However, the council has indicated a willingness to further review Earmarked Reserves, which amounted to £35.869 million at 31 March 2024, if necessary.

At present, whilst it is clear the council is endeavouring to come in on budget in 2024-25, it is difficult to predict whether Medway will be able to manage this without resorting to further use of Earmarked Reserves.

Risks

2. The council is unable to contain the forecast overspend in 2024-25 and is required to fund any shortfall from reserves.

Recommendations

2. The council acts to limit spending to within the approved budget and, if this proves unfeasible, undertakes a further review of Earmarked Reserves to fund any shortfall and preserve the General Fund Balance at £10 million.

An assessment of the Local Authority's efforts to maximise productivity and minimise waste This should include consideration of the local authority's approach to EDI activity.

Key findings and analysis

The council's Productivity Plan 2024/25 has four themes:

- Transforming how we design and deliver services
- Making better use of technology and data
- Our plans to reduce wasteful spend
- Barriers preventing progress

In conjunction with the FIT Plan, the Productivity Plan identifies how the council is responding to the financial challenges it faces through a focus on activities to transform, achieve savings, maximise productivity and minimise waste.

This FIT Plan sets out how the council is responding to these challenges and addressing the Government's productivity plan requirements.

The FIT Plan and the Productivity Plan demonstrate the council's commitment and efforts to respond to the challenges it faces and make progress to a more financially sustainable future.

The Employment Matters Committee approved a new Workforce Equality, Diversity and Inclusion (EDI) Strategy (2023-2028) in December 2023. The EDI Strategy is supported by an EDI Action Plan 2023-2025 with a number of objectives. The EDI Strategy is positioned above the existing Fair Access and Inclusion Policy which also encompasses the council's commitment to EDI in the services the council provides.

Risks

None identified.

Recommendations

None identified.

An overall view on the ability of the Local Authority to manage identified budget pressures through its own resources. This should include a view on whether the council could and should take further action to minimise the need to use / seek a capitalisation direction. If it is apparent the Local Authority requires capitalisation to manage its budget, an assessment of how the council expects to ‘fund’ the capitalisation (i.e. through external / internal borrowing or through capital receipts), and the viability / risks of their proposed approach.

Key findings and analysis

The council has a strategy for the Flexible Use of Capital Receipts (FUCR) which has been approved as an Appendix to the annual revenue budget approved by the council since 2020-21. FUCR has been applied to, for example, the Children’s Improvement Programme and the council’s Transformation Programme. Whilst the 2024-25 budget does not reflect the addition of any further capital receipts to this programme of activity, the council is currently reviewing its property portfolio to dispose of any assets not contributing to the council’s priorities to release capital receipts.

The MTFO identifies a continuing need for EFS in 2025-26 (estimated at £16.303 million) and in 2026/27 (estimated at £10.299 million). Even if such levels of EFS were approved for those financial years, the MTFO projects a remaining gap in 2025-26 of £28.844 million and £29.336 million in 2026-27, which would have to be met from savings. Further budget gaps are projected in 2027-28 and 2028-29.

These projections will change as the council refines its plans for 2025-26, but they demonstrate the difficulty the council will face in achieving financial sustainability, starting from a low tax base and given an inability to significantly influence the funding envelope or the pressures which are driving spend.

Even so, the council is making great efforts to achieve a financially sustainable position and to balance spending with funding in the medium-term, and it is achieving some measure of success.

In doing so, the council has taken what might be regarded as “politically unattractive” decisions and is both receptive and responsive to the advice given to it to achieve greater financial resilience. Despite this, there may be no option but for the council to make even more “politically unattractive” decisions which would impact on services and not necessarily resolve the challenge of financial sustainability.

Medway Council’s 2024-25 budget was balanced on the assumption that EFS of £14.742 million would be borrowed to fund the revenue budget shortfall, enabling Full Council to approve a balanced budget on 29 February 2024. The council’s potential asset disposal programme, referred to above, will generate capital receipts that could be wholly or partially used in respect of future EFS support beyond 2024-25.

Risks

3. The council is unable to identify measures to close the projected gaps in 2025-26 and 2026-27 even with the projected level of EFS required.

Recommendations

3. Identify realistic level of EFS required in combination with radical plans to curb spending and maximise funding.

3.2 Review Area 2: Capital Programme/Debt/Investments /Assets

An assessment of the Local Authority's capital programme / overall debt position including short and long term borrowing, and approach to investment / asset management to reach a view on the suitability, Value for Money (VfM) and risk exposure of the Local Authority in this space, and how this may impact on the overall financial resilience / sustainability of the Authority.

The Local Authority's management / governance of its capital programme, major projects (whether delivered in house or via companies) and investments including the adequacy of internal processes, scrutiny of investment decisions, use of external expertise where required, risk management and capacity and capability to deliver. This should include an assessment of the Local Authority's exposure to refinancing and any other risks identified as a result of its chosen borrowing strategy.

Key findings and analysis

Full Council is responsible for approving the Capital Programme. Cabinet is responsible for ensuring the delivery of the Capital Programme within agreed budgets. 'Capital Budget Monitoring' reports are considered by the Cabinet on a quarterly basis. These reports are detailed and comprehensive and include a section on risk management, identifying the action to avoid or mitigate the risk and both the likelihood and impact of identified risks.

The Capital Programme is regularly amended with additions and virements routinely progressed in-year, as external funding is announced or as business cases are considered by Members. Virements below £0.15 million can be approved by Directors under delegated authority. Virements between £0.15 million and £1 million can be approved by Cabinet and those in excess of £1 million are a matter for Full Council.

The S.151 Officer has delegated authority to approve in-year additions to the Capital Programme in consultation with the Finance Portfolio Holder, subject to specific criteria:

- The funding coming from external sources, to be used for a specific purpose on a specific asset
- There is no financial contribution from the council
- Funding being ringfenced for specific purposes
- Any additions made under delegated authority are reported in the next Capital Budget Monitoring report

Before formal decisions are sought from Members, officers develop capital proposals for consideration by the relevant internal groups for instance the Corporate Management Team, Corporate Property Board and Officer Project Boards. These are responsible for ensuring that proposals align with the Council Strategy, are affordable, demonstrate good value for money and that there is capacity and capability in the council to manage and deliver the schemes.

The 'FIT Plan 2024/28' includes a task for the CFO to review and further develop the set of tools in use by the council in relation to the preparation of Business Cases and in the investment appraisal of capital projects. This is expected to be completed by the end of September 2024 and we are told the work to do achieve this is on schedule.

The council has a number of strategies for mitigating risks associated with its borrowing strategy. In relation to managing interest rate risk, a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. Current council policy is to not exceed a maximum of 40% of borrowings in variable rate loans. The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget. This strategy is used for budget monitoring throughout the year, allowing for any adverse changes to be mitigated, and supports identification of whether new borrowing should be fixed or variable.

The council's longer-term policy is to smooth out the maturity profile of debt and to reduce reliance on short-term borrowing. The 'Treasury Management Outturn Annual Report 2023/24' identifies that "Although loans repayable before 31 March 2025 (£82 million) remain a large proportion of the debt portfolio, some £122.5 million of new loans with durations of more than 12 months were taken during 2023-24. Whilst the majority of debt will need to be repaid within three years, it is hoped that economic conditions in the future will allow more longer term borrowing to assist with the smoothing of the maturity profile, and this strategy will be kept under constant review".

A variety of training and support is provided to Members. For example, Link (the council's treasury management adviser) has provided training to members of the Audit Committee and there is a Member Induction Programme which covers a range of topics.

Risks

None identified.

Recommendations

None identified.

Where applicable, an assessment of the Local Authority's approach to any part or wholly owned companies and any associated risk these companies expose the Local Authority to.

Key findings and analysis

The council has an interest in three companies. Two of these are wholly owned subsidiaries:

- Medway Development Company Limited
- Kyndi Limited

A third, Medway Norse Limited, is a joint venture with Norse Commercial Services Limited, a subsidiary of the Norse Group Limited. The council has a 20% interest in Medway Norse Limited.

When CIPFA undertook a review of Financial Resilience for the council, which reported in January 2024, we also undertook a review of these three companies. A separate report in February 2024 identified a number of matters for the council to consider.

In relation to the governance arrangements for these three companies, we noted that the council had decided to set up three Cabinet Sub-Committees to serve as Shareholder Boards. When we reported in February 2024, inaugural meetings of two of these Shareholder Boards had recently taken place but no meeting of the Medway Norse Shareholder Board had taken place. The inaugural meeting was held on 6 June 2024.

The council has made significant loans to Medway Development Company (MDC). As at 31 March 2024 the total outstanding was £87.314 million (£34.516 million as at 31 March 2023). The bulk of this (£75.258 million) is in relation to the funding of construction of

housing developments for sale by MDC. These are considered short-term loans which will be repaid. £12.056 million, which was a new loan in March 2024, is in relation to properties initially developed for sale which are now being used for private sector rentals. This is a long-term loan which reflects the council's strategy to transfer properties developed for sale to rental properties where sales are proving difficult.

We have discussed treatment of these loans in respect of MRP with the S.151 Officer and are content that the proposed treatment of these loans complies with MRP guidance and advice on the distinction between 'performing' and 'non-performing' loans. In this context, 'performing' loans are where principal repayments are being received and 'non-performing' loans are where there is the anticipation of a future receipt but there actually isn't one due anytime soon.

Kyndi currently operates CCTV monitoring and telecare services. The main challenge we reported in February 2024 in relation to Kyndi was the need for a revitalisation of the company's business plan and strategic direction. Reports on the company's strategic plan, a proposed restructure of the Kyndi group and business growth opportunities were considered by the Kyndi Shareholder Board on 11 June 2024 which determined further work is necessary.

The balance on loans given to Kyndi Limited as of 31 March 2024 is £1.144 million (£1.345 million as at 31st March 2023). This is a working capital loan. The outstanding balance is due to be repaid by May 2028.

The major issue identified in February 2024 in relation to Medway Norse was the lack of a formal contract with the council. A Service Agreement for ten years commenced on 1 June 2013 expiring on 31 May 2023, with an option to extend for five years to 32 May 2028.

A letter of intent to extend the Service Agreement for the optional five years was issued on 12 January 2023. Both parties agreed to negotiate in good faith with a view to executing an agreement by 31 May 2023 which would incorporate further terms in relation to detailed levels of service provision, payments, performance levels, service credits, performance reporting and open book accounting.

Whilst services have continued to be provided to the council on the basis of the now expired terms and conditions, fifteen months on, the new Service Agreement has not yet been executed. We commented in January 2024 "Given the current financial outlook this is an opportune time to consider the specification of the services the council wishes to purchase from Medway Norse to reduce cost".

There is now only three years and nine months left until the expiry of the yet to be executed five-year extension of the Service Agreement, which means the opportunities for realising savings from the new Service Agreement are diminishing. We have been informed that the overarching Service Agreement, which includes all the main terms and conditions in relation to the contractual relationship between Medway Norse and the council, have now been agreed but have not yet been executed.

We are also informed that terms for the following services have also been agreed but not yet executed:

- SEND schools transport
- Household waste recycling centres
- Refuse collection and street collection

We understand the overarching Service Agreement and agreements in relation to the above services will be executed by October 2024. However, in relation to facilities management,

green spaces and country parks, we have been informed that the council is now in a position to “commence negotiations for future years” with Medway Norse.

Risks

4. Plans for the Kyndi’s restructuring, renewed strategic direction and business growth are not finalised in a timely manner leading to delay in the council benefiting from these plans.
5. The council continues to engage with Medway Norse without an executed Service Agreement leading to the council failing to secure the benefits agreed in the revised Service Agreement where new terms have been agreed.
6. Failure to agree terms for services with Medway Norse where negotiations for future years are yet to commence, resulting in these services remaining outside of the Service Agreement and opportunities for efficiencies and cost reductions not being secured.

Recommendations

4. Ensure Kyndi finalises plans for approval by the Kyndi Shareholder Board.
5. Ensure execution of overarching Service Agreement and terms for the services for which agreement have been reached.
6. Execute interim agreement and then ensure sufficient focus and capacity to complete negotiations and execute terms for services where negotiations are yet to commence in a timely manner.

A view on the alignment of the capital programme with the broader strategic direction of the council including an assessment of the deliverability and affordability of its capital programme including consideration of how the council plans to fund its programme (i.e. grants, borrowing etc.) set against the overall debt position and potential impact on longer term sustainability, including liability benchmarking.

Key findings and analysis

The ‘Capital Budget Monitoring – Round 1 2024/25’ sets out the forecast spend in 2024-25 and in future years on the Capital Programme.

Directorate	Total Approved Cost £000s	Total Expenditure to 31/03/24 £000s	Remaining Budget £000s	Forecast Spend 2024/25 £000s	Forecast Spend in Future Years £000s	Forecast (Under)/ overspend £000s
Children and Adults (including Public Health)	52,498	19,912	32,587	19,161	13,426	0
Regeneration, Culture and Environment	442,013	218,243	223,770	86,140	132,965	(4,665)
Housing Revenue Account	101,201	33,566	67,636	25,615	42,020	0
Business Support Department	2,750	2,320	430	390	40	0
Total	598,463	274,041	324,422	131,307	188,450	(4,665)

Regeneration, Culture and Environment (RCE) accounts for 50.6% of the remaining budget for the Capital Programme and 65.7% of the budget relating to General Fund services (i.e. excluding the HRA).

The forecast underspend on RCE is as a result of a forecast underspend of £5.1 million on the council's Waste Fleet Replacement Scheme which was budgeted at £17 million. Spending has been paused on Innovation Park Medway, another RCE scheme, which has a remaining capital budget of £40.4 million whilst options are considered for the future of this project.

The largest source of funding is identified as Prudential Borrowing of £173.9 million, 53.6% of the total funding required. RCE is most reliant on Prudential Borrowing for the completion of their schemes (£123.3 million of the £173.9 million). Capital Grants account for £63.7 million (19.6%) of the proposed funding of the Capital Programme. RCE is most reliant on Capital Grants for the completion of their schemes (£33.2 million of the £63.7 million).

The council's external borrowing is forecast to increase in 2024-25 and in 2025-26 but to reduce in 2026-27 to £535.261 million (£464.7 million actual in 2023-24). Compared to nearest neighbours, gross external debt as a proportion of net revenue expenditure is average. Borrowing is comfortably within the Authorised Limit and the council is forecasting an under-borrowed position in relation to the CFR of £46.5 million through to 2026-27. The S.151 Officer confirms that borrowing was only undertaken for a capital purpose in the 'Treasury Management Outturn Annual Report 2023/24'.

The ratio of financing costs to net revenue stream in relation to the General Fund is forecast to remain below 5% though to 2026-27.

The Capital Strategy 2024/25 sets out the focus of capital investment needed to deliver corporate priorities across four themes, which are described as:

- Regeneration and placemaking
- Investing in our services to meet growth in demand including Education, Social Care and Environmental Services
- Technology and digital solutions driving more efficient and effective service delivery
- Maintaining our assets

Risks

None identified.

Recommendations

None identified.

The Local Authority's approach to asset management and valuation, the appropriateness of its asset portfolio, and a view on a proposed asset disposal plan set against broader Value for Money considerations.

Key findings and analysis

The draft 2023-24 Statement of Accounts provides comprehensive information in relation to the council's approach to valuation. The council's external auditor has not raised any issues in relation to valuation.

The council has current asset management strategies in relation to, for example, HRA assets (2023-2030) and Highways assets (2022-2027). The council is also in the process of agreeing a new Property Asset Management (PAM) Strategy 2024-29.

In our report to the council in January 2024 CIPFA stated "Surplus assets, those no longer held for operational purposes, have been identified but a comprehensive programme of divestment has not yet been determined which might include other assets beyond those

defined as “surplus” that are attractive to the market where their sale could contribute to Medway’s longer-term financial sustainability”.

A review of non-operational (Phase 1) and operational properties (Phase 2) is ongoing. The outcomes from Phase 1 of the review were considered by CMT on 7 August 2024 at which time it was reported that Phase 2 was well under way.

The draft PAM Strategy identifies “the priority is to generate revenue savings and capital receipts for the council by disposing of properties” and to “ensure that the portfolio is aligned with the council’s needs and priorities”.

A disposal programme of £42.96 million of non-operational properties (which includes commercial property) requiring Cabinet approval, with the bulk of these (£33.75 million) in 2025-26, has been identified together with £0.6 million of non-operational properties which do not require Cabinet approval. Cabinet will consider the PAM Strategy and the non-operational property portfolio, including the disposal recommendations on 29 October 2024.

The council plans to submit the final operational property review with recommendations for rationalisation in early 2025.

As part of this process, the Corporate Landlord Board (CLB), an officer-led Board, is being established to ensure the property portfolio aligns with the council’s corporate plans and objectives.

Thus, the council is actively considering the appropriateness of its asset portfolio to support the achievement of longer-term financial sustainability.

Risks

None identified.

Recommendations

None identified.

The Local Authority’s commercial investment portfolio (property, bonds etc.) and forward strategy, including dependence on commercial income, exposure to debt costs and whether, in CIPFA’s view, it is prudent to reduce the Authority’s exposure and over what timeframe.

Key findings and analysis

The council’s investment portfolio, per the ‘Treasury Management Outturn Annual Report 2023/24’, is set out below.

INVESTMENT PORTFOLIO	Actual 31/03/23 £000	Actual 31/03/23 %	Actual 31/03/24 £000	Actual 31/03/24 %
Treasury investments				
Banks	16	0.02	10,528	8.57
Medway Council Subsidiaries	70,718	66.51	88,148	71.79
Total managed in house	70,734	66.53	98,676	80.37
Property funds	21,098	19.84	19,926	16.23
Cash fund managers	14,489	13.63	4,182	3.41
Total managed externally	35,587	33.47	24,108	19.63
TOTAL TREASURY INVESTMENTS	106,321	100.00	122,784	100.00

The council has limited exposure to commercial investments, excluding the sums invested as loans with its wholly owned subsidiaries.

In relation to the Property Funds, performance in 2023-24 is set out below.

	CCLA £000	Lothbury £000	Patriza £000	Total £000
Opening Value	11,849	4,152	5,098	21,098
Revaluation	(462)	(502)	(208)	(1,173)
Closing Value	11,386	3,650	4,890	19,926
Dividend Received	575	143	194	912
Overall Gain/ (Loss)	113	(359)	(15)	(261)

The Property Funds produced an overall negative return in 2023-24. Capital gains and losses are recorded in a Pooled Investment Funds Adjustment Account. The cumulative loss on the Adjustment Account at 31 March 2024 was £3.073 million.

The Lothbury Property will cease on 31 May 2024. Losses on the final valuation will need to be accounted for within the council's Interest and Financing budgets. This is estimated to be in the region of £1.3 million. A provision has been made as part of the 2023-24 Interest & Financing Outturn

'The Treasury Management Strategy 2024/25' states "The Authority's investment priorities will be security first, portfolio liquidity second and then yield (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Authority's risk appetite".

The council has a commercial property investment portfolio of 14 properties with a combined value as at 31 March 2024 of £18.181 million (£16.664 million as at 31 March 2023). Net income in 2023/24 was £0.959 million (£1.056 million in 202/23). The rate of return in 2024/25, after taking into account MRP, was 4.23%.

The 'Capital Strategy 2024/25' states in relation to commercial property investments "As such we are solely focusing on opportunities within Medway's boundary and which are consistent with our regeneration ambitions". However all but one of the 14 commercial properties in the portfolio are included in the schedule of non-operational properties to be disposed of (referred to above) subject to Cabinet approval.

Risks

None identified.

Recommendations

None identified.

Whether and to what extent the Local Authority is complying with statutory guidance / following best practice with regards its capital programme, wholly / part-owned companies and investments including but not limited to investment guidance, minimum revenue provision guidance and accounting codes.

Key findings and analysis

The council is compliant with the CIPFA's Treasury Management Code of Practice and the Prudential Code. The council is also compliant with guidance on MRP. External audit has not raised any issues of compliance in respect of these.

The council does not make commercial investments purely for yield.

Risks

None identified.

Recommendations

None identified.

3.3 Review Area 3: Governance

An assessment of the Local Authority's approach to overall governance / management processes, leadership, operational culture, capacity and capability to reach a view on whether the Local Authority is operating in line with the Nolan Principles and in a way to secure continuous improvement.

The adequacy of the Local Authority's decision making processes including presence / absence of clear schemes of delegation, scrutiny arrangements, quality of council papers and whether there is a clear understanding of governance arrangements across all levels of the authority. This should include a view on the effectiveness of the adopted Governance model and whether it is suitable to drive the right outcomes for the area.

Key findings and analysis

Whilst there was a change in the control and leadership of Medway Council in 2023, there continue to be robust and clear governance arrangements:

- The council meeting is where all 59 councillors discuss and decide the council's policy framework and budget. The council meets approximately six times a year.
- The Cabinet is responsible for proposing the policy framework and budget to Full Council and for taking in-year decisions on resources and priorities. The Cabinet then delivers and implements the budget and policies decided by Full Council.
- The council's Overview and Scrutiny Committees play a key role in developing and reviewing policy and holding the Cabinet to account through a facility to call-in Cabinet decisions for review or undertaking pre-decision scrutiny.
- There are also a number of regulatory committees that deal with the functions of the council that cannot be dealt with by the Cabinet such as the Audit Committee, which undertakes independent scrutiny of the Authority's financial and non-financial performance and oversees the financial reporting process.
- Three 'Shareholder Boards', which are Cabinet Sub-Committees, have been established in 2024.

There is a clear scheme of delegation. At its meeting on 15 May, Full Council considered both Cabinet responsibilities and the Employee Delegation Scheme, which includes departmental delegations, proposed by the Leader for 2024-25.

As we have commented above in relation to finance reports, the quality of reports to the council and to committees is very good. Based on our discussions, this is a view shared by Members.

In our view, based on the evidence provided and the discussions we have had, the council's governance model is effective and the governance arrangements in place are understood by people at all levels of the council we have interacted with.

Risks

None identified.

Recommendations

None identified.

The presence / absence of a clear, outcome orientated, measurable and performance driven strategic direction for the Local Authority and whether this is clearly set out through alignment of the key strategy documents (Corporate / Strategic Plan, Annual Governance Statement and Medium Term Financial Plan). This should include an assessment of the extent to which the strategic direction of the Local Authority is present throughout operational implementation or whether it exists in 'name only'.

Key findings and analysis

The council approved the new 'One Medway Council Plan 2024-28' on 15 May 2024. This sets out the vision, ambitions and priorities with the Performance Indicators (PIs) that will be used to track performance against the council's key priorities and sub-priorities.

The Council Plan identifies five strategic priorities:

- Delivering quality social care and community services
- Benefitting from good education, quality jobs and a growing economy
- Enjoying clean, green, safe and connected communities
- Improving health and wellbeing for all
- Living in good quality and affordable homes

The Council Plan also identifies values and behaviours together with five key principles to support these priorities, including as a key principle "Financial sustainability and value for money" in response to the Financial Resilience Review report in January 2024.

The "One Medway Council Plan 2024-28' and its priorities are supported by a range of aligned strategies which set out in more detail what the council will deliver to achieve its vision of 'One Medway' including the Annual Governance Statement and the MTFO.

Based on the evidence provided to us and the discussions we have had, in our view the Council Plan together with the supporting strategies and plans are complete and cohesive, and they set out the strategic direction of the council both in principle and, through operational implementation, in practice.

Risks

None identified.

Recommendations

None identified.

A view on the effectiveness of Local Authority leadership including their ability to work effectively together, set and communicate a clear vision and set of priorities for the local area, as well as their ability to lead the delivery of those priorities (as set out in key strategy documents) through the fostering of a cohesive organisation built on cooperation, trust and respect.

Key findings and analysis

Following the change in leadership within the council in 2023, the new administration had to face some very difficult decisions from the outset of their term. This has helped focus the leadership in the face of significant financial challenges. In our own interaction with Medway we have witnessed the journey that the leadership has been on in accepting and addressing these challenges.

During this review and through our previous work with the council, our impression is of a strong leadership at both Member and Officer level, which encourages collaboration and challenge in achieving the council's vision based around a common agenda and common values. This is supported by our discussions with Members and officers.

Risks

None identified.

Recommendations

None identified.

A view on the working culture and working relationships across all levels of the council including between political and officer leadership, and senior officers and junior staff.

Key findings and analysis

The Financial Resilience Review report in January 2024 did comment on a number of matters in relation to culture. Our impression is that these issues have been addressed and that there is a good working culture in Medway. The new administration has encouraged greater transparency, there is a greater organisational recognition of the real pressures faced by services such as Adult Social Care together with greater recognition and acceptance of the financial challenge facing the council. With this comes a more collegiate approach to dealing with this challenge. The Members and officers we have interacted with as part of this review are engaged, knowledgeable, receptive and responsive. There is an impression that people working for Medway are genuinely dedicated and care about the future of the council.

There has been no evidence of poor working relationships or personal agendas in our dealings with the council. Officer and member roles are clear.

Risks

None identified.

Recommendations

None identified.

The Local Authority's capacity and capability to improve and transform at an operational level (i.e. sufficient expertise, staff etc.) and at a cultural level (i.e. acknowledgement of problems, openness to constructive criticism and change, delivery with local partners, and collaboration with sector support).

Key findings and analysis

The council has embraced the stark messages set out in the January 2024 Financial Resilience Review, clearly acknowledging the scale of the challenge. There is a demonstrable openness to constructive criticism. During this review we have not encountered any defensiveness even when difficult issues were discussed.

The development of the FIT Plan, the new One Medway Council Plan, the Medway 2.0 Roadmap together with other initiatives and changes, such as the monthly forecasting process which has gone much more smoothly than anticipated, demonstrate the capacity to identify the changes that need to be made and to implement them. Naturally, given the scale of the financial challenge faced by the council, there is still much to do to improve and transform at an operational level but the council recognises this is an ongoing task. The

council has also shown a willingness to seek advice and support from external organisations, such as Partners in care and Health (LGA & ADASS), CIPFA and LG Improve, when it is considered this can add value in helping the council transform.

Risks

None identified.

Recommendations

None identified.

3.4 Review Area 4: Service Delivery

An assessment of the effectiveness of Local Authority service delivery reflecting the importance of delivering outcome orientated, citizen focused services to reach a view on the Local Authority's ability to deliver services that are economic, efficient and effective, striking the right balance between cost and quality of service.

The efficiency of service delivery, including against comparator Local Authorities, sector metrics and wider public sector metrics.

Key findings and analysis

Medway regularly monitors performance against the Council Plan 2023-24 approved by Full Council on 23 February 2024. In 2023-24, it reported quarterly to Cabinet on the 46 performance metrics associated with the three priorities and six values specified in its Council Plan. Our analysis is based on this plan rather than the latest iteration – the 'One Medway Council Plan 2024-2028' approved on 15 May 2024 as the performance metrics for Q1 of 2024-25 were not yet available at the time of our review.

The performance measures specified in the Council Plan 2023-24 are output and outcome focused and there are clear definitions around what is being measured and how these compare with the targets specified. In the absence of any costings, these performance measures do not cover efficiency. Nevertheless, the targets associated with each metric are based on a benchmarking with other authorities where available, or over time where this is not an option.

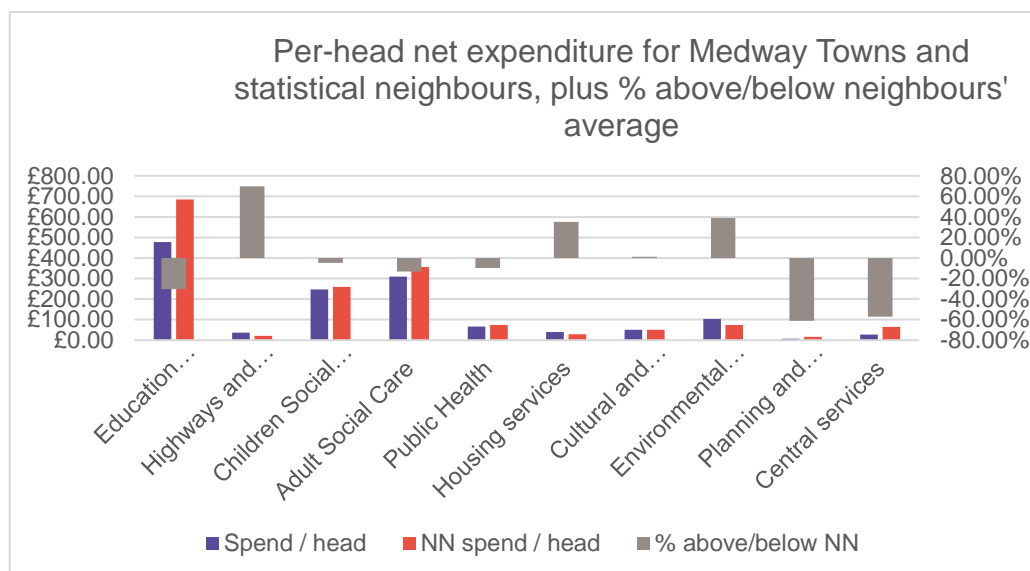
In accordance with the council's Constitution, Overview and Scrutiny Committees were invited to comment on the draft budget proposals within the remit of each respective Committee alongside a high-level narrative explaining the action to close the projected gap. The comments from the Overview and Scrutiny Committees were considered by the Cabinet, alongside the budget proposals, at the Cabinet meeting on 13 February 2024. Within this process there were instances where comparative efficiency was used to inform the budgets being set for 2024-25:

- A benchmarking exercise was undertaken to confirm parking charges, approaches and payment systems utilised in town centre car parks operated by Medway Council and within country parks managed by Kent County Council.
- Medway invited the Local Government Associate (LGA) and Association of Directors of Adult Social Services (ADASS), through the Partners for Care and Health (PCH) programme, to undertake an independent finance review and review its use of resources in Adult Social Care.

We have not been able to fully assess the efficiency of all service areas but the table below provides an overall summary of spend against nearest neighbour and some other key comparators from the CIPFA benchmarks for 2022-23:

- Medway has a relatively large population (282,702) in comparison to its statistical neighbours (the median is 234,205) and a relatively large geographic area (19,371 hectares compared to a median for its statistical neighbours of 15,953). As a consequence, the population per 1,000 km² is close to the median.

- Medway's net current expenditure of £386.322 million was broadly similar to the median for its statistical neighbours in 2022-23. Given the larger population, however, the spend per population is below the median and in the 25th percentile.
- The lower net current expenditure is largely due to the relatively low costs per capita of Adult Social Care, Children's Services and Education which are illustrated below.



The impact on performance is difficult to determine with any reliability due to timing differences. Nevertheless, we found that:

- Children's services appear to be relatively efficient. Spend per capita on children's services was notably lower than for comparable authorities, and Medway has increased funding in this area to address earlier performance issues. As a consequence, the quality of Children's Services has improved since 2019 - when it was considered 'inadequate' – to be 'good' in 2023. The challenge will be to maintain this balance (see next topic).
- Although Medway has a relatively low spend on Adult Social Care, there is still scope for greater efficiency through cost reductions that should not impact on the quality of services provided (see next topic).
- Education is currently ring-fenced from the General Fund and the DSG deficit is subject to a Safety Valve improvement plan. However, it is notable that four of the eight measures on education deteriorated in 2023-24. In particular the percentage of secondary schools rated as 'good' or better, and the percentage of children achieving the required standard or above in English and Mathematics at Key stage 2. SEND transport costs impact on the General Fund and the £12.1 million budget for 2024-25 is likely to be overspent due to increased demand pressures. Efficiency improvements are very dependent on progress in tackling the pressures on the DSG high needs block, as specified in the Safety Valve Improvement Plan.

The net current expenditure per capita on Housing, Environmental and Cultural Services is above average. When compared with performance in 2023-24, we found that:

- The performance measures for Housing confirm that numbers of households in temporary accommodation remain above target, albeit this is still lower than the national rate. The issue is being actively managed by Medway, but whilst there are

initiatives to improve efficiency (see next topic), these are likely to be outweighed by increased demand.

- Spend per head on Environmental and Cultural Services was higher than comparators in 2023-24 and CIPFA has previously reported to Medway on the need for action in these areas. Medway is commissioning a comprehensive review of its Waste Strategy and is currently in negotiation with Medway Norse around how its green spaces will be managed in future.

In conclusion, it is difficult to draw direct comparisons between the resources available to deliver the priorities in the Council Plan and the associated output and outcome metrics. The large areas of spend in Medway (Education, Adult Social Care and Children's Services) appear relatively efficient, but remain subject to demand pressures that could readily undermine this position. There are still opportunities, however, for further efficiencies in these areas as well as in Environmental and Cultural Services.

The council has set out in its Productivity Plan its ambition to transform the delivery of services and to reduce wasteful spend. There are no specific performance indicators associated with this Plan.

Under each of the five priorities identified in the 'One Medway Council Plan 2024-2028', which will drive the work of the council, there are sub-priorities accompanied by relevant key performance indicators. However, these performance indicators focus on outputs and outcomes rather than efficiency.

Risks

7. Lack of focus on efficiency measures of service delivery to support Members in scrutinising the cost-effectiveness of outcomes and the efficiency of outputs more effectively.

Recommendations

7. That the council develop efficiency measures associated with key One Medway Council Plan priorities and sub-priorities.

Identification of particular service areas that are underperforming and the ability of the Local Authority to rectify the issue within its own resources and activity. This should include a view on the authority's management of customer feedback and complaints procedures.

Key findings and analysis

In light of the previous CIPFA report on the financial resilience of Medway, this sub-section focuses on three critical areas:

Children's Services. Ofsted concluded in 2023 that Medway's Children's Services are now "good" in four out of five areas: the impact of leaders on social work practice; the experiences and progress of children in care; the experiences and progress of care leavers; and overall effectiveness. The exception is the experiences and progress of children who need help and protection, where the judgment is: "Requires Improvement to be Good." Particular concerns in summary relate to the quality of direct work with children, the overall response to those at risk of exploitation, interventions which do not routinely reduce or manage risk, and the quality of practice in the children and young people's disabilities service is inconsistent.

Responses to these issues are all located within Medway's Continuous Improvement Plan which is effectively monitored and governed. Nevertheless, drawing on the last corporate

performance report available (reporting on Q4 in 2023-24), there are areas for improvement. Of the 11 indicators associated with building resilient families, 8 were marked as red, including:

- The proportion of open children in need cases per 100,000 population (368 cases) has dropped, but remains above the national (342 cases) and South East rate (336).
- The proportion of initial child and family assessments completed within one day had fallen from 71% in March 2023 to 62% by March 2024 (compared to a target of 90%).
- The average number of days (over the last 36 months) between a child entering care and moving in with an adoptive family is relatively high. Medway average 516 days, compared to a national average of 367 days and 338 days for the South East.
- The percentage of children in long term fostering arrangements has improved, but at 54% remains below the target of 65%.

Regarding complaints, in line with statutory requirement, the council produces annual reports, most recently to the Children and Young People Scrutiny Committee in December 2023. The report is comprehensive both in its reporting and analysis, and provides evidence of learning to support service improvement.

The challenge will be to maintain the improvements in performance. Children's Services are expected to make savings of £9.5 million in 2024-25. These savings are underpinned by sensible strategic measures that represent good practice and should improve efficiency without a detrimental impact on performance. The value of the savings required is optimistic, however, with the consequent risk that this might necessitate short term cost cutting later in the financial year to minimise any overspends.

Adult Social Care. Although Medway has a relatively low spend on older peoples' services, it has a higher reliance on residential care. Services for younger adults are above average spend both because of the numbers of people supported and the high numbers in residential care. Drawing on the last corporate performance report available, for example, (reporting on Q4 in 2023/24), there was one indicator showing red: the percentage of clients receiving a direct payment for their social care service was 23.4% compared to a national rate of 26.2% and a statistical neighbours average of 28.1%. For those with less complex needs, local community-based interventions can be more effective as well as cheaper.

The thrust of the current strategy in adults is to produce a shift away from residential and nursing care in all categories of service and a focus on prevention via a strengths-based model of social care. It had a framework for prevention but not a strategy. The service needed to modernise and become more progressive. It had been reactive in working with care providers, responding to crises, and needed a more planned and structured approach.

Medway also has a high reliance on agency staff, which both costs more and inhibits the ability to produce service transformation and to improve practice.

Medway is acting on previous LGA and CIPFA recommendations to produce service shifts away from residential care, producing a market position statement and introducing new approaches to commissioning and prevention. These actions are supported with business cases and regular and detailed monitoring. Savings are grouped at high level under generic headings relating to income, and to the strategic aim of Prevent, Reduce and Delay Need, for older people and for younger adults, with a number of appropriate initiatives underneath.

Regeneration, Culture and Environment. Medway has acknowledged CIPFA's previous findings that there had been an undue focus on this area and so its 2024-25 budget includes a greater emphasis on savings in this area.

The Council has acknowledged that provision of temporary accommodation for homeless households in the existing model is not cost effective and is pursuing initiatives to tackle the issue, including: a £42 million investment in accommodation to reduce the need to procure temporary accommodation at more expensive rates; preventative work to minimise the risk of individuals becoming homeless; and increased monitoring to identify when premises are vacated to maximise utilisation rates. Drawing on the last corporate performance report available (reporting on Q4 in 2023/24), rates are lower than the national average (3.94 per 1,000 households compared to 4.55), but numbers remain above the target – 520 households in temporary accommodation at the end of 2023-24, compared to a target of 400.

Another key area of under-performance identified in the previous CIPFA report was the perception that Medway offered a 'Rolls Royce' waste service and this was being exacerbated by the increasing costs of waste management charged by Medway Norse Ltd. Medway is committed to commissioning a comprehensive review of its Waste Management Strategy in September 2024. A draft Medway Norse Ltd Business Plan had been prepared in 2023 without any input from Medway Council and was not approved. A revised version was considered by the Medway Norse Ltd Shareholder Board in June 2024. Medway Norse is now reviewing the Business Plan and was asked by the Shareholder Board that it be updated to synergise with the One Medway Council Plan. It is expected the Business Plan will be reconsidered at the next meeting in October 2024.

Drawing on the last corporate performance report available (reporting on Q4 in 2023-24), customer satisfaction rates for refuse collection, street cleanliness and parks and green spaces is high. Whilst it will take time and be a challenge to reduce costs in waste management without adversely impacting on satisfaction rates, in the interim Medway has sought to generate increased income to offset its expenditure. In particular, it has: introduced parking fees at country parks; increased existing parking fees; begun the introduction of yellow boxes to improve road safety and increase enforcement income; and introduced charges to leisure centres for those aged under 16 or over 60 years of age.

In conclusion, the council is actively working to improve efficiency in those key areas that are underperforming or inefficient. The transformational changes required in Adult Social Care and Waste Management are going to take time to implement, however, and until the plans are adequately developed there are not sufficient milestones to track progress effectively.

Risks

8. Without fully developed transformation plans and associated milestones, there is a risk of slippage.

Recommendations

8. Medway should set out clear plans for the changes required in Adult Social Care and Waste Management Services to enable progress to be monitored.

A view on the extent to which service plans are aligned to the Local Authority's overall strategic priorities and long term plan.

Key findings and analysis

There has been a clear alignment between Medway's strategic priorities, service plans and the Financial Improvement and Transformation Plan that is focused on long term financial sustainability.

The Council Plan 2023-24 was approved by Full Council on 23 February 2023 alongside the annual capital and revenue budget and covers the period April 2023 to March 2027. It set out three core priorities and its six values. Risks related to the delivery of the Council Strategy and Council Plan are managed through the Strategic Risk Register in line with the Risk Management Strategy.

Progress against the Council Plan 2023-24 was measured through 46 performance measures. These measures were clustered by Directorate and progress in 2023-24 was reviewed by each of the associated relevant Oversight and Scrutiny Committees in June 2024.

In response to the council needing to seek exceptional financial support, Cabinet approved the Financial Improvement and Transformation Plan on 30 April 2024. The Plan is closely aligned with the priorities specified in the next iteration of the Council Plan, termed the 'One Medway Council Plan'. For each priority, the former set out a brief narrative explaining the areas requiring improvement, a detailed savings plan for the next twelve months in respect of the particular service or area of activity and a range of other key actions which aimed to achieve longer term financial sustainability.

The Financial Improvement and Transformation Plan was not considered at Full Council in May 2024 alongside the 'One Medway Council Plan'. Instead, Cabinet concluded that responsibility for delivering the savings and actions set out within the Financial Improvement and Transformation Plan should be assigned to specified Corporate Management Team Officers and would be subject to regular and frequent monitoring via Corporate Management Team rather than by Members. We understand from interviewees, however, that progress may be monitored by Cabinet in future.

The Council Plan 2023-24 was formally replaced at Full Council in May 2024 by the 'One Medway Council Plan 2024-2028' that sets out Medway's vision and priorities for the next four years. The five priorities are: delivering quality social care and community services; benefiting from good education, quality jobs and a growing economy; enjoying clean, green, safe, and connected communities; improving health and wellbeing services for all; and, living in good quality, affordable homes.

In conclusion, apart from those areas identified above (see previous topic), there is a clear alignment of service plans to the 'One Medway Council Plan'. It is important, however that, with the introduction of the Financial Improvement and Transformation Plan, alignment is maintained. The commitment to report FIT Plan monitoring to the council will support this.

Risks

None identified.

Recommendations

None identified.

A consideration of the effectiveness of the chosen approach in delivering services (i.e. in house or external). This should include a consideration of how the operation of the procurement functions is geared towards effective service delivery, including overall management of the pipeline, capacity and capability of officers, the adequacy of the processes, and culture and attitude towards procurement.

Key findings and analysis

Medway's Financial Improvement and Transformation Plan sets out the planned actions to drive changes in its approach to service delivery that will enable the authority to build longer term financial sustainability. For each of the priorities specified in the 'One Medway Council Plan', the FIT Plan sets out the areas for improvement and specifies the savings to be delivered and other key actions required:

- **Priority 1: Delivering quality social care and community services.** The plan recognises the need for structural reform and includes commitments to review commissioning arrangements, sufficiency planning and a restructuring of the workforce. These are being planned for September 2024. The critical success factors include metrics on average unit costs as well as the value of savings realised.
- **Priority 2: Benefitting from good education, quality jobs and a growing economy.** SEND provision is already being transformed through the Safety Valve programme to remedy the DSG deficit. SEND transport is outside of DSG, however, and the Plan specifies that route-planning software is being introduced to rationalise existing service provision. Implementation began in April 2024 and will be measured by monitoring the change in the average cost per child.
- **Priority 3: Enjoying clean, green, safe and connected communities.** Whilst much of the focus is on generating additional income, the plan does specify the need to review the service plans for waste management by September 2025 and the service level agreements with Medway Norse by June 2024.
- **Priority 4: Improving health and wellbeing for all.** The plan specifies that Medway will review the overhead costs for leisure services by March 2025.
- **Priority 5: Living in good-quality, affordable homes.** The plan specifies a £42 million investment to purchase some 150 properties to provide temporary accommodation, thereby reducing reliance on the private rented sector which is costly and can be volatile.

Determining whether services are better provided in-house or through contractors is very much dependent on the specifics of a particular activity. Nevertheless, Medway has recognised the need to improve its procurement, commissioning and contract management arrangements. Medway's FIT Plan acknowledges that the council's existing approach is reactive rather than strategic and that it focuses too heavily on compliance with relevant legal requirements rather than securing value for money. The plan outlines three components to remedy this:

- **Building a more strategic approach to procurement and commissioning,** whereby the potential need is identified much earlier so that market analysis and alternative approaches can be explored.
- **Market engagement.** Generating a greater focus on what outcomes are being sought, so that Medway can engage with the market to explore more suitable potential approaches.
- **Contract management frameworks.** Developing suitable targets and metrics to enable Medway to actively manage the performance of contractors.

Implementation has begun with the development of revised contract management arrangements and associated training for Officers. Medway expects to develop KPIs to enable effective contract management and a forward pipeline of upcoming contracts by the end of September 2024. This will then enable the development of a Strategic Procurement Plan by the end of December 2024.

In conclusion, Medway has recognised the need to change the way that it procures and commissions services in order to drive better value for money. It is too early, however, to assess the effectiveness of the changes being implemented.

Risks

9. Unless the changes in approach to procurement being implemented are accompanied by a change in working practices, progress might be undermined.

Recommendations

9. Internal Audit should be invited to review compliance with the revised procurement arrangements and the suitability of the KPIs being developed for key contracts.

A focus on already identified ‘challenge areas’ (ASC, CSC, Environment, Regen, Culture), including an assessment of progress against improvement work already identified in the recent council-commissioned reviews, including areas of slippage and how the council can move back on track with delivery of recommendations.

Key findings and analysis

Progress against the FIT Plan is regularly monitored by Medway CMT. The FIT Plan has as a key focus those services where performance needs to be improved. According to the update in July 2024:

- **Children’s Services:** Savings achieved amount to £2.732 million, equivalent to some 30% of the annual target for 2024-25. This is broadly on track, and is mainly through securing cost efficiencies in placements. Most of the improvements required to Children’s services are set out at in the Continuous Improvement Plan 2024-25 developed in response to OFSTED and its supporting more detailed Action Plan. Nevertheless, progress in the one action in the FIT to implement a recruitment plan and ‘glidepath’ to reduce dependency on agency staff appears to have slipped.
- **Adult Social Care:** Savings achieved amount to £3.186 million equivalent to some 38% of the annual target for 2024-25. Indeed, the renegotiation of brokerage placement costs has delivered more than anticipated. Planned actions appear to be on track, although the plan to develop a ‘Care for Medway’ strategy by June 2024 that covers increased care provision and a business case for a care home has slipped.
- **Regeneration, Culture and Environment:** Savings achieved amount to £1.285 million (36% of target) for culture, £0.459 million (42% of target) for regeneration and £0.227 million (5% of target) for environment and frontline services. Whilst progress on the latter appears low, this is largely due to the requirement for a six-month time lag before enforcement rules can be changed and this has been built into the savings profile.

In our view:

- **Children’s services:** the Continuous Improvement Plan 2024-25 and its supporting Action Plan set out clearly the changes required. The four strategic priorities pick up three key areas for improvement in the OFSTED report (practice, leadership and workforce) as well as the voice of the child. Progress appears good and the governance and monitoring of the plan is robust. Delivery of the Continuous Improvement Plan is overseen by the Chief Executive, Leader of the council and the Lead Member for Children’s services. We are satisfied that any failure to deliver or slippage would be quickly picked up and addressed.
- **Adult social services** are addressing largely national issues with some local variation and its approaches are informed and appropriate. The results so far are variable, for example in relation to recruitment and the reduction in residential placements, but realistically these will take time to be delivered. The council has invested to provide the necessary capacity and the service is working on delivery

through the development of new strategies, better systems and changes to working practices. This is work in progress, and in the meantime the service will continue to be financially challenged. As identified in section (b), these changes need to be pulled together into an overarching improvement plan with priority actions and associated milestones to enable effective management and monitoring.

- The **Regeneration, Culture and Environment** has instigated a range of initiatives to scale back its spending without an undue adverse impact on service delivery. From the interviews undertaken and documents reviewed, progress is encouraging. Temporary accommodation for the homeless is a national challenge and overspends are likely to continue, but Medway is implementing the changes we would expect to see. Additional income is being raised to offset spending in culture and on traffic management. Much is dependent, however, on developing a revised approach to Waste Management and, as identified above, until this is available it is difficult to assess whether the overall progress is on track.

In conclusion, progress remains on track, but in the absence of overarching transformational change plans in Adult Social Care and Waste Management, there is insufficient evidence to be able to reach a conclusion on whether the changes being made are sufficient.

Risks

None identified.

Recommendations

None identified.

Annex

A1 Risk Assessment – Method

		Impact		
		Critical:3	Moderate:2	Marginal:1
Likelihood	Probable:3	High - 9	High - 6	Medium - 3
	Occasional:2	High - 6	Medium - 4	Low - 2
	Improbable:1	Medium - 3	Low - 2	Low - 1

Likelihood:

- Improbable – possible, but unlikely to happen.
- Occasional – might happen, might not happen, in the order of 50/50
- Probable – most likely will happen.

Impact:


- Marginal – some minor (less than £1000) costs involved, possible minor operating difficulties largely contained within the council, some awareness / action may be required by members.
- Moderate – financial losses / costs up to £100 thousand, operating impacts hitting services for some of the community, a significant issue for members to deal with
- Critical – major financial losses / costs in excess of £100 thousand, subsequent intervention by DLUHC or other 3rd parties, reaches national press interest, major political embarrassment for members.

A2 Documents Reviewed

- Adult Social Care Strategy 2021-25
- Adult Social Care Structural Review and Budget Addition February 2024
- Annual Complaints and Commendations Report 2022/23
- Budget Monitoring - Virtual CMT high level update M3 2024-25
- Cabinet Report, Medway FIT Plan, 30 April 2024
- Capital and Revenue Budget 2024/25
- Capital and Revenue Outturn and Annual Debt Write Off Report 2023/24
- Capital Strategy 2024-2025
- Children placed in Medway by other Local Authorities
- Children's complaints and compliments report 2023
- Children's Services Sufficiency Strategy 2023/25
- Continuous Improvement Action Plan v1.3
- Continuous Improvement Plan 2024/25
- Council Plan Performance Reports and Strategic Risk Summaries
- Council Plan Refresh 2023-24
- CS Improvement Board workforce development strategy updates Feb and May 2024
- Draft Property Asset Management Strategy
- Draft Statement of Accounts 2023-24
- Equality Diversity and Inclusion Strategy
- FIT Plan and R1 Monitoring presentation to CMT July 2024
- FIT Plan Progress Summary 12 July 2024
- Inspection of Medway LA Children's Services, July 2023
- May and June 2024 dashboards
- Medium Term Financial Outlook 2024-2029
- Medway 2.0 Roadmap
- Medway Adult Services Monthly Performance Report June 2024
- Medway Children and Young Persons Plan, 2023-25
- Medway Children's Social Care Self-evaluation, April 2024
- Medway Early Help Strategy 2023
- Medway Financial Improvement and Transformation Plan April 2024
- Medway Market Position Statement
- Medway Productivity Plan
- One Medway Council Plan 2024-28
- One Medway Financial Improvement and Transformation Plan 2024-28
- Partners in Health and Care – Medway finance review final report
- Procurement Strategy
- Property Review
- Revenue Budget Monitoring 2024/25 R1
- Risk Strategy 2024-25
- Savings tracker and savings business cases
- Shareholder Board Reports
- Treasury Management Outturn Annual Report 2023-24
- Treasury Management Strategy

A3 Interviews Conducted

NAME	ROLE
Cllr Vince Maple	Leader and Finance Portfolio Holder
Cllr George Perfect	Leader of the Opposition
Cllr Hazel Browne	Chair of Audit Committee
Richard Hicks	Chief Executive
Phil Watts	Chief Operating Officer (S.151 Officer)
Katey Durkin	Chief Finance Officer
Bhupinder Gill	Chief Legal Officer (Monitoring Officer)
Dr Lee Anne Farach	Director of People and Deputy CEO
Kelly Clogger	Interim Assistant Director, Children's Services
Jackie Brown	Assistant Director, Adult Social care
Celia Buxton	Assistant Director, Education and SEND
Adam Bryan	Director of Place
Ruth de Lieu	Assistant Director, Frontline Services and Deputy Director
Mark Breathwick	Assistant Director, Culture and Community
Sunny Ee	Assistant Director, Place
Paul Boyd	Chief Information Officer
Samantha Beck-Farley	Chief Organisational Culture Officer
Matt Dean	External Auditor
Raj Bharkhada	Children's Services



77 Mansell Street, London E1 8AN
+44 (0)20 7543 5600

CIPFA.org

The Chartered Institute of Public Finance and Accountancy. Registered with the Charity Commissioners of England and Wales No 231060. Registered with the Office of the Scottish Charity Regulator No SCO37963.