

**Rochester Bridge, Rochester**

# Statement of Accounts

# Medway Council | 2020/21



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The Statement of Accounts for Medway Council have been prepared in accordance with the Accounts and Audit Regulations 2015 and primarily, the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (“the Code”) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) as adopted for the UK public sector under the oversight of the Financial Reporting Advisory Body (FRAB).



# A. Narrative Report



**Rochester town centre**

# Introduction:

## Chief Operating Officer, Phil Watts

I’m proud to present Medway Council’s annual Statement of Accounts for the year ending 31 March 2021. This Statement provides information so that members of the public, including electors and residents, Council Members, partners, and other interested parties can:

* understand the overarching financial position of the Council
* have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner
* be assured that the financial position of the Council is sound and secure.

The accompanying Narrative Report is designed to provide context and enable interested parties to understand Medway the place, how the Council operates and its strategic direction, how we are performing and how we ensure the economical, efficient and effective use of the resources available. It also provides explanations of the core financial statements, their purpose and the relationship between them.

The Statement has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting 2020/21.

This year’s Statements reflect the full impact of the Covid-19 pandemic on our economy, our services and therefore on our income and expenditure and these impacts will continue to be reflected in years to come. We continue to operate in very challenging financial times, but significant additional funding from the Government in respect of the pandemic alongside our robust monitoring and management of resources during the year enabled us to balance and deliver on our 2020/21 budget and deliver a balanced budget for 2021/22. Despite continued restrictions and financial impacts of the pandemic in 2021/22, throughout the year we have witnessed a swift recovery and I am confident however that our strong financial governance arrangements will ensure the Council continues to deliver services to residents delivering value for money and maintaining our robust financial standing.

# Organisational Overview, External Environment and Governance

## About the Council

Medway Council is a unitary authority, providing all local government services for a quarter of a million people. We look after education, environment, social care, housing, planning, business and much more, everything from frontline services such as rubbish collection, events and festivals to work that goes on behind the scenes to ensure services in Medway run smoothly and are cost effective.

### Governance

The community is represented by 55 elected Members, working on behalf of the 22 wards throughout Medway. The leadership of the Council is provided by the Conservative Group with the political composition as follows:

* Conservative: 32
* Labour: 21
* Independent: 2

The Council appointed Councillor Alan Jarrett as Leader for a four-year term at the Annual Council meeting on 2 May 2019. The Council has adopted the Leader and Cabinet model as its political management structure. The Leader appointed Councillor Howard Doe as Deputy Leader and eight other Members to form a Cabinet.

### Decision Making

The Council’s decision making arrangements are set out within the Constitution. The Cabinet is responsible for implementing the Council's budget and policies as well as forming partnerships with other key organisations. The Full Council is responsible for setting the budget, considering recommendations from the Cabinet and making some decisions such as changes to the constitution. Other decisions, such as those about planning applications, are made by Committees. The Leader and Cabinet are held to account by Overview and Scrutiny Committees which are made up of councillors from all the political groups on the Council. The Mayor chairs Full Council meetings and has a traditional ceremonial role.

### Chief Officer Structure

Councillors are supported by the Corporate Management Team (CMT), which is headed by the Council’s Chief Executive, Neil Davies. CMT are responsible for setting and monitoring overall direction and ensuring high performance in the delivery of Council services. Including the Chief Executive, CMT is made up of fourteen members; the Director of Place and Deputy Chief Executive, the Assistant Director Front Line Services, the Assistant Director Regeneration, the Assistant Director Culture and Community, the Head of Communications and Marketing (Service Manager), the Director of People—Children and Adults Services, the Director of Public Health, the Assistant Director Children’s Service, the Assistant Director Adult Services, the Assistant Director Schools and SEND, the Assistant Director, Legal and Governance, the Chief Finance Officer and the Head of HR (Service Manager). The Monitoring Officer is responsible for ensuring council decisions and activities comply with laws and regulatory frameworks, and reports on this through the Annual Governance Statement. Codes of conduct are in place for Councillors and Officers that define the high ethical values and standards of behaviour expected from elected members and officers, to make sure that public business is conducted with fairness and integrity.

## Our Vision — Medway:

## Waterfront university city; connecting innovation, people and place, driving growth for all

The Council’s Strategy sets out our three key priorities and we believe concentrating our resources in these areas will lead to a better quality of life across Medway.

* People – supporting residents to release their potential
* Place – Medway: A place to be proud of
* Growth – Maximising regeneration and economic growth – growth for all.

### People

We want to ensure healthy and active communities, by supporting all of our residents, especially young people, to realise their potential through the provision of services and initiatives that will help Medway become an even healthier and safer place to live.

Our work to support resilient families is centred around improving everyone’s health and reducing inequalities, developing and improving Children’s Services and continuing to strengthen our Early Help offer which will support families to give their children the best start in life.

To ensure all children achieve their potential in schools, we are working to raise aspiration and ambition through raising standards in schools, improving the percentage of children in schools that are good or outstanding and engaging with young people. Implementing the actions of the School Improvement Strategy will improve the quality of leadership, governance and teaching and help all children to achieve their potential in school.

We want to ensure older and disabled people live independently in their homes for as long as possible. We work to support the people of Medway to live full, active lives and to play a full part in their local communities. We will continue to strengthen our arrangements to safeguard vulnerable adults.

# Organisational Overview, External Environment and Governance (continued)

## Place

We work to ensure a clean and green environment because we want Medway to be a place that local residents and businesses are proud of. Maintaining a clean and green environment, enabling residents, visitors and businesses to move around Medway easily by tackling congestion hotspots will enhance the public realm and street scene.

We want to put Medway on the map. Built around our culture, tourism and regeneration strategies, including Medway 2035. By building on what makes Medway unique – the river, our heritage and sporting legacy – Medway on the Map promotes Medway as a great place to live, work, learn and visit.

## Growth

We work to support a strong diversified economy. We want to ensure that Medway’s regeneration drives economic development to encourage new and existing businesses to grow in Medway, which will benefit local residents through the creation of the new jobs and homes they need. By attracting high tech and science-based businesses to relocate and grow in Medway, we are creating high skilled employment opportunities for our graduates, to retain local talent and create a strong mixed economy.

We work to promote jobs, skills and employability for our residents by equipping people with the skills needed to secure opportunities in Medway’s future economy. The Medway Skills Board, established in 2017, and Medway Adult Education learning programme, will boost local skills levels for those furthest from employment.

By adopting a council-wide approach to preventing homelessness we will support people and vulnerable families to access housing and get a foot on the housing ladder. Working with landlords and agents will support households to sustain their accommodation and prevent homelessness.Our Core Values

Our Strategy is supported by the Council Plan, which sets out the outcomes we want to achieve towards delivering on our priorities, along with the specific programmes of work we will complete and details of how we will measure our success.

The Council Plan also sets out our Core Values which underpin the delivery of everything we do:

## Financial resilience

We will deliver efficient and effective services for Medway residents, businesses, and visitors. We will ensure that robust financial systems and processes are in place to manage financial risks and opportunities, and to secure a stable financial position that enables us to operate for the foreseeable future.

## Digital Enablement

We will use digital as an enabler of everything we do by transforming the way we provide services, the way we work and the way we communicate. We will reach out to residents and businesses who lack the skills, infrastructure, and confidence to go online by providing them with support and assistance.

## Creativity and innovation

We will create a culture of creativity and innovation establishing a legacy of local pride, improving diversity and inclusion, and identifying new ways of providing services around the needs of our residents.

## Working to empower communities

We will work together and in partnership with everyone that has an impact on the lives of our residents and businesses. We will strengthen collaboration between members of our communities, businesses, and the voluntary sector to maximise resources and knowledge.

## Tackling climate change

We will take action to tackle the local and global threat of climate change, both internally and in partnership with local organisations and residents, and to minimise its environmental impact by cutting carbon, waste and pollution.

## Child-friendly

We will improve the lives of children by ensuring their voices, needs, priorities and rights are an integral part of our strategies, policies, programmes and decisions.

## Covid-19

### Response

The Covid-19 pandemic continued to put the spotlight on local government throughout 2020/21 and into 2021/22 and we are immensely proud of how our teams and partners across the public, voluntary and private sector have worked to support our residents and businesses. The Covid-19 pandemic had a profound impact on our communities and the local economy, as well the Council’s direct income and expenditure. The pandemic and social distancing requirements posed significant risks to businesses and in our high streets, to residents’ welfare, and their employment and training opportunities and these factors continue to drive increasing demand for statutory public services.

From the outset of the pandemic and throughout the response, the Government made available significant packages of financial support for businesses (including care providers), individuals, and provided direct funding to mitigate Covid-related pressures experienced by local authorities.

# Organisational Overview, External Environment and Governance (continued)

During the first national lockdown in the Spring of 2020, the Government announced a range of financial support for businesses and individuals impacted by the restrictions introduced to reduce the spread of Covid-19. The following initial schemes were implemented by Medway Council in in the Spring of 2020:

* Expanded Business Rates Relief of 100% for retail, hospitality and leisure sites, through which we awarded £34.129million to 1,300 businesses.
* Mandatory grants for small businesses through which we awarded £22.020million to 2,020 businesses.
* Mandatory grants for retail, hospitality and leisure businesses through which we awarded £14.095million to 727 businesses.
* Discretionary grants for small businesses through which we awarded £1.848million to 319 businesses.

In response to the second period of national restrictions in November 2020, the government introduced further support for businesses with grants delivered through the mandatory Local Restrictions Support Grant schemes (LRSG) and the discretionary Additional Restrictions Grant (ARG). Eligibility for the LRSG schemes is based on business rate liability with payments based on rateable value of the business premises, while the ARG scheme is much less prescriptive and could therefore be made available to businesses without a rateable business property.

During the 2020/21 financial year, the following support was delivered through the mandatory schemes:

* LRSG (Closed) Addendum – this scheme provided grants to businesses who were forced to close due to restrictions in force between 5 November and 2 December 2020. The Council distributed a total of £1.980million between 1,198 businesses through this scheme.
* LRSG (Closed) Post 2 December 2020 – this scheme provided grants to businesses who were required to close due to restrictions in place after 2 December. The Council distributed a total of £418,585 between 369 businesses through this scheme.
* LRSG (Closed) Addendum Tier 4 – this scheme provided grants to businesses who were forced to close due to the restrictions in place under Tier 4 from 19 December 2020 onwards. The Council distributed a total of £1.128million between 1,195 businesses through this scheme.
* LRSG (Closed) Addendum Post 5 January 2021 – this scheme provided grants to businesses who were forced to close during the restrictions in place from 5 January 2021. The Council distributed a total of £2.967million between 1,198 businesses through this scheme.
* Closed Business Lockdown Payment – the Council distributed a total of £5.897million between 1,198 businesses through this scheme.
* LRSG (Sectors) – this scheme provides grants to businesses in sectors that have been forced to close since restrictions were initially implemented in Spring 2020. The Council paid £3,875 to two businesses identified as eligible in Medway.
* Christmas Support Payment for wet-led pubs – the Council distributed a total of £69,000 between 69 businesses through this scheme.

Since the data to determine availability for these schemes is not held by central Government, the grant allocations provided to local authorities were based on estimates and in many cases, the grant received was in excess of the amount payable to eligible businesses in Medway. The grant conditions for these schemes include a reconciliation process during the 2021/22 financial year, through which any excess funding will be repayable to the Government and any underfunding payable to local authorities. Once this reconciliation is complete it is estimated that the Council will return c£11.979million of excess funding to the government, and this is reflected in the Council’s financial outturn as a pressure on the Council’s Covid-19 Grant Income offset by an underspend on the Covid-19 Grant Expenditure, as creditors to the Government for this sum have been raised in the accounts.

In terms of direct financial support for local authorities, during 2020/21 the Council received three tranches of non-ringfenced emergency support funding totalling £16.441million. Throughout the year Members were updated through the Revenue Budget Monitoring Reports on the level of expenditure that, following agreement through the Council’s Response command and control governance process, would be charged to the Covid-19 grant received rather than increasing the Directorate budget pressures. The majority of this activity however also fell within the grant conditions for Public Health related grants provided to the Council, and as such, where possible this direct expenditure was charged to the Contain Outbreak Management Fund grant.

# Organisational Overview, External Environment and Governance (continued)

In recognition of the extent to which income from fees and charges underpins the budgets of local authorities, the government introduced a Sales, Fees and Charges Income Compensation Scheme in 2020/21 with authorities able to claim for losses (net of any savings made in service delivery) against eligible services. Medway submitted claims totalling £7.033million through this scheme; as this funding was not included in the budget, this reduced the pressure on the Covid-19 Grant Income in the Council’s outturn. Together, the emergency support funding and income compensation funded the expenditure pressures and income shortfalls experienced across the Council’s services in 2020/21 with £3.918million transferred to general reserves to fund our 2021/22 revenue budget requirement.

## Recovery

As part of our recovery strategy from Covid-19 we have committed to ensuring that we make the most of this opportunity to ‘Build Back Better’, by implementing new ways of working and in some instances new operational models as we return to business as usual. Our priority, as well as ensuring the safe resumption of all our services is to identify opportunities for Medway to emerge stronger and more resilient from the pandemic with an exciting agenda planned for future years.

Following the publication of the Government’s roadmap for re-opening in March 2021, the approach we agreed at Medway Council was to resume our services as quickly as possible, whilst adhering to the government roadmap and ensuring that our facilities were re-opened safely for staff, residents, and visitors. In March 2020, a number of groups were established to focus specifically on recovery; some of these groups continued to meet during our move to response and some will evolve into new formats as we return to business as usual. Our planned approach to recovery is therefore being rolled out in three phases: Rebound, Rebuild and Reimagine, over 5 plus years with full details set out in a [report to Cabinet in October 2021](https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=60129).

We remain as ambitious for Medway as we have ever been and moving forward, we will be reviewing our strategy base, including our Medium Term Financial and Capital Strategies to reflect the impact of the pandemic and our approach to continuing to deliver the Council’s strategic objectives. We will use this as an opportunity to identify opportunities to improve pre-pandemic arrangements, with a view to increasing our resilience and considering innovative and transformational development models as we look to the future. We will also work to influence regional (and national) policy and strategy to support the shaping of the wider landscape of the new normal. Through 2021/22 the Council will adopt a proactive evidence-led approach to ensure that we respond to the emerging needs of residents and businesses.

### Our people

We currently employ 1,988 Full Time Equivalent (FTE) staff to deliver services for Medway and achieve the objectives in our Council Plan. We are committed to supporting, developing and engaging with our staff and offer a wide range of professional qualification and skills based training to ensure our specialist teams are adequately skilled to deliver high quality services. As a result our workforce is vibrant and dedicated to our objectives and journey, and our low turnover ensures we retain experience.

As our ongoing business change programme delivers realigned, more efficient services we are reviewing how they are delivered and structured to capture the efficiencies of digitalisation. We are committed to training and developing staff within Medway to enable them to adapt and successfully deliver services in the new design and structure. While already in progress, the Covid-19 pandemic dramatically accelerated arrangements to work more flexibly with home and remote working the norm for many. This is impacting on our property strategy, reducing demand on central officer space. We are committed to succession planning and investing in learning and development of the workforce for the future, including our award-winning Apprenticeship Academy, which maximises the use of the Apprenticeship Levy for Medway.

## Alternative Service Delivery Models

### **Shared Services**

Medway Council launched its first shared service, delivering a Building Control Service for the areas of Medway, Gravesham and Swale in 2007, but has more recently followed this up with a number of other shared services with Gravesham Borough Council. Medway currently hosts shared service arrangements with Gravesham to provide Audit and Counter Fraud Services, Legal Services, Payroll and HR services and since 2019 has operated in a shared management arrangement for the Revenues and Benefits Teams of both authorities. During 2018/19 Gravesham took the lead in hosting a shared Licencing Service for Medway. We will continue to explore opportunities to share services where this benefits our residents.

## Organisational Overview, External Environment and Governance (continued)

**Medway Development Company**

Medway Council is making considerable investments into its urban spaces and the development of new housing is an integral part of this process. With Medway becoming increasingly attractive, the Council as a significant land holder can play an important role in helping to alleviate this pressure. New homes also reinforce economic growth for local businesses and good quality housing can revitalise areas. Subsequently, Medway Council created Medway Development Company Ltd in 2017 to bring forward housing sites. Having a directly owned company gives Medway Council the ability to control how new developments are delivered and relate to the regeneration initiatives that are being driven forward, but also to maximise its financial returns by delivering the schemes directly. Medway Council is the sole shareholder of Medway Development Company, with that role being undertaken by Cabinet. The MDC Board, comprising of two Council appointed Directors and two non-executive Directors, has met regularly to oversee the progress of projects in line with the company’s Business Plan, which was approved by Cabinet in April 2018.

Two subsidiaries are also now set up Medway Development Company (Private Rental Sector – MDC PRS) Limited chaired by Councillor Doe and Medway Development Company (Land and Property – MDC L&P) Limited chaired by Councillor Gulvin. MDC PRS was established to allow the option, in the right circumstances, for units to be rented to customers in the private market. MDC L&S was established following advice from Jones Laing Lasselle (JLL) and from the Council’s Legal team about a simplified ownership and sale of units once complete. In February 2021 the Cabinet agreed to provide loans at commercial rates to the new subsidiary of MDC, MDC (Land & Projects) to enable the company to purchase land from the Council and advise Cabinet about the level of financial risk of the overall venture.

## Kyndi (named Medway Commercial Services (MCG) to 21 March 2021)

Kyndi was established in 2016 as Medway Commercial Group Ltd to deliver the Council’s successful CCTV and telecare services on a more commercial basis. The company then took on other areas of business, including the Council’s previously in-house temporary staff agency and certain education related services traded with schools. In Autumn 2020, following a restructure and the appointments of a completely new Board and Management Team, the business was rebranded to Kyndi. Kyndi’s service offer comprises three market segments:

* CCTV services through the CCTV partnership and direct provision for third parties including an ‘out of hours’ call centre model
* Telecare services to both corporate clients and private individuals
* Recruitment agency for Medway Council.

Medway Council holds 100% of the shares in Kyndi and the company now operates through one subsidiary to enable the company to trade with both the Public and Private Sector:

* Kyndi Care Ltd which trades with the private sector
* Medway Public Services Limited (MPS), which has now been being wound up (Cabinet decision number 134/2020 refers).

### Medway Norse

In March 2013, Cabinet agreed for the joint venture (JV) company, Medway Norse, to be established for the provision of facilities management (FM) services from 1 June 2013. It was established to:

* Provide services to the Council more efficiently, giving better value for money
* Grow the business through taking on external contracts
* Increase employment opportunities for local people.

In 2014, the joint venture also took on responsibility for the grounds maintenance contract and for an initial phase of school transport for children with special educational needs attending three schools (now five). In October 2019, Medway Norse took over responsibility for the waste collection and street cleansing activities, increasing the joint venture’s gross turnover to over £25million per annum. Like all significant employers Medway Norse faces a number of challenges including inflationary pressures and increases in the national living wage, however the generation of additional business and delivery of cost saving measures means the JV continues to be profitable. Under the terms of the joint venture agreement, Medway Council receives 50% of any profit received.

## Other Partnership Working

We cannot achieve our vision for Medway on our own. The Covid-19 pandemic shone a light on the strength of partnership working in Medway and beyond, and we continue to enjoy strong working relationships with a wide variety of partners across public, private and voluntary and community sector organisations.

# Operational Model

 Our Directorates and the services they provide

# Operational Model (continued)

## Business Support Department

# Operational Model (continued)

## Children and Adults Directorate

# Operational Model (continued)

## Regeneration, Culture and Environment Directorate

# Strategy and Resource Allocation

## Delivering value for money

We are committed to delivering efficient and effective services for Medway residents, businesses and visitors. We responded to years of successive reductions in government funding by delivering significant transformation programmes, reducing the cost of service delivery while increasing efficiency and improving services. We continue to deliver more than 70 services, providing support and opportunities to residents living across the five towns while our residents continue to pay the lowest council tax in Kent.

The Council has arrangements in place to monitor performance and the achievement of our strategies and plans, with Council Plan Performance Monitoring reported quarterly to Cabinet and Overview & Scrutiny Committees. Since 2019/20 we have incorporated our Strategic Risk reviews into that report, and for 2020/21 these have been scheduled to appear on the same meeting agendas as our financial performance reporting to support Member decision making and the broader assessment of the Council’s performance. Details of our performance for 2020/21 are set out on page 17.

The Council’s external auditors are required each year to deliver an opinion on the Value for Money arrangements in place for securing economy, efficiency and effectiveness in the use of resources. Due to the Ofsted judgement of Inadequate for our Children’s Services, for 2019/20 the conclusion was unqualified ‘except for’ the failure to deliver adequate Children’s Services during the year and this will remain until the service is reinspected and found to be Requires Improvement or better. The full reinspection is expected in Spring 2023.

## Funding

The Council’s net revenue budget is funded from four principal sources:

* Grant support from central government in the form of Revenue Support Grant and other specific grants, including Public Health Grant and the Dedicated Schools Grant;
* The Council’s share of local Business Rates (NDR);
* The amount raised locally by Council Tax, and
* Fees and charges.

 The 2020/21 Settlement was a one-year settlement, following a four-year settlement period that had been agreed in 2015. As the year progressed the government added further tranches of funding providing support for businesses, individuals and funding to offset some pressures felt by local authorities, with these additions made to the budget using delegations/the urgency provisions during the year. Moving forward, the Treasury concluded the spending review in October 2021 and while this set out spending totals for every government department for the next three years, the local government finance settlement was limited to one year as the response to Covid-19 continued. Until longer term settlements are received that address funding pressures arising from the pandemic, and from reforms to social care, funding remains the most significant risk to the Council as set out on the Strategic Risk Register.

## Our Financial Strategies

The Council’s annual budget and council tax setting establishes the Council’s budget framework and sets out the funding of services.

Refreshed each year, the Medium-Term Financial Strategy (MTFS) identifies the key issues that need to be addressed as part of that budget preparation. The MTFS needs to be viewed in conjunction with the Council Strategy and Council Plan; the MTFS is built around the framework of priorities and outcomes set out in the Council Plan to integrate budget setting with service planning and ensure that priorities and funding are matched.

Our Capital Strategy provides a high-level overview of how capital expenditure and the way it is financed contribute to the provision of services. It also provides an overview of how associated risk is managed and the implications for future financial sustainability and sets out the governance processes for approval and monitoring of capital expenditure.

# Risks and Opportunities

## Risk Management

The Council has a long-established process in place to identify the principal risks that may influence or impact on the delivery of services. The Council’s Risk Management Strategy is reviewed annually to ensure it remains up to date and sets out the process by which the Council identifies, analyses, evaluates and treats the risks and opportunities it faces both on a strategic and operational level. The process requires judgements to be made on the likelihood and impact of a potential risk and enables us to develop and implement appropriate controls to manage or mitigate these risks to reduce the impact.

Our Strategic Risk Register is reviewed and updated on a quarterly basis, and is presented to Members alongside our quarterly Council Plan Performance Monitoring information, so assist Members making informed decisions. These combined reports were presented to the Cabinet and Overview and Scrutiny Committees throughout 2020/21 to present and appear on the same agenda as the financial monitoring reports.

Risk is considered in all Council decisions with a risk assessment required in the standard CMT and Cabinet/Committee report template.

## Strategic Risk Register—Current Risks

Full details of each risk on the current register, including scores and arrangements in place to manage them, is included in the latest full version reported to the [Cabinet in November 2021.](https://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=60435)

**Finances** – Demographic pressures in adult social care, children’s care and Special Educational Needs and Disabilities (SEND) remain a significant issue, but this has been further exacerbated by the impact of the Covid19 pandemic.

**Medway’s economic recovery from Covid-19** – Strategic Planning is one of the three key workstreams in the council’s Strategic Recovery Plan, with a multi-agency cell for Medway’s Economy and Infrastructure established and working closely with the Kent Resilience Forum equivalent.

**Meeting the needs of older people and working age adults** – The ageing of the population is likely to result in a substantial increase in costs and pressures to the health and social care system. In addition, we have seen an increase in demand following the Covid19 pandemic and this will continue as people rehabilitate from this extremely debilitating virus. This will all, of course, result in additional pressure on Adult Social Care as people are living longer and have more complex needs.

**Failure to meet the needs of children and young people** – Children’s Early Help and Social Care services are improving, and a recent Ofsted monitoring visit noted that they found no children at risk of harm and we know ourselves well. However whilst there is improvement, our audits into social work practice are still showing that 43% of our work is Inadequate and 47% Requires Improvement.

**Non-delivery of children’s services improvement** – In May 2021, Ofsted visited Children’s Services for a Focused Visit looking at how the council had continued to provide and improve within the Covid19 context. Findings included no child at significant risk of harm, no priority actions and three areas of improvement. The ‘relentless focus on improvement’ was noted along with a determination to embed change across the service – however, Covid19 new ways of working were also highlighted such as individual risk assessments to ensure the most vulnerable children continued to be visited regularly and face-to-face.

**Data and information** – Our Transformation Programme involves an increased reliance on digital technology both for customers and the council. This brings with it an increased information risk particularly regarding personal and health data. Conversely, not sharing information with partners and others minimises the council’s ability to improve service delivery and reduce costs. There is also a duty to share information in the interests of client care (Caldicott 2 Report).

**Alternative service delivery models** – A growing number of council services are operated through alternative delivery models including outsourcing / insourcing, trusts, joint ventures, Local Authority Traded Companies, partnerships and shared services and joint commissioning. A lack of robust management of these delivery models can lead to underperformance. As a result of more new models, governance arrangements are more complex.

# Risks and Opportunities (continued)

**Cyber security** – There are no mitigations that are completely effective against malware infection, however we work to improve resilience against malware without disrupting the productivity of services. These layers will also have multiple opportunities to detect malware, and then stop it before it causes real harm to the organisation.

**Financial pressures on SEND budgets** – The number of Education and Health Care Plans (EHCPs) has been rising over time (42% since 2015). Medway has a higher rate of EHCP per 10k than national in all age groups. The increase in numbers and complexity of need continues to be a pressure on the council with the budgets currently excessively overspent.

**Business continuity and emergency planning** – Duties under the Civil Contingencies Act require councils to have an Emergency Plan. The Emergency Management and Response Structure may not be robust enough to respond to a major emergency. Every business activity is at risk of disruption from a variety of threats, which vary in magnitude from catastrophic through to trivial, and include pandemic flu, fire, flood, loss of utility supplies and accidental or malicious damage of assets or resources.

**Delivering regeneration** – Medway's regeneration plans seek to meet the needs of anticipated population growth of 50,000 people in Medway, with up to 20,000 jobs and 29,000 new homes in the next 20 plus years. There are challenges for the provision and maintenance of effective infrastructure. Particular areas of concern are flood protection, highways, health and water capacity. It is vital the benefits are felt by the population of Medway, so that the new jobs are not only filled by people from outside the area, and trends of commuting out are addressed.

**Homelessness** – The council continues to undertake a proactive approach to tackling homelessness. Issues beyond the council’s control continue to be the dominating factor in relation to the demand placed on the service. These include Increasing rents in the private sector, reductions in the delivery of affordable housing and the impact of welfare reform initiatives.

**Climate change** – The council has signed up to the Kent and Medway Energy and Low Emissions Strategy which has the vision that ‘by 2050 the county of Kent has reduced emissions to Net-Zero and is benefiting from a competitive, innovative and resilient low carbon economy, where no deaths are associated with poor air quality’. There is a risk that this vision will not be achieved.

**Income reduction due to Covid-19** – Following substantial falls in direct government grants from 2010-11 onwards, locally generated income from sales, fees and charges, and through more commercial investment activity has become a fundamental element of the council’s budget. Front line services including leisure, parking and cultural services are budgeted to produce in excess of £13m of revenue income. The council has experienced financial pressures from falling income in recent years, particularly in leisure services following the introduction of budget gyms in the sector whose charging structures are difficult to compete with, and in parking income as shopping and working habits have changed.

**Delivering £170m Housing Infrastructure Fund (HIF) programme** – There are challenges to the successful delivery of the HIF programme; it may not be possible to deliver all the required improvements within the £170m budget. Delays to the programme may be caused at various stages for each of the delivery streams, which could potentially lead to slippage beyond the delivery deadline. The HIF infrastructure will create significant benefits for the local area, however, there is a risk that the HIF-funded infrastructure alone will not fully create the sustainable community that it aims to.

**A new severe pandemic, e.g. flu, covid-xx, MERS or other, more serious than Covid-19** – It is therefore highly likely that at some point in the future there will be an outbreak of an infectious disease that is more fatal than Covid19, that may result in more deaths and greater economic harm than we have seen with Covid19. The likelihood of this happening at some point in the future is high, but the likelihood of it happening in any given year is probably low. The national risk assessment highlights the most likely pandemic to affect the UK will arise as a result of influenza, whether seasonal or a new novel strain.

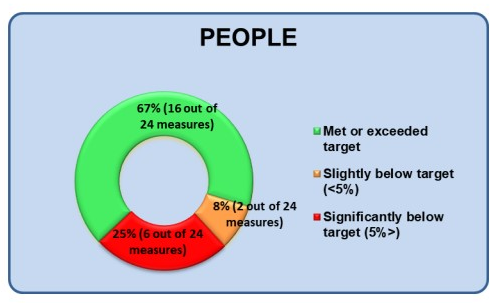
## Opportunities

The Council has a strong track record of maximising opportunities alongside managing risk, most notably in delivering significant transformation programmes in response to risks around reduction in government grant and local income. Following the Response to Covid-19, we are implementing our recovery to realise the opportunities around increased digital interactions with customers, a shift to more remote/home working and increased resilience and efficiency in the delivery of our services.

# Performance Management

Medway Council Strategy is our overarching strategy and sets out our vision, priorities, ways of working and the outcomes we expect to achieve. The Medway Council Plan sets out how we will achieve the outcomes outlined in our Strategy and the measures we will use to track our performance. Quarterly Council Plan monitoring reports are published via Cabinet and Overview and Scrutiny Committee agendas with full commentary on all measures and outcomes provided. The data below relates to the year end outturn for the 2020/21 financial year as reported in full to [Cabinet in May 2021](https://democracy.medway.gov.uk/ieListDocuments.aspx?CId=115&MId=4755&Ver=4).

## People



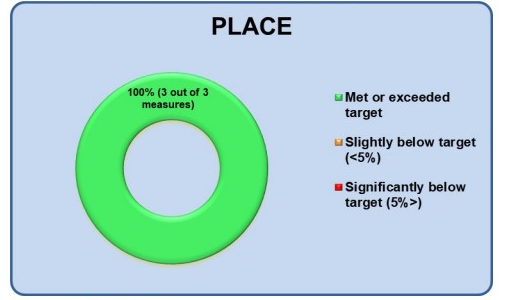
Improved performance:

* 57% (13 out of 23\*) improved long term (average of previous 4 quarters)
* 52% (12 out of 23\*) improved over the short term (since last quarter)   
  \* where data available

Achievements:

* Annual Healthy Weight Summit
* First quartile (best performing) nationally for achievement gap at Early Years Foundation Stage
* Child Health team shortlisted for national awards (CYP Now for Adolescent Self-Harm project) and (Royal Society for PH for Digital)
* Working in partnership, the telephone befriending service conducted 739 calls and made 279 referrals
* Virtual workshops developed to create connections and bring people together

## Place



Improved performance:

* 33% (1 out of 3\*) improved long term (average of previous 4 quarters)
* 33% (1 out of 3\*) improved over the short term (since last quarter)   
  \*where data available

Achievements:

* 8 green flags awarded; the national standard that recognises well managed green spaces
* 99% of streets free from litter when surveyed (Q4 20/21)
* 90.6% satisfaction with refuse collection (Q4 20/21)
* £9.5m Future High Street Fund investment in Chatham town centre awarded
* £1.6m Heritage High Streets Action Zone bid approved.
* 13,842 small trees planted across 10 sites

## Growth



Improved performance:

* 60% (6 out of 10\*) improved long term (average of previous 4 quarters)
* 40% (4 out of 10\*) improved over the short term (since last quarter)   
  \*where data available

Achievements:

* 236 Additional Restrictions Grants, totalling£514,830.33, delivered to support businesses through national lockdowns
* 50 Kickstart vacancies created by the Council
* 96% pass rate for Medway Adult Education learners
* 88 people, who were rough sleeping were accommodated, as part of the Government’s “Everyone In” programme. 50 of those are now in settled longer term accommodation.
* 216 affordable units delivered to help people get a foot on the housing ladder

Where performance is below target, arrangements are in place for ‘deep dive’ reviews to be carried out to understand factors driving reduced performance, and to determine actions to for improvement. The results of these activities are reported through the Quarterly Council Plan monitoring reports to Cabinet.

# Financial Performance

## Financial Review of 2020/21

We are proud of how we have managed our finances over the past decade as resources available to local government were successively reduced. We continue to levy the lowest council tax in Kent and despite that have continued to deliver excellent services and, in some cases, protect services that other local authorities have been forced to stop providing. This has been achieved by taking a forward-looking approach to everything we do including effective financial planning across all our services, our transformation programme, alternative service delivery initiatives, partnership work with other councils, taking a more commercial approach to our operations and successfully securing external funding opportunities.

At its meeting on 20 February 2020, the Council set a total budget requirement of £323.365million for 2020/21. Following that date, in response to the Covid-19 pandemic more than £108million of additional grant funding, including the second, third and fourth tranches of non-ringfenced grant worth £16.441million, was added to the revenue budget, taking the final outturn budget requirement to a total of £429.840million. In addition, the second claim against the government’s income compensation scheme was submitted during the year with a third completed in May 2021 adding a further £7.033million in respect of that scheme. The fluctuation in the level of restrictions to mitigate the pandemic made it an exceptionally difficult year in which to produce accurate budget forecasts, nonetheless the prudent use of existing budgets, maximisation of grant income and the reductions in expenditure owing to new ways of working all contributed to significant savings on some budgets partially offsetting pressures elsewhere.

By the end of the year, in short, £8.043million of business support funding was carried forward into earmarked reserves to fund grants to local businesses and individuals during 2021/22. A further £5.415million of other ringfenced grant funding was carried forward to fund the ongoing costs of our response to and recovery from the pandemic. Finally, the net underspend of £3.918million was transferred into general reserves, increasing them to £13.115million.

### **Treasury Management**

The Council’s Treasury Outturn was reported to Audit Committee in July 2021 confirmed that the Council complied with its legislative and regulatory requirements in the delivery of the treasury function in 2020/21. The report also confirmed that borrowing was only undertaken for a capital purpose and the statutory borrowing limit was not breached.

Total investments managed in-house as at 31 March 2021 stood at £16.9 million (2019/20, £40.5 million) and externally managed of £22.0m (£.28.9m in 2019/20). During 2020/21 the council operated a prudent investment strategy with investment priorities being security first, liquidity second and then return. Funds are invested in loans to other UK local authorities, property funds and bank deposits.

The Council also had £237.0 million long-term borrowing as at 31 March 2021 (31 March 2020, £262.7 million), primarily in the form of PWLB and market loans. In addition, short term borrowing stood at £46.6 million at 31 March 2021 (£36.2 million at 31 March 2020).

The Council achieved an average return of 0.12% on its cash investments (0.88% in 2019/20). In addition, property fund investments yielded an overall return of 2.03% based on original cost (0.95% in 2019/20). The return on property funds comprises dividends received and the change in the capital value of the investments.

**The Level of Working Balances and Reserves**

The council’s working balances stood at £28.084 million as at 31 March 2021 (£19.069 million 31 March 2020). The council also holds earmarked reserves, kept for specific types of expenditure in the future. The total amount of earmarked reserves held as at 31 March 2021 is £57.704 million (£13.787 million at 31st March 2020) however this increase primarily relates to the impact of Covid-19; £18.5million of Section 31 grant paid to offset the business rate reliefs announced after the Settlement, £9.5million of Covid-19 grant carried forward for use in 2021/22 and £4.7million into a fund to offset future increases in Minimum Revenue Provision required.

## Financial Performance (continued)

## Financial outlook

Commencing in Summer 2020, during formulation of the MTFS, and continuing throughout the overview and scrutiny process, officers worked closely with portfolio holders to identify savings, efficiencies and income generating measures to achieve a balanced budget, without recourse to reserves and whilst attempting to minimise the impact on service delivery. On 18 February 2021 Council approved the balanced budget for 2021/22.

Following our initial response to Covid-19 we are now working to delivery on our recovery plans, embedding the best of new practices and realise the benefits of changed ways of working and interacting with our customers.

During 2021/22 we received significant additional funding, including non-ringfenced emergency support for local authorities, to enable us to meet additional cost pressures and income shortfalls arising from Covid-19. The revenue monitoring for 2021/22 forecast use of this funding however primarily due to significant and growing demand and cost pressures across social care, the first and second rounds of monitoring projected an overspend of around £8.5million.

Though the Spending Round 2021 set departmental spending for a three year period, local government again only received a one year settlement. The sector as a whole will need significant additional financial support from the government to offset continued expenditure and income pressures arising from the pandemic, from the implementation of SEND reforms in 2014 and the upcoming implementation of the Health & Social Care reforms and the Levy. We continue to lobby government to ensure local authorities are adequately supported throughout 2021/22 and beyond.

# Financial Performance (continued)

## How the Authority's Budget has Changed

|  |  |  |
| --- | --- | --- |
|  | **£'000** | **£'000** |
| **Budget requirement 2019/20** | 297,445 |  |
| Changes in function and funding | 550 |  |
| **Adjusted Base Budget** |  | **297,995** |
| Inflation | 5,328 |  |
| Other cost pressures | 119,596 |  |
| Service pressures | 28,458 |  |
| Efficiency and other savings | (21,536) |  |
| **Total** |  | **131,845** |
| **Budget Requirement 2020/21** |  | **429,840** |
| Financed By: |  |  |
| Retained Business Rates | 45,620 |  |
| Baseline Need Funding | 16,177 |  |
| Other Specific Grant | 237,033 |  |
| Council Tax | 131,010 |  |
| Reserves | 0 |  |
| **Total** |  | **429,840** |

## Summary of the Local Government Finance Settlement 2020/21

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Final**  **2019/20** | **Final**  **2020/21** | **Change** | **Change** |
|  | **£'000** | **£'000** | **£'000** | **%** |
| NNDR Redistribution | 43,557 | 45,620 | 2,063 | 4.7% |
| Revenue Support Grant/Baseline Need Funding | 16,462 | 16,177 | (285) | (1.7%) |
| **Total** | **60,019** | **61,797** | **1,778** | **3.0%** |

The tables above show that whilst 2019/20 was a financially difficult year, funding from the Local Government Finance Settlement has been increased by 3.0% in 2020/21 with the introduction of the Baseline Need Funding.

# Financial Performance (continued)

During the year, the Council regularly reviewed its performance against its Budget Requirement, with these reports available publicly from the www.medway.gov.uk. The final outturn position for the year is shown in the table below, together with how this expenditure was financed:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Directorate** | **Expenditure** | **Income** | **Net** | **Budget** | **Variation** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Business Support Department | 116,232 | (106,660) | 9,572 | 9,392 | 179 |
| Children & Adult Services (inc. Public Health) | 333,843 | (77,040) | 256,803 | 243,264 | 13,539 |
| Regeneration, Culture & Environment | 114,826 | (28,995) | 85,831 | 78,706 | 7,125 |
| Covid-19 Grant Expenditure | 30,504 | (4,164) | 26,340 | 108,645 | (82,305) |
| **Sub-total Included in Cost of Services in Statutory Accounts** | **595,404** | **(216,859)** | **378,545** | **440,007** | **(61,462)** |
| **Amounts included within management accounts but excluded from services within statutory accounts:** |  |  |  |  |  |
| Investment Properties (included in BSD in Management Accounts) | 9 | (823) | (814) | (820) | 6 |
| **Sub-total included within Business Support Department in Management Accounts but included within Other Operating Income and expenditure within the Statutory Accounts** | **9** | **(823)** | **(814)** | **(820)** | **6** |
| Medway Norse | 0 | (385) | (385) | (385) | 0 |
| Levies | 1,564 | (32) | 1,532 | 1,518 | 14 |
| Interest & Financing | 10,486 | (3,174) | 7,311 | 7,675 | (363) |
| **Sub-total Other Operating Income and Expenditure within the Statutory accounts** | **12,059** | **(4,415)** | **7,644** | **7,988** | **(344)** |
| Repayment of Debt | 5,969 | 0 | 5,969 | 5,756 | 213 |
| Depreciation Credit | 0 | (23,911) | (23,911) | (23,911) | 0 |
| **Amounts included within Interest & Financing in Management Accounts but excluded from Surplus or Deficit on the Provision of Services within the Statutory Accounts** | **5,969** | **(23,911)** | **(17,941)** | **(18,154)** | **213** |
| **Total Management Accounts Variance against Budget Requirement** | **613,432** | **(245,184)** | **368,248** | **429,841** | **(61,592)** |

# Financial Performance (continued)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Directorate** | **Expenditure** | **Income** | **Net** | **Budget** | **Variation** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Funding:-** |  |  |  |  |  |
| Contribution To/(From) Reserves | 22,236 | 0 | 22,236 | 0 | 22,236 |
| Baseline Need Funding | 0 | (10,646) | (10,646) | (10,674) | 28 |
| Covid-19 Emergency Grant | 0 | (49,137) | (49,137) | (70,682) | 21,545 |
| Business Support Grant | 0 | (1,858) | (1,858) | (37,963) | 36,105 |
| Retained Business Rates | 0 | (68,041) | (68,041) | (51,124) | (16,917) |
| Council Tax | 0 | (132,414) | (132,414) | (131,010) | (1,404) |
| Dedicated Schools Grant | 0 | (93,349) | (93,349) | (93,349) | 0 |
| Other School Grants | 0 | (3,824) | (3,824) | (3,824) | 0 |
| Other Specific Grants | 0 | (12,585) | (12,585) | (12,584) | (0) |
| New Homes Bonus | 0 | (1,221) | (1,221) | (1,221) | 1 |
| Public Health Grant | 0 | (17,408) | (17,408) | (17,408) | 0 |
| **Total Funding** | **22,236** | **(390,484)** | **(368,248)** | **(429,841)** | **61,592** |
| **Total Funding and Expenditure Variance** |  |  | **0** | **0** | **0** |

Amounts shown above for Council Tax and Non-Domestic rates are derived from the Collection Fund. These figures differ from the amounts shown in the Comprehensive Income and Expenditure Account due to timing differences in the recognition of surpluses and deficits.

Full details, including notes on individual variances within directorates can be found within the Outturn Report that was considered at Cabinet on 8 June 2021.

## Housing Revenue Account

The Housing Revenue Account (HRA) reflects the income and expenditure related to the provision of housing accommodation by the Council.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Expenditure** | **Income** | **Net** | **Budget** | **Variation** |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Housing Revenue Account | 13,768 | (14,134) | (365) | (224) | (141) |
| **Total Management Accounts Variance against Budget Requirement** | **13,768** | **(14,134)** | **(365)** | **(224)** | **(141)** |
| **Funding:-** |  |  |  |  |  |
| Contribution To/(From) Reserves | 365 | 0 | 365 | 224 | 141 |
| **Total Funding** | **365** | **0** | **365** | **224** | **141** |
| **Total Funding and Expenditure Variance** |  |  | **0** | **0** | **0** |

# Financial Performance (continued)

## Capital Expenditure

Capital Expenditure relates to expenditure to acquire, construct, enhance or replace tangible non-current assets such as land, buildings or major pieces of equipment that will be used to provide services over a number of years in the form of a capital programme to achieve the council’s strategic objectives and priorities. In 2020/21 the Council spent £31.176million on General Fund and £7.607million Housing Revenue Account capital schemes. Of this, £35.912million on the creation of new fixed assets or enhancement of existing assets used in the provision of services in the Medway area. Major schemes completed included the provision of new classrooms, improvements to school infrastructure, highways improvements, regeneration schemes, improvements to the Council's housing stock and building of new housing stock. The remainder of expenditure of £2.871million relates to “Revenue Expenditure Funded from Capital under Statute” (see Note 28 Accounting Policies page 131). The final capital outturn position for the year is shown in the table below together with how this expenditure was financed:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Capital Budget 2020/21** | **Approved Programme** | **Forecast Spend** | **Outturn** | **Variation to Forecast** | **Budget c/fwd** |  |
|  | **2020/21+** | **2020/21** | **2020/21** | **2020/21** | **2021/22+** |  |
|  | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |  |
| **Directorate/Service** |  |  |  |  |  |  |
| Business Support | 144,426 | 10,827 | 3,390 | (7,437) | 2,654 | ¹ |
| Children and Adults (inc. Public Health) | 31,535 | 8,561 | 7,479 | (1,082) | 24,335 |  |
| Regeneration, Culture & Environment | 241,753 | 29,010 | 20,307 | (8,703) | 359,827 | ¹ |
| Member Priorities | 363 | 323 | 0 | (323) | 363 |  |
| Housing Revenue Account | 25,056 | 23,955 | 7,607 | (16,348) | 16,037 |  |
| **Total** | **443,134** | **72,676** | **38,783** | **(33,893)** | **403,215** |  |

¹ At the end of 2020/21 capital schemes with carry forward values of £138,382,537 were transferred from Business Support to Regeneration, Culture & Environment.

|  |  |
| --- | --- |
| **Funding source** | **£'000** |
| Borrowing (supported capital expenditure and unsupported) | 9,862 |
| Government Grants and Other Contributions | 17,211 |
| Major Repairs and Other Contributions | 3,698 |
| Capital Receipts | 4,314 |
| Developer Contributions | 828 |
| Revenue and Reserves | 2,871 |
| **Total** | **38,783** |

# Commentary on Financial Statements

## Statement of Accounts

The Statement of Accounts includes the financial statements of the Authority, the Statement of responsibilities to prepare the Statement of Accounts and the independent auditor’s opinion on the financial statements.

## Statement of responsibilities

This Statement sets out the responsibilities of the Authority and the Chief Finance Officer in respect of the proper administration of the financial affairs of the Authority and for the preparation of the Statement of Accounts. The Chief Finance Officer has to certify that the accounts present a ‘true and fair’ view of the financial position of the Authority as at 31 March 2021 and its income and expenditure for the year.

## Annual Governance Statement

The Authority is required to carry out an annual review of the effectiveness of the system of internal control and to include a report accompanying the Statement of Accounts. This Statement explains how the Authority has complied with the 'CIPFA/SOLACE Delivering Good Governance' Framework during the year and up to the date of the approval for publication of the Statement of Accounts. The Annual Governance Statement is set out on pages 26 to 38.

## Independent auditor’s report

The independent auditor is required to publish an opinion on the financial statements as to whether they give a true and fair view of the financial position and the expenditure and income of the Authority for the year in question. The Auditor also has a responsibility to satisfy himself/herself that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources by review and examination of the Authority’s corporate performance management and financial management arrangements against criteria specified.

## Core Financial statements and notes

The financial statements comprise the core financial statements of the Authority (Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement), the notes to the core financial statements (the accounting policies and supplementary information), and supplementary information required by proper practices (Housing Revenue Account Income and Expenditure Statement, Movement on Housing Revenue Account Statement and Collection Fund). The core statements are set out on pages 47 to 53.

## Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

## Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt) and unusable reserves, i.e. those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the ‘adjustments between accounting basis and funding basis under regulations’ line. The total comprehensive income and expenditure line shows the true economic cost of providing the Authority’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and Housing Revenue Account for Council Tax setting and dwelling rent setting purposes. The net increase / decrease before transfers to earmarked reserves line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

## Balance Sheet

The Balance Sheet shows the value as at the end of the accounting period of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

# Commentary on Financial Statements (continued)

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The Statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority’s future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

## Notes to the principal financial statements

The notes to the principal financial statements present information about the basis of preparation of the financial statements and the specific accounting policies used, disclose additional information required by the Code that is not presented elsewhere in the financial statements, and provide information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them. These notes are set out on pages 54 to 169. The supplementary financial statements are set out on pages 170 to 183 and are presented as follows:

## Housing Revenue Account (HRA) Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the accounting cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

## Movement on the Housing Revenue Account Statement

This statement shows how the HRA Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the Housing Revenue Account Balance for the year end.

## Collection Fund

The Collection Fund is an agent’s statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The Statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and non-domestic rates.

## Group Accounts

The Group Accounts sets out the income and expenditure for the year and the financial position at 31 March 2021 of the Council and the wholly owned subsidiaries. The Group Accounts combines the financial results of the Kyndi Ltd and Medway Development Company Ltd and are set out on pages 184 to 199.

## Glossary

A glossary of terms has been included in this document to explain some of the technical accounting language used to assist the reader and is set out on pages 200 to 207.

**Rochester Castle, Rochester**



# B. Annual Governance Statement



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# Scope of responsibility

Medway Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having a regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

In 2016, CIPFA and the Society of Local Authority Chief Executives (SOLACE) published a revised ‘Delivering Good Governance’ framework that “defines the principles that should underpin the governance of each local government organisation”. The Council approved a local code of corporate governance based on the original guidance at its meeting on 13 November 2008. This Annual Governance Statement for 2020/21 has been prepared in line with the revised code of corporate governance and the 2016 framework.

Corporate governance is overseen by the Audit Committee each year when it reviews this statement, under delegation from the full Council. The operational elements of the Council’s governance framework are the responsibility of the Chief Operating Officer and the Monitoring Officer within their statutory roles. Cabinet as the Executive also plays a significant role in ensuring that decision making and policy setting is undertaken appropriately.

This statement explains how the Council has complied with the code and also meets the requirements of Regulation 6 (1b) of the Accounts and Audit Regulations 2015 in relation to the publication of a governance statement.

Account has been taken of the 7 April 2020 CIPFA Better Governance Forum briefing paper, and references are made throughout to the impact of the Covid-19 pandemic on the Council, which started shortly before the period this statement relates to.

# The purpose of the governance framework

The governance framework comprises the culture and values, systems and processes, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

# Review of effectiveness of the governance framework

Medway Council has responsibility for conducting an annual review of the effectiveness of its governance framework, including the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the executive managers within the council who have responsibility for the development and maintenance of the governance environment, the Head of Audit & Counter Fraud’s annual report and also by comments made by the external auditors and other review agencies and inspectorates.

In maintaining and reviewing the effectiveness of the governance framework, the review has considered the following:

* The corporate and business planning processes of the council
* The corporate performance management framework and the corporate performance reporting processes of the council
* Reviews carried out by Internal Audit, External Audit and other review bodies which generate reports commenting on the effectiveness of the systems of internal control employed by the council
* The consideration of External Audit reports by the Audit Committee
* The opinion on the overall adequacy and effectiveness of the council’s overall control environment from the Head of Audit & Counter Fraud.

The detailed results of the review have been considered by the Council’s Corporate Management Team in advance of their endorsement of this Annual Governance

Statement; assurances have been provided by members of the Corporate Management Team that key elements of the control framework were in place during the year in their divisions and control weaknesses were identified and addressed.

The following section of the statement summarises the results of this review; presenting the governance framework that has been in place at Medway Council for the year ended 31 March 2021 and up to the date of approval of this Statement.

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| --- | --- |
| **Core Principle** | **How we have complied in 2020/21** |
| Principle A: “Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law” | The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council’s business are defined in the Constitution, Contract Standing Orders and Financial Regulations; the Monitoring Officer is responsible for reviewing and updating these as required.  Codes of conduct are in place for and define the high ethical values and standards of behaviour expected from elected members and officers to make sure that public business is conducted with fairness and integrity.  The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. The Councillor Conduct Committee is regularly updated on compliance with the Code of Conduct.  The outcome of complaints made under the whistle blowing policy are reported to the Audit Committee on an annual basis, in order that they can keep them under review. The policy has recently been reviewed, redrafted and renamed the Speak Up policy and was approved by full Council in January 2021.  The Council seeks feedback from the public through its complaints and comments procedures and responds to the outcomes, as appropriate. |
| Principle B: “Ensuring openness and comprehensive stakeholder engagement” | Council meetings are held in public unless there are good reasons for not doing so on the grounds of considering “exempt” information within the meaning of the Local Government Act 1972, Schedule 12A.  Unless confidential, decisions made by Council, the Cabinet or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out.  The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users.  During the Covid-19 Pandemic, virtual meetings have been held to conduct Council business and where necessary urgent decisions allowed for in the Constitution have been taken by the Leader and/or Chief Executive, which have then been reported. Virtual meetings ceased with effect from 7 May 2021 as the relevant legislation permitting virtual meetings expired. |

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| **Core Principle** | **How we have complied in 2020/21** |
| Principle C: “Defining outcomes in terms of sustainable economic, social, and environmental benefits.” | The Council works with its partners to set the vision and priorities for the area. The Council manages a process of bringing together performance data, demographic information and consultation findings to determine key shared priorities.  In 2019 the Council reviewed the Council Plan 2016/17-2020/21, its corporate business plan, to an aligned timetable with the resources strategy and budget. In February 2019 the council refreshed the Council Plan performance indicators. The Plan forms an essential part of the Council's governance framework, setting out the council's priorities and the measures against which success will be judged.  All reports to the Council or Cabinet are checked by the Chief Operating Officer (the section 151 Officer) and the Chief Legal Officer (the Monitoring Officer) for financial and legal implications. The Council has been rigorous and transparent about how decisions are taken and recorded. Cabinet reports include a mandatory paragraph on risk to enable the Council to consider the implications of its decisions.  Equalities are considered during the decision making process to promote fair access to services.  All Cabinet and Council decisions are made on the basis of formal reports, which all follow a standard Council template. The template includes guidance on report writing which specifically refers to Diversity Impact Assessments (“DIA”) and provides a link to the Council’s DIA guidance which sets out how and when these should be completed.  During the Covid-19 pandemic lockdown to minimise risk and to follow Government Guidance, Council meetings which would normally be open to the public have been livestreamed, via Microsoft TEAMS. Since physical meetings resumed after 7 May 2021, live streaming has and will continue until 21st June 2021 and will be reviewed in accordance with government guidance. |
| Principle D: “Determining the interventions necessary to optimise the achievement of the intended outcomes” | Decision makers receive objective analysis on a variety of options indicating how intended outcomes would be achieved together with the risks associated with those options.  In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. Community benefit is an important consideration in the procurement of goods and services.  The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council Plan. For example, significant partner engagement in health and social care Strategic and Locality Plans. |

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| **Core Principle** | **How we have complied in 2020/21** |
| Principle E: “Developing the entity’s capacity, including the capability of its leadership and the individuals within it” | The corporate management team consists of the Chief Executive, three Directors (one of whom is the Deputy Chief Executive), the Chief Operating Officer (Section 151 Officer), Chief Legal Officer (Monitoring Officer), five Assistant Directors, the Head of HR and the Head of Communications and Marketing.  The roles of officers are defined in agreed job profiles. Staff performance is reviewed on an annual basis in accordance with the performance and development review (PDR) process.  The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.  The Member development programme has included a focus on scrutiny of Children’s Services to support the work to improve that area of the Council. |
| Principle F: “Managing risks and performance through robust internal control and strong public financial management” | The Council which has overall responsibility for directing and controlling the organisation has approved an Executive / Scrutiny model of decision making. The “executive committee” or Cabinet is the key decision-making and monitoring committee and the various scrutiny committees for reviewing policy decisions before and after implementation.  The Council has a risk management strategy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council’s ability to meet its objectives to deliver services to the public.  The Chief Operating Officer (the Section 151 officer) is responsible for the proper administration of all aspects of the Council’s financial affairs including ensuring appropriate advice is given to the Council on all financial matters.  The Council’s system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.  The Council has a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably.  A Medium Term Financial Strategy and associated Risk Register, and plans for revenue and capital income and expenditure based on corporate priorities are developed, led by the Cabinet and Corporate Management Team, and presented for approval by Council in February each year.  Revenue and Capital Budget Monitoring reports are presented to the Cabinet on a quarterly basis for monitoring and control purposes including the annual outturn.  During the Covid-19 pandemic, the Council has mobilised an internal control structure of Gold, Silver and Bronze and supported the Kent Resilience Forum in providing a Medway and Kent multi-agency response to the situation. Although discretionary services were stopped on Government advice, key statutory services such as Children’s Services, Housing, Adults Services and Waste collection were maintained. Policy for the Council’s response was set at the Gold level with regular community assurance messages given by the Leader of the Council. Tactical decisions to keep services going were made at the Silver level with some concentrated work around key risks such as the re-opening of schools, high streets and buildings managed at a Bronze level. In line with best practice the Council prepared for recovery from the start of the pandemic, in March 2020, and has adapted to various new legislation in response to further lockdowns and the roadmap to lift restrictions in 2021. |

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| **Core Principle** | **How we have complied in 2020/21** |
| Principle G: “Implementing good practices in transparency, reporting, and audit to deliver effective accountability” | The Head of Audit & Counter Fraud provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance. This is carried out by an in-house team in conformance with the Public Sector Internal Audit Standards. The opinion of the Head of Audit & Counter Fraud over the Council’s overall control environment, delivered in the Audit & Counter Fraud Annual Report 2020/21 is:  The Accounts & Audit Regulations 2015 require local authorities to ensure that they have: a sound system of internal control which— (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives; (b) ensures that the financial and operational management of the authority is effective; and (c) includes effective arrangements for the management of risk. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The Audit & Counter Fraud Team has carried out all internal audit work in line with the Public Sector Internal Audit Standards and in accordance with our Quality Assurance & Improvement Programme.  In their capacity as Chief Audit Executive (CAE), with responsibility for the provision of internal audit services to the council, the CAE is required to provide the organisation, and the Chief Executive, with a statement as to their opinion of the adequacy and effectiveness of the organisation’s risk management, control and governance processes. This opinion is intended to support the council’s annual governance statement.  In assessing the level of assurance to be given, the following have been taken into account;  The results of all work carried out by the Audit & Counter Fraud Shared Service for Medway from the preparation of the Annual Internal Audit Report 2019-20 in July 2020 to the 31 March 2021  Follow-up of recommendations linked to audits from previous periods  Significant recommendations not accepted by management or acted upon and the consequent risks  The effects of any significant changes in the organisation’s objectives or systems, including  The effects of changes to the control environment resulting from emergency decisions taken in response to the Covid 19 Pandemic  Front line assurance related activities undertaken by redeployed Audit & Counter Fraud staff in new areas of risk, such as business support grants  Matters arising from previous reports to the organisation, and  The results of work performed by other assurance providers. |

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| **Core Principle** | **How we have complied in 2020/21** |
|  | The CAE is satisfied that there has been an adequate level of internal audit assurance work undertaken as part of the 2020/21 plan, which was revised to ensure there was adequate focus on highest risks and new & emerging risks as a result of the pandemic. In addition, the CAE has chaired the ‘governance cell’ of the council’s Tactical Command Group, monitoring the emergency decisions made and ensuring they are assessed for their implications, which has also provided continual sight of the risk registers being used by services and the ability to see the levels of risk management throughout the emergency response. The service has also been involved in front-line assurance activity in the new risk area of business grants, with Audit & Counter Fraud staff redeployed to assist with the assessment and validation of claims. However, in forming their opinion for 2020-21, they are also placing greater reliance on alternative forms of assurance, such as the report from the Commissioner for Children’s Social Care, than may have been the case in previous years due to the reduced level of planned reviews.  Taking all this into account, the CAE believes that there is sufficient evidence to draw a reasonable conclusion as to the adequacy and effectiveness of the organisation’s risk management, system of internal control and governance processes.  While it has been identified that the authority has mainly established adequate internal controls within the areas subject to review between 01 July 2020 and 31 March 2021, there are areas where compliance with existing controls should be enhanced or strengthened or where additional controls should be introduced to reduce the risk of loss to the authority. Where such findings have been made, recommendations have been made to management to improve the controls within the systems and processes they operate. Management have accepted responsibility for the implementation of these recommendations and follow up arrangements are in place to ensure that appropriate action is taken. The results of all work completed will be reported to the Finance & Audit Committee in accordance with the Audit & Counter Fraud Charter.  **It is therefore the Chief Audit Executive’s opinion that Medway Council’s framework of governance, risk management and system of internal control is adequate and effective, and contributes to the proper, economic, efficient, and effective use of resources in achieving the council’s objectives.** |

# Update on actions identified in the 2019/20 Annual Governance Statement

## The Annual Governance Statement for 2019/20 identified following areas where the Council will seek to enhance its arrangements in the coming year:

1. The impact of the Covid-19 pandemic has been felt across the full range Council services, both essential and discretionary. This has been reflected in an unprecedented budgetary impact. Commitments made at the start of the pandemic by the Minister for Housing, Communities and Local Government, suggested that Council would be compensated for the financial impact of reductions in incomes and increased costs during the main “response” phase of the pandemic. It remains to be seen whether that compensation will be forthcoming. The Council has reported a possible £40 million gap in its finances. This will represent an insurmountable gap, without some central Government intervention. Significant effort will be required by Cabinet and Officers to identify budget efficiencies to offset pressures that are identified through the quarterly reporting of the revenue and capital budgets.

Update: Since Full Council approved the 2020/21 budget in February 2020, in response to the Covid-19 pandemic more than £108million of additional grant funding was added to the revenue budget. While the majority of this was delivered to Medway’s businesses, social care providers and individuals through various packages of support, the funding included the second, third and fourth tranches of non-ringfenced grants worth £16.441million. In addition, the government introduced a Sales, Fees and Charges Income Compensation Scheme though which authorities are able to claim for a proportion of any losses (net of any savings made in service delivery) against eligible services. Together, the emergency support funding and income compensation funded the expenditure pressures and income shortfalls experienced across the Council’s services in 2020/21, with £3.918million to be transferred to general reserves to fund our 2021/22 revenue budget requirement. While restrictions look set to continue to ease during 2021/22, the long-term financial impacts of the pandemic on the Council’s budget are not yet known, with projections being developed for our Medium Term Financial Strategy as to the impacts on the economy and the implications for our tax base, the demand for statutory services and the Council’s income generating services for years to come.

1. The Children’s Services improvement journey must be sustained and initiatives such as a Child Friendly Medway will have a role to play in showing that the Council means business in wanting better outcomes for all children. Concerted corporate effort from the Lead Member, Leader, Chief Executive, Director of Children and Adults, Corporate Management Team and colleagues both in Children’s Services and other Council teams will be needed to effect better outcomes for the most vulnerable children in Medway. Additional training for Members to scrutinise risks and progress will have a role to play. Performance will need to be carefully monitored through the Children’s Improvement Board. The role of the Corporate Parenting Board in ensuring the voice of the child is heard will also be important to demonstrating improvement.

Update: The Children’s Improvement Board, which is independently chaired and has a key role in oversight and challenge of the Improvement Plan, has continued to meet monthly and receives reports on progress from the Director of People and on performance from the Assistant Director of Children’s Services. The Commissioner, appointed by the DFE to advise on whether Medway had the capacity to continue to run its own services reported in December 2020, with a recommendation that her role conclude, that Medway was making progress and that the DFE should appoint an Improvement Adviser to continue to offer support through their improvement journey. Gladys Rhodes White took on this role in January 2021 and is a member of the Improvement Board.

In recognition of progress made, the Improvement Plan was refreshed, updated and signed off by the Board in May 2021. It sets out the agenda for the coming year.

The Lead Member, Leader, Chief Executive, Corporate Management Team and colleagues in other Council teams have continued to support Children’s Services in all aspects of the improvement plan and the Lead Member undertakes regular safeguarding visits to families along with the Director to ensure a line of sight into practice. Elected members have also had the opportunity to participate in workshops to improve their understanding of how the service is delivered so that they can provide effective scrutiny, support and challenge.

Corporate Parenting Board members have undertaken training and have worked together to develop a suite of performance indicators which support them in their oversight and scrutiny of the Councils’ role as a corporate parent. A number of initiatives have been supported by the Council including an event to support care leavers into employment or further education and training.

Senior Leaders, including the Leader, Lead Member, Chief Executive and Director meet regularly with the DFE appointed Improvement Adviser to focus on practice improvement and review findings of all quality assurance activity.

Ofsted suspended their regular programme of quarterly monitoring visits due to Covid but have undertaken one Monitoring Visit in August 2020 and a Covid Assurance visit in May 2021. Reports of both visits acknowledged progress and no child was found to be unsafe. Medway was found to know itself well and understand priorities for ongoing improvement work.

The service has continued to seek external support for its improvement work, from Essex as our DFE funded Partner in Practice and from other externally commissioned reviews across all service areas.

The Child Friendly Medway Board has been set up, chaired by the Chief Executive, and a consultation exercise with children and young people in Medway is currently underway to explore what actions are seen as a priority to improve their experience of living in Medway. This work will benefit all children but must have a particular focus on the most vulnerable.

1. The delivery of key operational and regenerative projects remains a priority for the Council and none more so than the £170 million Housing Infrastructure Fund project. Appropriate project management including Member oversight will be needed to ensure progress against key milestones. Consideration will be needed to the consequences of delaying some of the current live projects, due to the impact of the Covid-19 pandemic and the cessation of some projects, where market change dictates. Judgements made will need to involve professional officer advice and where merited, specialist external advice.

Update: Despite Covid and various forms of lockdown regeneration projects have continued progressing. The Council responded quickly in supporting the change of working culture from the office to working from home. The vast majority of delivery functions have been possible and have continued throughout the year. There was some delay to live build projects such as Rochester Riverside with the Council’s development partner Countryside halting works earlier in 2021 as per government guidance, but this was a short period and development has continued with the majority of homes in the current phase already sold or reserved. Medway’s housing market is very much in demand and has proved to be resilient despite the Covid pandemic.

1. Climate change. The Council declared a climate change emergency in April 2019. Work is progressing to base line the carbon emissions within Medway to date and consider a range of measures to complement work already happening to respond to the climate change emergency. Concerted effort across a number of energy reduction and environmental schemes will be needed to deliver the strategic aims identified. Performance will be enhanced by community leadership by the Council through the Deputy Leader, supported by Officers and partners to deliver improved outcomes.

Update: Responding to the climate emergency has remained a key priority for the Council. One Full Time Equivalent (FTE) post was recruited to in April 2020 to coordinate the development of a Climate Change Action Plan, with support from the Strategic Environmental Protection Manager and Head of Environmental Services. There has also been significant input from officers across the Council.

This area of work was also supported by an intern from the University of Kent for 12 weeks during 2020. This work also included the oversight of a technical study to understand the Council’s carbon emissions and to further understand the necessary data collection requirements to support accurate future emissions reporting. Performance and progress has been regularly monitored through the established governance processes and continued leadership from the Deputy Leader. The action plan was prepared, ready for endorsement by Cabinet in early 2021/22.

In 2020/21 work began on the development of Re:fit, a £12 million retrofit programme across the Council’s estate, which will result in substantial energy and financial savings. Work has continued to expand and improve upon Medway’s cycleways, now at 80 miles with a 20% increase in the uptake of cycling. The delivery of an ambitious £11 million LED street lighting replacement programme has continued; with 24,000 lanterns due to be completed in Summer 2022. 13, 842 small trees were planted across 10 sites in Medway in early 2021, via the Forestry Commission Urban Tree Challenge Fund and a new donation page for residents and businesses to support tree planting across Medway went live in November 2020. 30 miles of wildflower verges were created during 2020, allowing a wider diversity of wild grasses and flowers to thrive. To further support our net zero carbon vision, a 12-month trial of 6 EVs for staff business use commenced in November 2020, the uptake of which is being monitored. Officers also developed plans for the installation, by Summer 2021, of 34 EV charging points. This work will be funded by the Office of Zero Emission Vehicles and match funded by the Council.

1. Recovery from the Covid-19 pandemic could present a sustained risk to the Council and the local community. With work having started in March, as the pandemic was declared, the Council has taken a best practice approach to preparing for recovery. Appropriate strategic direction will be needed from the Leader and Cabinet to focus how the Council will contribute to and manage recovery. Officers will want to draw on the heightened levels of collaborative working that have been a key characteristic of the response to the pandemic to enhance the recovery phase.

Update: In light of the second lockdown from December 2020 this action is carried forward to 2021-22.

# Proposed enhancements to the Council’s governance arrangements

The review of the effectiveness of the Council’s governance framework for 2020/21 did not highlight any specific areas of concern. Where internal audit work has indicated additional controls could be in place, officers are focused on making the necessary changes to do so.

However, the following areas identified as paragraphs a) and e) in last year’s governance report are to be carried forward for further work in the coming year due to the unprecedented circumstances created by the Covid-19 pandemic:

(a) The impact of the Covid-19 pandemic has been felt across the full range Council services, both essential and discretionary. This has been reflected in an unprecedented budgetary impact. Commitments made at the start of the pandemic by the Minister for Housing, Communities and Local Government, suggested that Council would be compensated for the financial impact of reductions in incomes and increased costs during the main “response” phase of the pandemic. It remains to be seen whether that compensation will be forthcoming.It is anticipated that the aftermath of the pandemic will impact on the demand for statutory services and the collection of both fees and charges and tax revenues for some time and without the continuation of financial support from central Government balancing annual revenue budgets would be extremely challenging. Significant effort will be required by Cabinet and Officers to identify budget efficiencies to offset pressures that are identified through the quarterly reporting of the revenue and capital budgets.

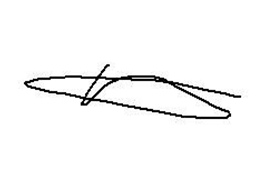
(b) Recovery from the Covid-19 pandemic could present a sustained risk to the Council and the local community. With work having started in March 2020, as the pandemic was declared, the Council has taken a best practice approach to preparing for recovery. Appropriate strategic direction will be needed from the Leader and Cabinet to focus how the Council will contribute to and manage recovery. Officers will want to draw on the heightened levels of collaborative working that have been a key characteristic of the response to the pandemic to enhance the recovery phase.

# Conclusion

Based on the results of the review, reasonable assurance can be placed upon the adequacy and effectiveness of Medway Council’s systems of internal control and governance. Although areas for further enhancement have been identified, the annual review demonstrates sufficient evidence that the Council’s Local Code of Corporate Governance is operating effectively, and that the Council complies with that Local Code in all significant respects.

**Certification by the Leader of the Council**

I confirm that the 2020/21 Annual Governance Statement has been considered and approved by Medway Council at the meeting of the Audit Committee on 28 July 2021:



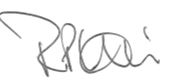
Councillor Vince Maple

Leader of Medway Council

Date: 14/09/2023

**Certification by the Chief Executive**

I confirm that the 2020/21 Annual Governance Statement has been considered and endorsed by Medway Council’s Corporate Management Team:



Chief Executive Officer

Medway Council

Date: 14/09/2023



# C. Written Statements



**The Lines, Gillingham**

# Statement of Responsibilities

## The Authority’s Responsibilities

The authority is required to:

* make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the chief financial officer.
* manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
* approve the Statement of Accounts.

## The Chief Financial Officer’s Responsibilities

The chief financial officer is responsible for the preparation of the authority’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the chief financial officer has:

* selected suitable accounting policies and then applied them consistently
* made judgements and estimates that were reasonable and prudent
* complied with the local authority Code.

The chief financial officer has also:

* kept proper accounting records which were up to date
* taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Certificate of the Chief Operating Officer

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its expenditure and income for the year ended 31 March 2021.

Signed:



Phil Watts

Chief Operating Officer, Section 151 Officer

Dated: 04 September 2023

## Approval of the Statement of Accounts

In accordance with Accounts and Audit Regulations 2015 I certify that the Statement of Accounts for the period ending 31 March 2021 was approved at the meeting of Audit Committee held on 16 March 2023.

Signed:

Signature of Councillor Hazel Browne,
Chair of the Audit Committee 


Councillor Hazel Browne

Chair of the Audit Committee

Dated: 05 September 2023

# Independent Auditors Report to the Members of Medway Council

# Report on the Audit of the Financial Statements

## Opinion on financial statements

We have audited the financial statements of Medway Council (the ‘Authority’) and its subsidiaries (the ‘group’) for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

* give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group’s expenditure and income and the Authority’s expenditure and income for the year then ended;
* have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
* have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial

statements or, if such disclosures are inadequate, to modify the auditor’s opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer’s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group’s financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided

in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority’s disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority’s or the group’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the ‘Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements’ section of this report.

### Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements

or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with ‘delivering good governance in Local Government Framework 2016 Edition’ published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

* we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
* we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
* we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
* we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
* we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority’s and the group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority’s financial reporting process.

### Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

* We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
* We enquired of senior officers and the audit committee, concerning the group and Authority’s policies and procedures relating to:
  + the identification, evaluation and compliance with laws and regulations
  + the detection and response to the risks of fraud
  + the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
* We enquired of senior officers, internal audit and the audit committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
* We assessed the susceptibility of the Authority and group’s financial statements to material misstatement, including how fraud might occur, by evaluating officers’ incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, the risk of improper revenue recognition (rebutted) and the risk of fraud in expenditure recognition (rebutted), the valuation of land, buildings and investment property and the valuation of pension liability. We determined that the principal risks were in relation to journal entries and management bias in the calculation of estimates.
* We considered whether there was any potential management bias in accounting estimates or any significant transactions with related parties which could give rise to an indication of management override.
* Our audit procedures involved:
  + evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud
  + journal entry testing, with a focus on the journals deemed to be high risk. We considered all journal entries for fraud and set specific criteria to identify entries we considered to be high risk. Such criteria included manual journal entries, large value journals, journals containing keywords which might indicate fraud, journals posted after year end and journals posted by selected named officers
  + challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property, defined benefit pensions liability valuation, and national non domestic rates (NNDR) appeals provisions
  + assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
* These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
* The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property, defined benefit pensions liability valuation and NNDR appeals provisions.
* Assessment of the appropriateness of the collective competence and capabilities of the group and Authority’s engagement team included consideration of the engagement team's auditors’.
* understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation:
  + knowledge of the local government sector
  + understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
* In assessing the potential risks of material misstatement, we obtained an understanding of:
  + the Authority and group’s operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  + the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

## Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency, and effectiveness in its use of resources

### Matter on which we are required to report by exception – the Authority’s arrangements for securing economy,

### efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.We have nothing to report in respect of the above matter except on the 3rd November 2022, we identified a significant weakness in the Council's arrangements for Improving Economy, efficiency and effectiveness in Children’s Services. Ofsted concluded in October 2021 that most children in Medway who require support are not yet receiving a good enough service. We recommend that the Council model the impact of rising complex case costs in the Children’s Service over the medium-term; develop risk management policies for the Children’s Service as a whole and continue work to stabilise the Children’s Service workforce and achieve consistent standards of practice within the Children’s Service.

### Responsibilities of the Authority

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

### Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

* Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services
* Governance: how the Authority ensures that it makes informed decisions and properly manages its risks
* Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We documented our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

## Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of Medway City Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor's report and for no other purpose. To the

fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature of Darren Wells, Key Audit Partner 

**Darren Wells**, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

13 October 2023

To be added



# D. Core Financial Statements



**Chatham Waterfront Bus Station, Chatham**

# Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2019/20** |  |  |  |  | **2020/21** |  |
| **Gross**  **Expenditure** | **Gross**  **Income** | **Net**  **Expenditure** | **Service** | **Notes** | **Gross**  **Expenditure** | **Gross**  **Income** | **Net**  **Expenditure** |
| **£'000** | **£'000** | **£'000** |  |  | **£'000** | **£'000** | **£'000** |
| 95,699 | (87,473) | 8,226 | Business Support Department |  | 108,460 | (81,347) | 27,113 |
| 280,974 | (150,686) | 130,288 | Children’s and Adults (inc. Public Health) |  | 321,419 | (158,240) | 163,179 |
| 16,877 | (14,365) | 2,512 | Local authority housing (HRA) |  | 21,026 | (14,097) | 6,929 |
| 127,959 | (38,339) | 89,620 | Regeneration, Culture & Environment |  | 115,218 | (24,579) | 90,639 |
| **521,509** | **(290,863)** | **230,646** | **Cost of Services** |  | **566,123** | **(278,263)** | **287,860** |
| 11,881 | 0 | 11,881 | Other operating expenditure | [9](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/64182598.xlsm#RANGE!A1) | 10,425 | 0 | 10,425 |
| 19,481 | (4,908) | 14,573 | Financing and investment income and expenditure | [10](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/64182598.xlsm#RANGE!A1) | 19,579 | (4,341) | 15,238 |
| 0 | (215,476) | (215,476) | Taxation and non-specific grant income and expenditure | [11](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/64182598.xlsm#RANGE!A1) | 0 | (242,641) | (242,641) |
| 0 | 0 | 0 | - Sec.31 75% Tax Income Guarantee & Business Rates Relief Compensation Grant | [11](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/64182598.xlsm#RANGE!A1) | 0 | (16,687) | (16,687) |
| **552,871** | **(511,247)** | **41,624** | **(Surplus) or Deficit on Provision of Services** |  | **596,127** | **(541,932)** | **54,195** |
|  |  |  | **Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services** |  |  |  |  |
|  |  | (46,241) | Surplus on revaluation of property, plant and equipment assets | 36 |  |  | (26,559) |
|  |  | 33,874 | Revaluation losses on non-current assets charged to the Revaluation Reserve | 36 |  |  | 21,675 |
|  |  | (17,418) | Re-measurement of net defined pension liability/(asset) | [37](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/64182598.xlsm#RANGE!A1) |  |  | 42,063 |
|  |  | **(29,785)** |  |  |  |  | **37,179** |
|  |  |  | ***Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services*** |  |  |  |  |
|  |  | 0 | (Surplus)/deficit on revaluation of available for sale financial assets | 36 |  |  | 0 |
|  |  | **0** |  |  |  |  | **0** |
|  |  | **(29,785)** | **Other Comprehensive Income and Expenditure** |  |  |  | **37,179** |
|  |  |  |  |  |  |  |  |
|  |  | **11,839** | **Total Comprehensive Income and Expenditure** |  |  |  | **91,374** |

# Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other ‘unusable reserves’. The Statement shows how the movements in year of the authority’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

A summary of the purpose of each reserve is as follows:

**General Fund Balance** – This is the ‘working balance’ of the Authority and acts as a contingency to fund unforeseen eventualities.

**Housing Revenue Account** – This contains any surplus or deficit arising from the provision of Authority housing by the Authority and earmarked Housing Revenue Account reserves. It can only be used for local authority housing provision.

**Earmarked General Fund Reserves** - These are reserves created to fund specific revenue or capital expenditure relating to the General Fund.

**Dedicated Schools Grant Reserve** - Significant increase in Special Educational Needs (SEN) expenditure in 2018/19 and 2019/20 was transferred here. The deficit on this reserve was transferred to an unusable reserve, the Dedicated Schools Grant Adjustment Account during 2020/21, the purpose of which will be to manage the deficit on Schools Budgets that would otherwise impact on the Earmarked Schools Reserves. Statutory arrangements require that the impact on the General Fund Balances is neutralised by this transfer. This reserve is disclosed on the face of this statement for transparency purposes.

**Earmarked HRA Reserves** - These are reserves created to fund specific revenue or capital expenditure relating to the Housing Revenue Account.

**Capital Receipts Reserve** – Proceeds from the sale of Authority assets are paid into this reserve which can be used to finance capital expenditure or repay debt.

**Major Repairs Reserve** –This reserve receives a transfer from the Capital Financing Account equivalent to the total depreciation charged to the Housing Revenue Account and can only be used to fund major Housing Revenue Account repairs.

**Capital Grants Unapplied** – This reserve contains Government grants and other contributions which are held to finance future capital expenditure.

**Unusable Reserves** – The major reserves included in this category are the Revaluation Reserve, Pension Reserve and Capital Adjustment Account. Their purpose is of a technical accounting nature and cannot be used to support the services of the Authority. They are explained in more detail in note 36.

# Movement in Reserves Statement (continued)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **2020/21** | **Notes** | **Revenue Reserves**  **General Fund Balance** | **Revenue Reserves Earmarked General Fund Reserves** | **Revenue Reserves Dedicated Schools Grant Reserve** | **Revenue Reserves Total General Fund Balance** | **Revenue Reserves Housing Revenue Account** | **Revenue Reserves Earmarked Housing Revenue Account Reserves** | **Revenue Reserves Total Housing Revenue Account** | **Capital Reserves Capital Receipts Reserve** | **Capital Reserves Major Repairs Reserve** | **Capital Reserves Capital Grants Unapplied** | **Total Usable Reserves** | **Unusable Reserves** | **Total Reserves** |
|  |  | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** |
| **Balance at 31 March 2020** |  | **(13,924)** | **(21,532)** | **9,346** | **(26,111)** | **(5,145)** | **(1,601)** | **(6,746)** | **(5,463)** | **0** | **(18,764)** | **(57,084)** | **(170,325)** | **(227,410)** |
| Reporting of schools budget deficit to new adjustment account at 1 April 2020 |  | 0 | 0 | (9,346) | (9,346) | 0 | 0 | 0 | 0 | 0 | 0 | (9,346) | 9,346 | 0 |
| **Restated Balance at 1 April 2020** |  | **(13,924)** | **(21,532)** | **(0)** | **(35,457)** | **(5,145)** | **(1,601)** | **(6,746)** | **(5,463)** | **0** | **(18,764)** | **(66,429)** | **(160,980)** | **(227,409)** |
| **Movement in reserves during 2020/21** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total Comprehensive Expenditure and Income |  | 45,203 | 0 | 0 | 45,203 | 8,992 | 0 | 8,992 | 0 | 0 | 0 | **54,195** | 37,179 | **91,374** |
| Adjustments between accounting & funding basis under regulations | 19 | (89,834) | 0 | 0 | (89,834) | (7,947) | 0 | (7,947) | (1,210) | 0 | (7,152) | **(106,144)** | 106,144 | **0** |
| **Net (increase)/decrease before transfers to Earmarked Reserves** |  | **(44,631)** | **0** | **0** | **(44,631)** | **1,045** | **0** | **1,045** | **(1,210)** | **0** | **(7,152)** | **(51,949)** | **143,323** | **91,374** |
| Movements in Earmarked Reserves | 20 | 35,866 | (35,866) | 0 | 0 | (1,295) | 1,295 | 0 | 0 | 0 | 0 | **0** | 0 | **0** |
| **(Increase)/Decrease in 2020/21** |  | **(8,765)** | **(35,866)** | **0** | **(44,631)** | **(250)** | **1,295** | **1,045** | **(1,210)** | **0** | **(7,152)** | **(51,949)** | **143,323** | **91,374** |
| **Balance at 31 March 2021 carried forward** |  | **(22,689)** | **(57,398)** | **(0)** | **(80,087)** | **(5,395)** | **(306)** | **(5,701)** | **(6,674)** | **0** | **(25,916)** | **(118,378)** | **(17,657)** | **(136,035)** |

The restatement relates to the separation of the Dedicated Schools Grant Reserve, which was previously held within Earmarked General Fund Reserves but has been shown separately to enable a greater understanding of the financial position of this reserve for the reader.

# Movement in Reserves Statement (continued)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **2019/20** | **Notes** | **Revenue Reserves**  **General Fund Balance** | **Revenue Reserves Earmarked General Fund Reserves** | **Revenue Reserves Dedicated Schools Grant Reserve** | **Revenue Reserves Total General Fund Balance** | **Revenue Reserves Housing Revenue Account** | **Revenue Reserves Earmarked Housing Revenue Account Reserves** | **Revenue Reserves Total Housing Revenue Account** | **Capital Reserves Capital Receipts Reserve** | **Capital Reserves Major Repairs Reserve** | **Capital Reserves Capital Grants Unapplied** | **Total Usable Reserves** | **Unusable Reserves** | **Total Reserves** |
|  |  | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** |
| **Balance at 1 April 2019** |  | **(9,039)** | **(17,126)** | **4,139** | **(22,027)** | **(5,114)** | **(1,194)** | **(6,307.6)** | **(1,110)** | **(100)** | **(10,988)** | **(40,532)** | **(198,716)** | **(239,248)** |
| **Movement in reserves during 2019/20** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total Comprehensive Expenditure and Income |  | 37,554 | 0 | 0 | 37,554 | 4,070 | 0 | 4,070 | 0 | 0 | 0 | **41,624** | (29,785) | **11,839** |
| Adjustments between accounting & funding basis under regulations | 19 | (41,638) | 0 | 0 | (41,638) | (4,508) | 0 | (4,508) | (4,354) | 100 | (7,776) | **(58,175)** | 58,175 | **0** |
| **Net (increase)/decrease before transfers to Earmarked Reserves** |  | **(4,083)** | **0** | **0** | **(4,083)** | **(438)** | **0** | **(438)** | **(4,354)** | **100** | **(7,776)** | **(16,552)** | **28,390** | **11,839** |
| Movements in Earmarked Reserves | 20 | (801) | (4,406) | 5,207 | 0 | 407 | (407) | 0 | 0 | 0 | 0 | **0** | 0 | **0** |
| **(Increase)/Decrease in 2019/20** |  | **(4,884)** | **(4,406)** | **5,207** | **(4,083)** | **(31)** | **(407)** | **(438)** | **(4,354)** | **100** | **(7,776)** | **(16,552)** | **28,390** | **11,839** |
| **Balance at 31 March 2020 carried forward** |  | **(13,924)** | **(21,532)** | **9,346** | **(26,111)** | **(5,145)** | **(1,601)** | **(6,745.8)** | **(5,463)** | **0** | **(18,764)** | **(57,084)** | **(170,325)** | **(227,410)** |

|  |  |  |  |
| --- | --- | --- | --- |
| **31 March  2020** | **Balance Sheet Summary** | **Notes** | **31 March  2021** |
| **£'000** |  |  | **£'000** |
| 690,087 | Property Plant & Equipment | [21](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 21. Prop, Plant & Equipt'!A1) | 673,566 |
| 17,859 | Heritage Assets | [22](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 22. Heritage Assets'!A1) | 18,223 |
| 16,769 | Investment Property | [24](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 24. Investment Properties'!A1) | 16,869 |
| 1,082 | Intangible Assets |  | 563 |
| 21,979 | Long Term Investments | [26](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 26. Financial Instruments'!A1) | 21,535 |
| 2,406 | Long Term Debtors | [30](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 30. Debtors'!A1) | 16,640 |
| **750,182** | **Long Term Assets** |  | **747,396** |
| 32,779 | Assets Held for Sale <1 Year | [25](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 25. Assets Held for Sale'!A1) | 18,392 |
| 88 | Inventories |  | 113 |
| 6,969 | Short Term Investments | [26](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 26. Financial Instruments'!A1) | 490 |
| 70,997 | Short Term Debtors | [30](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 30. Debtors'!A1) | 88,581 |
| 40,564 | Cash and Cash Equivalents | [32](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 32. Cash & Cash Equivalents'!A1) | 24,606 |
| **151,397** | **Current Assets** |  | **132,182** |
| (1,882) | Cash and Cash Equivalents | [32](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 32. Cash & Cash Equivalents'!A1) | (7,670) |
| (5,762) | Grants Receipts in Advance - Revenue |  | (553) |
| (36,250) | Short Term Borrowing | [26](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 26. Financial Instruments'!A1) | (48,183) |
| (56,983) | Short Term Creditors | [33](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 33. Creditors'!A1) | (72,802) |
| (17) | Finance Leases < 1 Year | [29](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 29. Leases'!A1) | (276) |
| (2,542) | Provisions (Short Term) | [34](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 34. Provisions'!A1) | (1,930) |
| **(103,436)** | **Current Liabilities** |  | **(131,414)** |
| (31,852) | Long Term Creditors | [33](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 33. Creditors'!A1) | (30,795) |
| (6,957) | Provisions (Long Term) | [34](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 34. Provisions'!A1) | (5,806) |
| (262,672) | Long Term Borrowing | [26](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 26. Financial Instruments'!A1) | (235,433) |
| (267,045) | Other Long Term Liabilities | 29,37 | (336,097) |
| (2,207) | Grants Receipts in Advance - Capital | [17](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 17. Grant Income'!A1) | (3,997) |
| **(570,734)** | **Long Term Liabilities** |  | **(612,128)** |
| **227,410** | **Net Assets** |  | **136,036** |
| (57,084) | Usable Reserves | 31 | (118,379) |
| (170,325) | Unusable Reserves | [36](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 36. Unusable Reserves'!A1) | (17,657) |
| **(227,410)** | **Total Reserves** |  | **(136,036)** |

# Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations.

The unaudited accounts were issued on 07 March 2022 and the accounts were approved by the audit committee on 16 March 2023.



Chief Operating Officer, Section 151 Officer, Medway Council

# Cash Flow Statement

|  |  |  |  |
| --- | --- | --- | --- |
| **2019/20** |  | **Notes** | **2020/21** |
| **£'000** |  |  | **£'000** |
| 41,624 | Net (Surplus) or deficit on the provision of services |  | 54,195 |
| (94,665) | Adjustments to net Surplus or deficit on the provision of service for non-cash movements |  | (70,172) |
| 33,768 | Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities |  | 30,865 |
| **(19,273)** | **Net cash flows from Operating Activities** | [38](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#RANGE!A1) | **14,888** |
| 29,760 | [Investing Activities](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#RANGE!A1) | [39](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#'Nt 39. Cash Flow St''nt-Inv Act'!A1) | (8,449) |
| (45,405) | [Financing Activities](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#RANGE!A1) | [40](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#RANGE!A1) | 15,306 |
| **(34,918)** | **Net (increase) or decrease in cash and cash equivalents** |  | **21,745** |
|  |  |  |  |
| **3,764** | **Cash and cash equivalents at the beginning of the reporting period** |  | **38,682** |
|  |  |  |  |
| **38,682** | [**Cash and cash equivalents at the end of the reporting period**](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#RANGE!A1) | [32](file:///C:/Users/johanna.fuller/AppData/Local/Microsoft/Windows/INetCache/Content.MSO/DD37FC11.xlsm#RANGE!A1) | **16,936** |

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or the recipients from services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources, which are intended to contribute to the Authority’s future service delivery. Cash flows arising from financing activities are useful   
in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.



# E. Notes to the Core Financial Statements



**St Mary’s Island**



# E1. Statement of Accounting Policies



**The Strand, Gillingham**

# Note 1. Accounting Policies

## General Principles

The financial statements summarise the Authority’s transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

## Qualitative Characteristics of Financial Statements

### Relevance

The accounts have been prepared with the objective of providing information about the Council’s financial performance and position that is useful for assessing the stewardship of public funds and for making financial decisions.

### Materiality

The concept of materiality has been utilised in preparing the accounts so that insignificant items and fluctuations under an acceptable level of tolerance are permitted provided that in aggregate they would not affect the interpretation of the accounts.

### Faithful Representation

The financial information in the accounts is a faithful representation of the economic performance of the Council as they have been prepared to reflect the reality or substance of the transaction, are free from deliberate or systematic bias, material error and contain all the information necessary to aid understanding.

### Comparability

The accounts must comply with the Code which establishes proper practice in relation to consistent financial reporting, allowing for the possibility to compare over time and to similar entities.

### Verifiability

Different knowledgeable and independent observers will be able to reach the same conclusion from the information presented in the accounts.

### Timeliness

The information provided in the accounts is available to decision makers in time to be capable of influencing their decisions.

### Understandability

These accounts are based on accounting concepts and terminology which require reasonable knowledge of accounting and local Government. Every effort has been made to use plain language and where technical terms are unavoidable, they have been explained in the glossary contained within the accounts.Underlying Assumptions

### Accruals Basis

The financial statements, other than the cash flow, are prepared on an accruals basis. Income and expenditure are recognised in the accounts in the period in which it is earned or incurred not as the cash is received or paid.

### Going Concern

The accounts have been prepared on the assumption that the Council will continue in existence for the foreseeable future.

### Primacy of Legislation Requirements

In accordance with the Code, where an accounting treatment is prescribed by law then it has been applied, even if it contradicts accounting standards. The following are examples of legislative accounting requirements have been applied when compiling these accounts:

* Capital receipts from the disposal of property, plant and equipment are treated in accordance with the provisions of the Local Government Act 2003.
* The Local Government Act 2003 requires the Council to set aside a minimum revenue provision.

The Housing Revenue Account is compiled following proper practice as defined by the Local Government and Housing Act 1989 and section 21 of the 2003 Act.

## Note 1. Accounting Policies (continued)

## Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. However, it is the Authority’s policy not to accrue for amounts less than £500 unless it is considered significant to the service. There are particular areas where accruals are considered:

* Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
* Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
* Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments for them are made.
* Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
* Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Exceptions to this are payments of:

* Regular quarterly accounts (e.g., telephones, electricity, ICT contracts for software and hardware)
* Employee expenses and overtime allowances.

These have been consistently applied each year and therefore do not have a material effect on the year’s accounts.

## Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

* depreciation attributable to the assets used by the relevant service
* revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
* amortisation of intangible assets attributable to the service.

The Authority is not required to raise Council Tax to fund depreciation, revaluation or impairment losses. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount, calculated on a prudent basis, determined by the Authority in accordance with statutory guidance. Depreciation, revaluation, and impairment losses are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision [MRP]), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **Council Tax and Non-Domestic Rates**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves.

Billing authorities are required by statute to maintain a separate fund (i.e., the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR.

Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority’s share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Authority’s General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority’s share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## Note 1. Accounting Policies (continued)

## Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Authority’s arrangements for accountability and financial performance.

## VAT

VAT, whether of capital or revenue nature, is included in the Comprehensive Income and Expenditure Statement only to the extent it is unrecoverable.

# Note 2. Accounting standards issued but not yet adopted

International Accounting Standard 8 requires the Authority to disclose the expected impact of new standards that have been issued but not yet adopted, which may require disclosure in 2021/22 accounts. The following are listed in Appendix C of the 2021/22 Code:

* Definition of a Business: Amendments to IFRS 3 Business Combinations
* Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
* Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

None of the above forthcoming standards are expected to have a material impact on the Authority's financial judgements.

The following forthcoming standard was included in this note for the previous reporting period, but is included here to assist the reader:

* **IFRS 16 Leases** will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2024. It is not possible to quantify the potential effect this will have on the Statements until further works are carried out.

# Note 3. Critical Judgement in Applying Accounting Policies

In applying the accounting policies set out in these Statements, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of accounts are:

* **Future funding for Local Government:** There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired because of a need to close facilities and reduce levels of service provision.
* **Interests in Companies and Other Entities:** The Council has interests in other entities that fall within the group boundary of the Council on the grounds of control and significant influence in line with the Code. The Council’s interests in both Kyndi Ltd and Medway Development Company as subsidiaries are considered material to the Council’s overall financial position and therefore have been consolidated within group accounts for 2020/21. The Council's interest in Medway Norse Ltd, who reported net assets as at 20 March 2021 of £1.178m, as a joint venture is not currently considered material and therefore has not been consolidated into Group Accounts, but this position will remain under review for future financial years.
* **Joint Working**: The Council operates a number of joint working arrangements with other neighbouring local authorities. The Council believes that it is not necessary to impair any non-current assets in light of these working arrangements and any

current proposals for changes to the way the services are to be delivered by the Council.

Medway Council provided the following shared services and received contributions from Gravesham Borough Council in 2020/21:

• Legal (£350k)

• Audit & Counter Fraud (£209k)

• Payroll (£ 40k)

• HR (£179k)

• Information Governance ( £34k)

• MRBS Shared Management ( £74k)

• Monitoring Officer ( £10k)

Gravesham Brough Council ran the following shared service on behalf of Medway Council leading to a contribution for 2020/21 of:

• Licensing£192k

Medway Council contributed to the South Thames Gateway Building Control Partnership (STG), an organisation working with other Local Authorities to run Building Control Services for 2020/21 as follows:

• Building Control£123k

* **Property, Plant & Equipment**: The Authority recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Authority recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been

transferred from another entity. Where the land and building assets used by the school are owned by an entity other than the Authority, school or school Governing Body then it is not included on the Authority’s Balance Sheet. The Authority has completed a school by school assessment across the different types of schools it controls within Medway. Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. Voluntary aided schools the legal ownership of the land and buildings rests with the relevant Dioceses. The Diocese has granted a licence to the school to use the land and buildings. Under this licence arrangement, the rights of use of the land and buildings have not transferred to the school and thus are not included on the Authority’s Balance Sheet. Remaining land relating to playing fields associated with the schools is however recognised on the Authority's Balance Sheet as follows:

|  |  |  |
| --- | --- | --- |
|  | Number of Schools | Value of Land Recognised £’000 |
| Voluntary Aided and Voluntary Controlled Schools | 12 | 172 |

Academies are not considered to be maintained schools in the Authority’s control, thus the land and building assets are not owned by the Authority and not included on the Authority’s Balance Sheet.

# Note 4. Assumptions made about the future and other major sources of estimation uncertainty

The financial statements contain estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority’s Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

|  |  |  |
| --- | --- | --- |
| **Item** | **Uncertainties** | **Effect if actual results differ from assumptions** |
| Pension Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Public sector consultants Barnett Waddingham are engaged to provide the Authority with expert advice about the assumptions applied in producing the estimations. | The following sensitivity analysis relating to the present value of obligations of £969.469m as detailed within the sensitivity analysis table within Note 37 to the financial statements, are based upon complex judgements: A 0.1% decrease in the discount rate (the Merrill Lynch AA rated corporate bond curve) would result in an increase in the liability of £19.789m. A 1 year reduction in life expectancy assumptions would result in a £41.084m decrease in the pension liability. |
| Property, Plant & Equipment, Investment Properties & Assets Held for Sale | The outbreak of the Novel Coronavirus (COVID-19, has impacted on activity in many sectors. As at the valuation date, the valuers carrying out revaluations of two assets, those being the Pentagon Centre and Gun Wharf stated that there was significant uncertainty relating to outputs in relation to future income relating to them. Since current rental levels have been heavily affected by COVID-19 restrictions, it will likely take a period of 2-3 years to settle into a longer-term pattern due to factors such as reduced high street shopping and home working etc. | We are not currently able to quantify the possible effects that Covid-19 could have upon the valuation of these particular non-current assets, but needless to say, these valuations will be kept under constant review. |
| Property, Plant & Equipment, Investment Properties & Assets Held for Sale | The Council’s internal valuers provided valuations as at March 2021 for all of the Council’s investment portfolio and approximately 20% of its operational portfolio, all council dwellings and investment properties.  The value of the assets subject to revaluation during 2020/21 were as follows:   * Council Dwellings £156.182m * Other land & buildings £190.809m * Surplus Assets £ 19.604m * Investment Assets £ 16.869m * Assets Held for Sale £ 18.392m | Were there to be a 5% negative impact on the value of the assets valued in 2020/21, this would mean a reduction in the non-current assets in the balance sheet of £19.136m together with the associated unusable reserves. |
| Fair Value Measurements | Surplus and Investment Properties cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), so their fair value is measured using income or market approach valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible unobservable inputs, which require judgement, are used to establish fair values. The significant unobservable inputs used in the fair value measurement include assumptions regarding passing rents and yields, estimated sale values, revenue streams and discount rates.  Information about valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 21, 24 and 26. | Sizable changes in any of the unobservable inputs would result in a significant lower or higher fair value measurement for those assets held at fair value |