

AGENDA

AUDIT COMMITTEE MEETING



Date: Monday 17 January 2011
Time: 6.30 p.m.
Venue: Town Hall, High Street,
Maidstone

Membership:

Councillors Butler, Horne (Chairman), Nelson-Gracie, Mrs Smith and Warner

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1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information
7. Minutes of the meeting held on 29 November 2010

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Continued Over/:

Issued on 7 January 2011

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Alison Broom

**Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone, Kent ME15 6JQ**

8.	Report of the Assistant Director of Regeneration and Cultural Services - Maidstone Museum East Wing Redevelopment	8 - 16
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MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 29 NOVEMBER 2010

Present: Councillor Horne (Chairman) and
Councillors Butler, Nelson-Gracie, Mrs Smith and
Mrs Wilson

Also Present: Mr S Golding and Ms E Hill –
Audit Commission

45. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Warner.

46. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Mrs Wilson was substituting for Councillor Warner.

47. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

48. URGENT ITEM

The Chairman stated that, in his opinion, the report of the Head of Finance and Customer Services relating to the Audit Commission's Annual Audit Letter 2009/10 should be taken as an urgent item. He explained that the Letter had been received after the agenda for the meeting had been published, but given its importance to governance it should be considered by Members at the earliest opportunity to enable recommendations to be made to Cabinet and/or Council if necessary.

49. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members and Officers.

50. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

51. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed.

52. MINUTES

RESOLVED: That the Minutes of the meeting held on 20 September 2010 be approved as a correct record and signed.

53. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 20 SEPTEMBER 2010

Minute 37 – The Audit Commission (Future Arrangements)

The Head of Internal Audit Partnership advised the Committee that the Communities and Local Government Select Committee would be conducting an inquiry into the audit and inspection of local authorities following the abolition of the Audit Commission. The Select Committee had invited comments on the principles involved and the practical arrangements to be put in place. If Members wished to comment, he would be happy to collate their views and forward them to the Select Committee.

Minute 42 – Committee Work Programme

In response to a question by a Member, the Head of Business Improvement confirmed that the outcome of the review of Business Transformation and Mid-Kent Improvement Partnership costs and savings would be reported to the January meeting of the Committee. The Head of Internal Audit Partnership advised the Committee that the recommendations arising from the Local Government Improvement and Development review of the Audit Committee would also be reported to the January meeting.

54. INTERNAL AUDIT - SIX MONTHLY INTERIM REPORT

The Committee considered the report of the Head of Internal Audit Partnership setting out details of the work of the Internal Audit Section over the six month period April-September 2010. It was noted that:-

- The principal objective of the Internal Audit Section was to examine and evaluate the adequacy of internal control within the various systems, procedures and processes operated by the Council. The Audit Committee needed to be satisfied that the audit process was working efficiently and that management was taking the necessary action to implement agreed audit recommendations.
- The implementation of the new Internal Audit Partnership with Ashford, Swale and Tunbridge Wells Borough Councils had had an inevitable impact on the productivity of the Internal Audit Section during the first six months of the financial year due to the need to invest time in setting up the new arrangements across the four Councils. Productivity would increase during the second half of the year with the implementation of consistent information technology and co-ordinated working practices. In addition, one full-time member of the Internal Audit Section had suffered ill health during

the year, but financial resources had been approved by the Chief Executive to make up for the loss of productivity.

- A total of 11 audit projects had been completed during the six month period. A further three audits had been completed during this period by Maidstone auditors working at other partner sites. This resource would be repaid during the fourth quarter of the Audit Plan with auditors from the other partner Councils carrying out audits for Maidstone.
- Each audit review included an assurance assessment in terms of the adequacy of controls. Of the 11 projects completed during the six month period, one project resulted in an assessment of "high" and seven projects resulted in an assessment of "substantial". No services were assessed as having a "limited" or "minimal" level of assurance. Three further audit projects did not receive an assurance assessment as it was not considered to be appropriate to the scope of the project.
- A follow up to each report was completed, usually three to six months after the date of issue of the original report, and the assurance assessment for areas found to have "limited" control in place at the time of the original audit was expected to have improved to "substantial" or "high" by the time that the follow up was completed. All but one follow up conducted during the reporting period confirmed that either a "substantial" or "high" level of assurance was in place at the time of the follow up. The exception was in relation to the fundraising arrangements for the Museum East Wing redevelopment project, and a further report would be submitted to the next meeting of the Committee. The follow up review of the Business Transformation Programme was awaited and would be the subject of a separate report to the next meeting of the Committee.

The Committee asked a number of questions of the Officers relating to, inter alia, complaints from staff about mistakes in the payroll and the need for induction and refresher training on the iTrent system; the action being taken to protect the server equipment in the Data Centre from water damage from rain water; the procedures in place to enable network accounts to be disabled and IT assets to be recovered from employees leaving the Council; the arrangements in place to complete the reports/projects in this year's Audit Plan; the disclosure of write-offs over £500 under the rules of transparency reporting; the possibility of amending the Audit Plan in response to changes in service delivery; and the possibility of looking at ways to increase car parking income.

With regard to the latter point, the Head of Internal Audit Partnership advised the Committee that the Parking Services Manager had undertaken a cost/benefit analysis of introducing a system which would allow payments to be made by mobile phone, but it had been concluded that the costs could not be justified. However, the matter would be kept under review.

RESOLVED:

1. That the results of the work of the Internal Audit Section over the period April-September 2010 as set out in Appendix A to the report of the Head of Internal Audit Partnership be noted.
2. That it be noted that during the period April-September 2010 no services have been assessed as having unsatisfactory "limited" or "minimal" controls.
3. That it be noted that "substantial" or "high" levels of control assurance have been found to be in place, as detailed in Appendix B to the report.
4. That the improvement in the internal control environment, identified during the audit follow up process and detailed in Appendix C to the report, be noted.
5. That the action that is being taken to deliver the remainder of the 2010/11 Audit Plan, as detailed in Appendix D to the report, be endorsed.
6. That it be noted that there are no important control issues arising from internal audit work which are outstanding and need to be brought to the attention of Members.

55. TREASURY MANAGEMENT STRATEGY MID YEAR PERFORMANCE 2010/11

The Committee considered the report of the Head of Finance and Customer Services setting out details of the activities of the Treasury Management function for the 2010/11 financial year to date in accordance with CIPFA's Code of Practice on Treasury Management issued in November 2009.

The report included a summary of the objectives set out in the Council's Treasury Management Strategy for 2010/11 together with an economic overview and an overview of the Council's investments during 2010/11 to date. A revised Appendix B to the report was circulated explaining the new credit rating system implemented recently by Sector (the Council's Treasury Management advisers). It was noted that, as agreed within the Strategy, all investments had been on a short-term basis with highly credit rated financial institutions, using the credit worthiness list and information provided by Sector as well as having regard to market intelligence. The balance of investments as at 30 September was £27.2m. The average rate of interest received on the Council's investments over the period was 1.9%. The target for 2010/11 was assumed to be 3.0% as rates were originally forecast to increase during 2010. Investment income for the first half of 2010/11 was £181,692 compared to a budget of £199,315. The full year predicted shortfall was £40,000, the funding of which was being addressed through management action as part of the budget strategy work for 2011/12. There had been no need to borrow within the first half of 2010/11.

In response to questions and comments by Members, the Head of Finance and Customer Services undertook to include reference in the Treasury Management Strategy objectives to the contingency for prudential borrowing of up to £4million during 2010/11 subject to the prior agreement of the Cabinet. He also explained the position with regard to the liability to Serco for the Leisure Centre refurbishment and undertook to confirm to Members the credit rating of the Kent Reliance Building Society.

RESOLVED:

1. That the activities of the Treasury Management function for the 2010/11 financial year to date be noted.
2. That no amendments to current procedures are necessary as a result of the mid-year review of Treasury Management activities.

56. IMPLEMENTATION OF IFRS IN LOCAL AUTHORITY ACCOUNTS

The Committee considered the report of the Head of Finance and Customer Services setting out details of the progress to date with regard to the implementation of IFRS (International Financial Reporting Standards) for the Council. It was noted that with effect from 2010/11 the Council was required to prepare its accounts in accordance with the requirements of IFRS. Progress to date on the main work streams, including fixed assets, leasing, component accounting, accounting for employee benefits and the primary statements indicated that the Council was broadly on target to produce an IFRS compliant Statement. Members and Officers had attended relevant training courses and the Council was part of the Kent IFRS Implementation Group. One issue that might hold up progress was the lack of detailed guidance notes from CIPFA. It was anticipated that the notes would be available before Christmas and that, as a result, additional areas where further work was required might be identified.

The Committee asked a number of questions of the Officers relating to, inter alia, the implications of staff not taking annual/flexi leave in terms of their efficiency and wellbeing and whether the implementation of IFRS would improve the Council's knowledge and ability to deal with the Balance Sheet.

RESOLVED: That the progress made to date with regard to the implementation of IFRS in the preparation of the Council's accounts be noted.

57. AUDIT COMMITTEE WORK PROGRAMME

The Director of Regeneration and Communities sought Members' views on the format and content of a proposed future work programme for the Audit Committee.

RESOLVED:

1. That the proposed future work programme for the Audit Committee be noted and that Members be requested to submit their comments and other topics for inclusion in the programme to the Director of Regeneration and Communities.
2. That agreement be given to the inclusion in the programme of a quarterly work in progress report from the External Auditors.

58. AUDIT COMMISSION'S ANNUAL AUDIT LETTER 2009/10

The Committee considered the report of Management Team setting out the Audit Commission's Annual Audit Letter covering the 2009/10 financial year. It was noted that:-

- The Annual Audit Letter provided a summary of the results of the Audit Commission's inspection activity at the Council during 2009/10. It gave an overview of the audit of accounts and the value for money opinion together with a review of current and future challenges.
- Overall, it was considered that the Council was performing well. An unqualified opinion on the financial statements had been issued; an unqualified value for money conclusion had also been issued; the Council was on track to achieve its timetable for the production of IFRS compliant accounts; there was an excellent financial management framework with a good practice budget setting process; there was an excellent system of financial monitoring; there was a robust procurement strategy; there were good data quality policies and systems in place; there was a sound governance framework; there were effective risk management arrangements; and there was a strong track record of effective action to conserve natural resources. However, there was a small number of issues that the Audit Commission had asked the Council to consider including the quality of working papers for financial statements; closer communication over complex accounting issues; and reconciliation of the estate management system with the asset register. The Officers were currently working through these issues in preparation for the next assessment in 2011 and these would be incorporated into the Corporate Improvement Plan.
- Future challenges included identifying and delivering significant savings in the light of the economic downturn and the recent comprehensive spending review. The Audit Commission would continue to monitor the Council's financial position and the delivery of savings throughout the 2010/11 audit.

The Committee asked a number of questions of the Officers and the representatives of the Audit Commission relating to, inter alia, the possible link between the deterioration in the standard of working papers for financial statements and the loss of a key member of the Corporate Finance Section during the audit; the type of complex and/or unusual transactions in respect of which it was felt that the accounting implications

should be discussed at an early stage with External Audit to enable the accounting treatment to be agreed prior to production of the financial statements; the survey carried out by the Audit Commission during 2010 to assess Councils' progress on the transition to IFRS and the assessment of the Council's performance as "Amber"; and the implications of the withdrawal of Ashford Borough Council from the Mid-Kent Improvement Partnership.

With regard to audit fees for 2010/11, Ms Hill explained that the final position had yet to be confirmed. The costs associated with the winding up of the Audit Commission would have to be met, and discussions were taking place with the Department for Communities and Local Government.

RESOLVED: That the Audit Commission's Annual Audit Letter to Maidstone Borough Council be noted.

59. DURATION OF MEETING

6.30 p.m. to 7.30 p.m.

Agenda Item 8

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

17 JANUARY 2011

REPORT OF THE ASSISTANT DIRECTOR OF REGENERATION & CULTURAL SERVICES

Report prepared by Simon Lace

1. MAIDSTONE MUSEUM EAST WING REDEVELOPMENT

1.1 Issue for Decision

1.1.1 To consider the current position regarding the redevelopment of the East Wing of Maidstone Museum.

1.2 Recommendation of the Assistant Director of Regeneration and Cultural Services

1.2.1 That the current position relating to the East Wing redevelopment is noted.

1.3 Reasons for Recommendation

1.3.1 The Museum's East Wing redevelopment is on target to deliver all of the stated outcomes. It provides excellent value for money and demonstrates the economic regeneration potential of the built heritage.

1.3.2 The East Wing redevelopment project represents excellent value for money for the Council. Almost 60% of the total project cost of £3.7million has so far been secured from external sources. This has allowed the Council to embark on the most significant raft of improvements to Maidstone's most important cultural resource in over a century. The range of new facilities on offer include:-

- 40% more display space in the East Wing,
- meeting rooms able to attract community groups and local businesses,
- flexible education spaces offering better facilities for visiting school parties and out of school events,

- two new upgraded temporary exhibition spaces allowing the range of exhibitions to be expanded and improved,
- a pedestrian lift providing access to the first floor,
- a new shop,
- a new location for the provision of visitor information,
- accessible toilets for wheelchair users,
- new, large public toilets,
- baby-changing,
- a cloakroom and a buggy store,
- importantly, new facilities on offer include modern storage for the museum's collections which guarantees their future preservation and provides more opportunities to exploit the collections for public programmes of exhibitions, publications and education and also for commercial use adding to the museum's sustainability.

1.3.3 The sustainability of the museum will be improved in other ways. A bigger and better located shop and dedicated meeting and education spaces will generate more income. Based on a 50% projected increase in visitor numbers retail, catering, room hire and education services are expected to provide an additional income of £50,000 in the first full year of operation.

Improved temporary exhibition spaces will enable more ambitious public programming. The success of the BBC Walking with Dinosaurs exhibition which, in 2006 attracted over 30,000 in-person visits in just nine weeks, demonstrates the potential of popular exhibitions. Merchandising and admission charges for such exhibitions present the opportunity to develop useful income streams.

Green technologies such as geo-thermal heating and photovoltaic cells will help reduce running costs by providing free, clean energy. Relocating the shop allows the current café to be upgraded and offers greater potential for seeking a partnership arrangement or franchise for its future operation.

1.3.4 Project management of the East Wing is being undertaken by the Council's Client Architect with the Museums & Heritage Manager in the role of Client. The design team consists of architects from Hugh Broughton Architects, engineers from AECOM and quantity surveyors from GB Fitzsimon LLB. Representatives of the design team meet monthly with the Client and Project Manager and other Council officers

to form the Project Board. The design team, Client and Project Manager also meet every two weeks with the main contractor Morgan Sindall and selected sub-contractors.

1.3.5 The East Wing is still on target to be opened to the public in the summer/autumn of 2011. The contractor has issued an Extension of Time notice recording a 13 week delay in the construction programme. The contractor's anticipated target completion date is 8th July 2011. The delay has been caused by the late procurement of the steel, poor weather and inaccurate survey data which has meant that some recent construction work has had to be redone. The contractor and design team are discussing mitigation to reduce the overall delay. A phased opening of the East Wing is planned with the income generating elements on the ground floor being ready for the start of the summer holidays at the end of July.

1.3.6 The Project is within budget. Value engineering has been undertaken to reduce the project costs. The level of contingency was set at £236,000; to date £96,000 has been expended mainly on fundraising and collection storage and transportation cost. The level of unexpended contingency is currently £142,000. The programme delay will have an impact on costs though the Council will be seeking to recover all of the additional money once the full cost implications are clear.

1.3.7 To date £2,573,400 has been secured either in cash donations or in pledges of financial support. This includes £1,999,000 from the Heritage Lottery Fund and £400,000 already committed by the Council. The total budget for the project is £3,709,000. The match-funding gap is therefore £1,135,600. A list of the major donations is given in the table below.

	Received/Pledged
Heritage Lottery Fund	£1,999,000
Kent County Council	£100,000
Kent Police	£500
Astor of Hever Trust	£500
Betteshanger Trust	£500
D'Oly Carte Trust	£4,200
Godington Trust	£2,500
Rothermere Foundation	£1,000
Thriplow Trust	£5,000
HR Pratt Boorman Foundation	£5,000

Cobtree Trust	£10,000
EDF	£30,000
Rochester Bridge Trust	£7,000
SGR Charitable Trust	£1,000
Coutts Trust	£700
Others	£6,500
	£2,173,400

1.3.8 The Council's Community Fundraising Officer is now working with the Museum's team to assist with the fundraising programme. His primary objective is to secure grant aid from a number of major grant-making trusts. Applications to these trusts will be made before April 2011. See appendix.

1.3.9 In November 2010 the Heritage Lottery Fund issued new guidelines on match-funding announcing that it can now fund up to 90% of the cost of a project. Although this applies only to new projects HLF has indicated its willingness to consider a substantial increase in the original grant of £1,999,000 made in 2009. The Fund may regard the Council's application for further funding as a test case to be considered in the light of their new funding guidelines and the continuing economic crisis.

1.3.10 Helpful advice has been received from HLF officials who have two primary concerns; why we are seeking additional funding from them now when in the past we have agreed to underwrite the cost of the project; and what will happen to the project if HLF do not provide additional funding? An application addressing these, and other issues, is being prepared for submission in mid-January for considered by HLF in March.

1.3.11 As the Council's application will be considered as part of a competitive process alongside requests for new grants its success is far from certain. Any additional funding would be contingent on the Council guaranteeing to close the funding gap.

1.3.12 The public funding campaign will be launched in February with a range of activities designed to promote the project and to offer opportunities for the general public to donate to the scheme in return for a lasting acknowledgement.

1.4 Alternative Action and why not Recommended

1.4.1 The Committee is not asked to consider an alternative course of action.

1.5 Impact on Corporate Objectives

1.5.1 The work to redevelop the Museum’s East Wing supports the corporate objective that Maidstone is a decent place to live.

1.6 Risk Management

Risk	Likelihood	Impact	Mitigation Measures
Failure to secure full match-funding from external sources	A	2	Ensure fundraising programme continues and is adequately resourced.
Programme delays increase cost	C	2	Ensure proper scrutiny of programme and ensure deadlines are realistic.

Likelihood: A=very high; B=high; C=significant; D=Low; E=very low.
 Impact: 1 = catastrophic; 2 = critical; 3 = marginal; 4 = negligible.

1.7 Other Implications

1.7.1

1. Financial	X
2. Staffing	
3. Legal	
4. Equality Impact Needs Assessment	
5. Environmental/Sustainable Development	
6. Community Safety	
7. Human Rights Act	
8. Procurement	
9. Asset Management	

1.7.2 Financial - Failure to achieve the match-funding target has implications for the Council in terms of funding the remaining cost of the project and for funding of the rest of the current capital programme.

1.8 Relevant Documents

1.8.1 Appendices

1.8.2 Planned Museum East Wing Fundraising Activity 2011.

1.8.3 Background Documents

1.8.4 None.

<u>IS THIS A KEY DECISION REPORT?</u>			
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, when did it first appear in the Forward Plan?			
.....			
This is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			

Maidstone Museum East Wing Fundraising

David Terry, the Council's Community Funding Officer, is now working with the museums' team for two and a half days a week to provide direction and assistance with the fundraising programme. David's primary objective is secure grant-aid from a small number of major grant-making trusts (see table below). A secondary objective is to assist with the creation and delivery of the public fundraising campaign.

Funding Organisation	Remit in heritage terms	Suggested level of support	Target application date
Garfield Weston	Track record of supporting Museum Education Projects (tank Museum £100k & Magna Trust) and the arts	£75,000+	Rolling Programme bid submission as soon as New Line Learning Partnership agreed and design & fit out of education centre costed (linked with interpretation in gallery's)
Colyer-Fergusson Charitable Trust	Funds repairs to Kent Churches and East Kent Community Projects As a result of a visit to the East Wing construction site in Late November Lady Monckton recommended the Museum applies to the Trust which has family connections	£50,000	Funding for 2010/11 allocated. Guided to make an application for £50,000 in April 2011
Toshiba International Foundation	Supports the promotion of Japanese culture in Europe & supported British Museum & Sainsbury's Inst for Study of Japanese Arts	£50,000	Will apply 2011 as Fund had been exhausted for 2010/11 financial year. Targeted application at one area of the Museums Japanese collection
The Headley Trust SAINSBURY'S	Arts, heritage and conservation projects in the UK of outstanding creative or architectural importance. Support	£50,000	Rolling Programme. Bid for Gallery fittings & interpretation. Bid by March/April 2011 depending upon approach via Maidstone Trust.

TRUST	for regional museums to purchase unusual or exceptional artefacts £5K-£150k Including £100k to Chatham Maritime		Potential for Japanese gallery bid to one of the Sainsbury's trusts through support from the Sainsbury's Institute for Japanese Culture Norwich
The Linbury Trust SAINSBURY'S TRUST	A Sainsbury's Trust that has supported museum of London for a temporary exhibition gallery & through its education strand 'promoting the study of history'	£100,000	Particular interest in funding education in Heritage. Expansion of the education facilities in partnership with New Line Learning could result in greater support. Initial approach by Maidstone Trust about submitting unsolicited applications. 2 successful meetings with New Line Learning in November and December 2011. January 2011 developing the partnership project enabling submission of funding applications in February/March 2011
John Ellerman Foundation	Funded Chatham Maritime, Ditchling Museum, NT and many theatre projects under it's arts programme	£25,000	Care to use MMF without it <u>looking like a 'friends of group'</u>
Bernard Sunley Charitable Foundation	Wide range of activities supported with visual arts main cultural beneficiary i.e. London gallery's £150,000. Application must be focussed on education.	£50,000+	Relationship developed via keeper of human history. Invitation being made to visit museum to progress relationship & financial support. Visit by trust members February 2011
Fidelity UK Foundation	Major Investment Company based in Tonbridge, supports local causes	£20,000	Fidelity are encouraging a new application in 2011 to be submitted focusing on the potential partnership with New Line Learning. This will be developed as a

			standalone project within the East Wing Development simplifying the 80% match funding issue
Clore Duffield	Innovative coop approach with new Line learning may result in significant investment	£50,000+ Note most education spaces become 'Clore' named	Application dependant on New Line Learning Partnership Development
Foyle Foundation	Learning programme for libraries , museums and archives. Museum of London, English Heritage etc received £100K -art galleries receive larger awards. Innovative co-op approach with New Line learning may result in significant investment.	£50,000).	Capital projects above £50K only 2 meetings per year spring & autumn Awaiting confirmation of deadline date (march April 2011)- potential to support art galleries within the East Wing/education bid
Pilgrim Trust	Supports conservation & making collections more available note though 'Projects with a capital cost of over one million pounds where partner-ship funding is required will not be funded' <u>must bid as separate project</u>	£25,000 (average award £18K)	Making Collections more available bid on basis of increasing items on display/online access etc Application April 2011
KM Young Persons Dragons Den	Bid made by a Young person for a project piece of equipment etc £1,000 available	£1,000	Ben Potts (MBC Youth Trainee)submitted a bid for £1,000 towards a 3D projector for the Education Centre in the East Wing & has been selected for the finals in February

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

17 JANUARY 2011

REPORT OF AUDIT COMMITTEE SUB-GROUP

Report prepared by Georgia Hawkes

1. REVIEW OF THE BUSINESS TRANSFORMATION PARTNERSHIP

1.1 Issue for Decision

1.1.1 To consider the findings of the Audit Committee sub-group on the costs of the Business Transformation Partnership (BTP) to the Council since 2007/08, the savings that have been delivered and the expected savings until 2012/13 following Business Transformation reviews or reviews to which the team have contributed.

1.2 Recommendation of Audit Committee sub-group

1.2.1 That Audit Committee note the apportioned costs of the BTP team since 2007/08, the actual savings delivered to 2010/11 and expected savings until 2012/13 (Appendix B).

1.2.2 That Audit Committee agree the BTP team provides value for money for the Council, particularly now the team have become more established, engage better with services and are involved in the implementation stage of projects.

1.2.3 That Audit Committee refer the report to the Leader of the Council and the Cabinet for information.

1.2.4 The Audit Committee refer the report to the other MKIP partner authorities for information.

1.2.5 That Audit Committee recommend that, following the introduction of new ways of working identified in reviews, regular benefit monitoring reports are made to MKIP Programme Board so positive outcomes, savings and lessons learnt can be tracked and recorded more easily.

1.2.6 That Audit Committee recommend the following are considered in the current review of the Legal Service Partnership delivery model:

- i. Up to date models of delivering legal services in the private and public sector;
- ii. How the work ensuring that libraries and publications are bought when required and at the best possible price should be managed; and
- iii. Possible models, including basket of rates, for procuring all external legal services at the best price.

1.2.7 That Audit Committee recommend the following are considered as part of the current review of future ICT delivery across MKIP:

- i. Progression towards standard platforms and operating systems to facilitate integrated working amongst current and potential partners;
- ii. How to ensure that procurement of new software is necessary to fulfil a business need;
- iii. How to ensure ICT demonstrates value for money and continues to help make partner authorities increasingly efficient and effective.

1.3 Reasons for Recommendation

1.3.1 In September 2010 the Leader of the Council requested that the Audit Committee undertake a review of the BTP to establish whether the function provides value for money for the Council.

1.3.2 At the 20 September meeting of the Audit Committee it was agreed that a sub-group of the Audit Committee should be set up to progress this review, supported by the Head of Business Improvement. Volunteers were requested and Councillors Horne, Nelson-Gracie and Warner made up the sub-group.

1.3.3 The sub-group met in October and agreed the scope of the review (Appendix A). Work was undertaken to gather the relevant information and the sub-group met again in December to review the costs and savings spreadsheet (Appendix B) and to confirm the recommendations to be made to the full Audit Committee.

1.3.4 The scope of the review focussed on how the BTP team has supported Maidstone Council and the financial savings. A review of MKIP is also currently being undertaken by the Audit Commission.

1.4 Background on BTP and MKIP

1.4.1 The Mid-Kent Improvement Partnership (MKIP) is made up of Maidstone, Swale, Tunbridge Wells and Kent County councils. From

2009/10 each of these partners has contributed annually to MKIP and these contributions make up a MKIP fund. The MKIP fund is used to pay for the MKIP Programme Manager post, the work of the BTP team on MKIP workstreams and costs of external consultants involved in MKIP reviews. The MKIP Management and Programme Boards decide what service areas should be reviewed by BTP and the majority of BTP work is on MKIP workstreams. If councils decide not to pursue a shared service or be part of a BTP review, they do not pay a lower MKIP contribution even though they are not directly gaining as much from work of BTP. Maidstone is currently involved in all the MKIP work being carried out by BTP so gets maximum value for the part of its annual contribution that goes towards paying for BTP work.

1.4.2 As demonstrated at 1.4.1, the costs of BTP to the Council are not straight forward to establish. BTP officers record their time spent on projects. A statement is produced quarterly to the MKIP Programme Board showing the cost by project and work carried out for individual authorities. The work carried out on MKIP workstreams is then paid from the MKIP fund. The costs of the BTP team to the Council cited in Appendix B are worked out by dividing the cost of a review by the partners involved in that review. This is seen to be the best way of working out the costs to Maidstone, but is not entirely accurate in showing the actual cost the Council has contributed towards BTP because payments come from the MKIP fund. If anything, actual costs to Maidstone would be slightly less than the £161,246 quoted for MKIP work.

1.4.3 The BTP generally undertakes full reviews across MKIP partners to review the current service and highlight any improvements that could be made in individual authorities or to establish how a shared service would work, how much it would cost to implement and what it would save. This applies to the following:

- Finance;
- Legal;
- Contract Monitoring (which looked specifically at the way the Environmental Services teams monitored their major contracts);
- Print and Graphics;
- Revenues and Benefits; and
- ICT.

1.4.4 BTP can also support MKIP workstreams being led by the service areas themselves, as was the case for HR and Internal Audit. This usually consists of minimal BTP involvement, normally in terms of working establishing the base cost and the potential for savings. In the case of

Internal Audit a larger amount of BTP work was required to support the project, particularly as the model and external comparisons were reviewed several times. Most of the BTP work was to confirm the base costs, calculating the savings to be achieved from a shared service. In the implementation stage the BTP team worked to establish the partner authorities' budgets to take the service forward, including indentifying the implementation costs and how these would be funded.

1.4.5 Not all MKIP workstreams involve BTP at all. The Procurement workstream involves procurement specialists at the partner authorities and looks for opportunities to jointly procure wherever possible.

1.4.6 Partner authorities can also ask the BTP team to carry out work on non-MKIP projects, for which they are charged on top of their annual contributions. The Council has utilised BTP in this way on a number of occasions. For the purposes of this review only BTP work on reviews, i.e. Parking Services and the Best Value review of Waste and Recycling, has been included. BTP involvement was minimal for both of these pieces of work.

1.5 Actual and expected savings 2009/10 to 2010/11

1.5.1 From 2009/10 to 2010/11 cumulative actual savings compared to expected savings from reviews with BTP involvement are:

	Expected savings	Actual savings
BTP-led MKIP reviews	£280,887	£102,350
MKIP reviews with minimal BTP involvement	£43,810	£43,810
Maidstone-only reviews	£81,750	£81,750
TOTAL CUMULATIVE TO 2010/11	£406,447	£227,910

1.5.2 As at December 2010/11 delivered savings are lower than expected on the following workstreams:

- Finance – lower by £93,567
- Contract monitoring – lower by £20,380
- Legal – lower by £70,100

1.5.3 For the first two MKIP reviews (Finance and Contract Monitoring) the requirement was for BTP look for efficiencies and best practice in the separate councils and make recommendations for changes to ways of

working, rather than looking at the partners forming a shared service. In common with all BTP reviews at that time the objectives were to:

- identify ways to improve customer satisfaction by 10%;
- reduce cycle time to complete processes by 10%; and
- reduce costs by a 10% of staffing cost.

- 1.5.4 Once the reviews were completed the responsibility passed to the service managers to deliver savings and make improvements, without any support from BTP. Much of the expected savings in both the Finance and Contract Monitoring reviews was through making internal processes more efficient so staff time would be saved and fewer staff would be needed. However, staff time savings do not necessarily immediately lead to reductions in staff for a number of reasons. For example, each of the reviews covered a number of different departments, so staff time savings in one department would not necessarily equate to one post that could easily be deleted. Also, additional work could have been taken on in that department so staff time would again be fully utilised.
- 1.5.5 The Finance review has led to much more efficient processes across the Council, but it is very difficult to attribute staff savings specifically to this, although these more efficient working practices allow managers to more easily make reductions in staff as required.
- 1.5.6 The Contract Monitoring review has delivered the majority of the expected savings. It also highlighted the need and potential savings in persuading people to use cheaper – generally on-line - ways of contacting the Council. The Council is increasing the numbers of on-line services available on its website and channel migration (persuading people to use cheaper communication channels) is being progressed as a corporate project.
- 1.5.7 Further savings are not expected to be delivered on the Finance and Accountancy and Contract Monitoring reviews, which is a shortfall of £113,947 going forwards.
- 1.5.8 The sub-group believe that more support from the BTP team and closer monitoring of the outcomes would have more easily allowed staff savings and non-cashable efficiencies to be attributed to the review. Therefore, this report recommends that regular reports are made to MKIP Programme Board in order to monitor and capture benefits more easily.
- 1.5.9 The Legal Partnership is unlikely to deliver all the savings originally expected in 2010/11, although savings are expected to be achieved in 2011/12. Legal has been difficult to implement across the three

partners without a dedicated Legal Partnership Manager and some one off costs have also had to be dealt with in Maidstone. All the authorities have made staff cuts since the business case was agreed , so the original business case is being reviewed to see if the model for delivery is still sustainable. Therefore, it is likely that the expected costs will need to be updated.

1.5.10 The Audit Committee sub-group recognise that the original Legal Services review looked at a number of different models of legal service delivery both in the private and public sectors. The sub-group also recognise that improvements have already been made in terms of procurement of external legal services through a consortium but this is difficult to quantify, and that improvements have been made through work to procure a shared library resource. However, as the partnership delivery model in the business case is being reviewed, the sub-group believe it is timely that a number of issues are re-visited and therefore recommend that these issues are considered as part of the review:

- Up to date models of delivering legal services in the private and public sector;
- How the work ensuring that libraries and publications are bought when required and at the best possible price should be managed; and
- Possible models, including basket of rates, for procuring external legal services at the best price.

1.5.11 The Audit Committee sub-group consider that large savings are possible from better ICT joint working across the MKIP partners and that ICT is essential in facilitating better ways of working and delivering savings in other service areas. Savings could be made from a progression towards standard platforms and operating systems and ICT could help deliver more efficient working practices e.g. paperless office, freeing up officer time from repetitious tasks. However, the sub-group believe it is always important to ensure that the purchase of new software should always be driven by a business need, not just because a product is new and has more features, as those features may not be required. Therefore, the Audit Committee sub-group recommend the following are considered as part of the current review of future ICT delivery across MKIP:

- Progression towards standard platforms and operating systems to facilitate integrated working amongst current and potential partners;
- How to ensure that procurement of new software is necessary to fulfil a business need; and

- How to ensure ICT demonstrates value for money and continues to help make partner authorities increasingly efficient and effective.

1.6 Further expected savings 2011/12 to 2012/13

1.6.1 For the next two years (2011/12 to 2012/13) further expected savings from reviews with BTP involvement are as follows:

	Expected savings 2011/12	Expected savings 2012/13	Cumulative expected savings 2011/12 – 2012/13
BTP-led MKIP reviews	£282,270	£114,570	£396,840
MKIP reviews with BTP support/minimal BTP involvement	£75,120	£40,900	£116,020
Maidstone-only reviews	£21,250	£0	£21,250
TOTAL EXPECTED SAVINGS	£378,640	£155,470	£534,110

1.6.2 These figures are likely to increase as they do not include any expected savings from the ICT or Parking Services reviews, as work is still being carried out to quantify what improvement work needs to be carried out and what these savings might be. The Legal Services expected savings are likely to change so it is possible that some of the savings that will not be delivered in 2010/11 will be delivered in 2011/12 and 2012/13, which will also increase the cumulative expected savings.

1.7 Lessons learned

1.7.1 It is clear from the issues experienced with the Finance, Contract Monitoring and Legal reviews that reviewing a function and then passing the responsibility to the service manager to deliver is not the best way of ensuring delivery of savings and improvements or monitoring these easily. Identifying savings is important, but it is even more important to ensure they are delivered. The BTP team is now involved in the implementation phase to provide continuity from review to implementation stage and support the service manager charged with making the improvements. This will help ensure that expected savings are delivered and monitored.

1.7.2 There is now much more BTP involvement with and buy in from project boards and unit managers at the partner authorities. BTP officers now ensure there is more emphasis on speaking to staff to highlight issues to ensure buy in to the business case. If the reviews are large, for

example Revenues and Benefits, then staff can be seconded from the service to work with the BTP team. This helps service staff gain knowledge of processes and best practice from other organisations and gives BTP a much better insight of the service.

- 1.7.3 The BTP team is now experienced and has a better understanding of the partner authorities' finance budgets and is able to help the authorities set budget levels going forward.
- 1.7.4 The BTP team has found officers in the partner authorities are nervous about being subject to a BTP review and do not always understand what MKIP and BTP are trying to achieve. The team is building relationships with the Finance teams and other key officers in the partner authorities. This is helping to ensure requests for information are dealt with quickly and effectively.
- 1.7.5 Reviews and implementation are more likely to proceed easily if there is an agreed lead officer for BTP to liaise with, support the project going forward and provide guidance.
- 1.7.6 The sub-group believe that the improvements made in response to some of these lessons learned, particularly those set out at 1.7.1 and 1.7.2, have made BTP a more fit for purpose and better value for money resource for the Council.

1.8 Value for money judgement

- 1.8.1 For a cost of approximately £168,589 to the Council, the BTP team has:
 - Led on MKIP reviews that have delivered £102,350 in savings and are expected to deliver at least £396,840 more in savings by 2012/13;
 - Supported MKIP reviews that have delivered £125,560 in savings and are expected to deliver approximately £116,020 more in savings by 2012/13; and
 - Supported pieces of work for Maidstone Council that have delivered £81,750 in savings and are expected to deliver a further £21,250 in savings by 2012/13.
- 1.8.2 Paying for BTP work is very much an invest to save principle. The larger savings will take some time to deliver and initially these will be used to fund any implementation costs, other than where implementation costs are funded from balances. Costs are also incurred for undertaking or supporting reviews some time before savings can be taken e.g. the ICT and Parking Services work has incurred BTP costs, but expected savings are yet to be agreed and the

first savings from these services are unlikely to be delivered until 2011/12 at the earliest.

- 1.8.3 It should be noted that the costs shown at Appendix B are only the costs of the BTP team, and do not include other officer time spent on the review. In some ways this is misleading as it does not show the whole cost of staff time spent on the review and implementation. Involvement of BTP can ensure that the cost of staff time spent on reviews and implementation is actually less than it would be otherwise. For example, in the implementation of Revenues and Benefits a BTP officer at grade 10 carries out some of the work that would either be completed by the Heads of Revs and Bens (grade 14 at Maidstone) or a director at Tunbridge Wells, who would be paid at a much higher grade.
- 1.8.4 The cost of employing consultants is generally higher than using an internal resource. For example, the day rates of the three BTP officers range between £252 and £355, depending on the grade of the officer. An enquiry with two consultants undertaking similar types of work suggests that day rates of consultants would normally be in the region of at least £750 for undertaking reviews and at least £500 for implementation. However, there is an argument that consultants would work faster, so perhaps would need fewer days to complete a review. Consultants also bring with them different experience, skills and knowledge from working in other organisations which an internal team might not have.
- 1.8.5 It is difficult to compare as the BTP team works differently to consultants; officers have greater understanding of the costs of the partner councils and it is easier to ask an internal team to do more work. For example, the team is often required to go back and re-work costs e.g. following Ashford and Swale's decision not to proceed with shared service for Revenues and Benefits partnership. This is beyond the team's control and adds to the cost of the reviews. Consultants would also charge extra for this work to be carried out, but at a higher day rate cost. In fact, in the case of the MKIP HR review that was carried out by external consultants at a cost of approximately £60,000 (so approximately £15,000 for each of the four partners), BTP support was still required on the finance side.
- 1.8.6 The Audit Committee sub-group feel that the BTP team provide a more fit for purpose resource than use of external consultants for a number of reasons, for example:
- The BTP team has a good understanding of the partner authorities and their budgets, so officers are able to scrutinise the information they are given from authorities. External consultants without this level of understanding are not able to do this.

- Unlike consultants, the BTP team is in it for the long haul, and officers are able to undertake a review working with service areas and then support the services to implement changes, in many cases actually reducing the cost of staff time spent on implementation.
- Building a core of knowledge of how to achieve savings across the partner authorities is important to ensure best practice is employed in future reviews and implementations and that savings and improvements can continue to be made in the future.
- It is easier and probably cheaper to ask the team to undertake work not originally planned than it would be to request additional work from an external consultant.

1.9 Alternative Action and why not Recommended

1.9.1 The Audit Committee could decide that the BTP team do not provide value for money for the Council and not make the other recommendations set out at 1.2. This is not recommended as the Audit Committee Sub-Group has looked at this issue in detail and made recommendations accordingly.

1.9.2 The Audit Committee could decide not to refer the report to the Leader of the Council and the Cabinet. This is not recommended as the Leader requested that the Audit Committee undertake this piece of work and will want to be made aware of the outcome.

1.10 Impact on Corporate Objectives

1.10.1 The BTP team undertake work that helps to ensure delivery of the Council's priority of 'A place with efficient and effective public services'. The Audit Committee sub-group's review of the costs and benefits of BTP has also helped to deliver this priority by scrutinising the effectiveness of BTP.

1.11 Risk Management

1.11.1 The main risk from the review is if the subgroup's findings are incorrect and the BTP function does not provide the best value for money option for the Council in making improvements and efficiencies. This risk is low as the sub-group has considered the costs and savings delivered through the work of BTP.

1.12 Other Implications

1.12.1

1.	Financial	X
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

Financial

1.12.2 Since 2008/09 the BTP team has cost the Council approximately £168,589. The team has led reviews or done small pieces of work to support projects that have delivered £227,910 in savings as at December 2010 and are expected to deliver at least £534,110 in further savings in 2011/12 and 2012/13.

1.13 Conclusions

1.13.1 The Audit Committee sub-group conclude that the BTP team provides value for money for the Council, particularly now the team engages better with services and supports services in delivery of the identified savings.

1.13.2 The Audit Committee of Maidstone Borough Council have looked at certain items of BTP at the request of the Cabinet from the perspective of value of savings identified and delivered in Maidstone and consider (a) that this may be of assistance to other partners in conducting similar reviews , and (b) would welcome any reciprocal comments.

1.14 Relevant Documents

1.14.1 Appendices

- Appendix A – Scope of the Audit Committee review of BTP
- Appendix B – Costs of BTP and savings delivered and expected

1.14.2 Background Documents

None.

<u>IS THIS A KEY DECISION REPORT?</u>			
Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If yes, when did it first appear in the Forward Plan?			
This is a Key Decision because:			
.....			
Wards/Parishes affected:			
.....			

Audit Committee Business Transformation Review

The role of the Audit Committee

Cabinet have requested that the Audit Committee undertake a review to establish the cost of the Business Transformation team over the last three years and the savings identified and delivered, categorised by service area. At the meeting on 20 September 2010 Audit Committee agreed that a member sub-group be set up to progress this review and report back the findings at the next meeting on 30 November 2010. Audit Committee will then report the findings and any recommendations to Cabinet or the relevant Cabinet member.

Purpose of review

- To gather information on the cost to Maidstone Borough Council of the Business Transformation (BT) function over the past 3 years and the savings that have been achieved and are predicted until 2012-13 following BT reviews.
- To establish whether BT demonstrates value for money for the Council.

Outputs

- Report to 30 November Audit Committee meeting
- Report from Audit Committee to Cabinet/relevant Cabinet member

What is included?

Shared BTP reviews:

- Audit
- Finance and Accountancy
- Legal services
- Contract monitoring
- Volume and bespoke printing
- HR

- ICT
- Revenues and Benefits

Maidstone only work:

- Best Value review of waste and recycling
- Parking services

For each of the above reviews the following information will be compiled:

- Cost to MBC
- Savings identified in original business case
- Savings agreed for implementation
- Predicted savings for MBC
- Savings delivered for MBC
- Savings not delivered with explanatory notes

What is not included?

- Any MKIP workstreams where BTP have had no involvement.
- Any ad hoc work carried out by the BTP team for individual authorities which is not a review e.g. work on Core Strategy

Supporting documents

- Internal Audit review of Business Transformation
- MKIP and BTP financial statements

Item	Cumulative Identified Annual Savings (from initial report or Business case)				Cumulative Identified Annual Savings (agreed with partners following Business Case and prior to implementation)	Cumulative Expected Annual Savings	Actual Savings taken in the budgets		Cumulative Savings Realised	Estimated Implementation Costs	Actual Implementation Cost					
	2009/10	2010/11	2011/12	2012/13			2013/14	2009/10				2010/11				
Finance Group 1: Creditors																
Subtotal	£ 69,767	£ -	£ -	£ -	£ -	£ 69,767	£ -	£ -	£ -							
Finance Group 1: Debtors																
Subtotal	£ 19,300	£ -	£ -	£ -	£ -	£ 19,300	£ -	£ -	£ -							
Finance Group 1: Insurance																
Subtotal	£ 6,548	£ -	£ -	£ -	£ -	£ 6,548	£ 0	£ 0	£ 0							
Finance Group 2																
Savings	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -							
Finance : All	£ 98,700	£ 95,615	£ -	£ -	£ -	£ 95,615	£ 93,567	£ -	£ -							
Legal																
Management	£ 31,300	£ 31,300	£ 10,600	£ 7,200	£ 31,300	£ 31,300	£ 31,300	£ -	£ -							
Internalising work	£ 21,800	£ 21,800	£ 7,200	£ -	£ 21,800	£ 21,800	£ 21,800	£ -	£ -							
Procurement efficiencies	£ 7,700	£ 7,700	£ -	£ -	£ 7,700	£ 7,700	£ 7,700	£ -	£ -							
Process design and operational efficiencies	£ 31,900	£ 10,600	£ -	£ -	£ 31,900	£ 10,600	£ 10,600	£ 15,000	£ -							
Books and libraries	£ 10,000	£ 10,000	£ -	£ -	£ 10,000	£ 10,000	£ 10,000	£ 3,600	£ -							
Additional costs	£ -	£ 14,000	£ 10,000	£ 7,000	£ -	£ 14,000	£ 10,000	£ 3,000	£ -							
Investment	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -							
Subtotal (3 authorities)	£ 61,533	£ 88,700	£ 27,800	£ 7,000	£ 88,700	£ 27,800	£ 7,000	£ 19,300	£ 15,000	£ 10,000						
Contract Monitoring																
Migration to electronic customer interactions	£ 37,680	£ -	£ -	£ -	£ 37,680	£ 37,680	£ 37,680	£ -	£ -							
Levels of monitoring	£ 15,300	£ -	£ -	£ -	£ 15,300	£ 15,300	£ 15,300	£ -	£ -							
Stair structures & working arrangements	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ 19,300	£ 22,800	£ 42,100						
Non value adding & improvement	£ 9,500	£ -	£ -	£ -	£ 9,500	£ 9,500	£ 9,500	£ -	£ -							
Subtotal (4 authorities)	£ 36,561	£ 62,480	£ -	£ -	£ 62,480	£ 62,480	£ 62,480	£ 19,300	£ 22,800	£ 42,100						
Internal Audit																
Management, Risk Management, Internal Consultancy and Corporate Support Costs	£ 9,156	£ 9,156	£ 11,210	£ 40,900	£ 9,156	£ 11,210	£ 40,900	£ -	£ -							
Process (IT) and operational efficiencies	£ 10,900	£ 21,799	£ 10,899	£ 2,500	£ 43,598	£ 43,598	£ -	£ -	£ -							
Standards and audit days	£ -	£ 959	£ -	£ -	£ 1,541	£ 1,541	£ -	£ -	£ -							
Additional costs	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -							
Investment	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -							
Subtotal (4 authorities)	£ 9,227	£ 19,097	£ 21,799	£ 13,399	£ 54,295	£ 54,295	£ 11,210	£ 40,900	£ -	£ 2,500	£ 93,012					
Print and Graphics																
Savings on external print through print management	£ 22,180	£ 22,180	£ -	£ -	£ 22,180	£ 22,180	£ 22,180	£ 34,400	£ -							
Management of print demand	£ 4,440	£ 13,300	£ -	£ -	£ 17,740	£ 17,740	£ 17,740	£ 7,250	£ -							
Net Savings from Graphics	£ 9,520	£ 28,560	£ -	£ -	£ 38,080	£ 38,080	£ 38,080	£ -	£ -							
Subtotal (3 authorities)	£ 56,145	£ 36,140	£ 64,040	£ -	£ 100,180	£ 100,180	£ 64,040	£ 41,650	£ -	£ 41,650						
Revenues & Benefits Started as a 4 way now a 2 way shared service																
Non value adding	£ 30,200	£ 30,200	£ -	£ -	£ 30,200	£ 30,200	£ -	£ -	£ -							
Managing customer contact	£ 58,400	£ 58,400	£ -	£ -	£ 58,400	£ 58,400	£ -	£ -	£ -							
Process Improvements	£ 73,900	£ 73,900	£ -	£ -	£ 73,900	£ 73,900	£ -	£ -	£ -							
Shared service savings	£ 179,400	£ 179,400	£ -	£ -	£ 179,400	£ 179,400	£ 190,430	£ 72,270	£ -							
ICT Costs	£ -	£ -	£ -	£ -	£ 35,300	£ 35,300	£ 35,300	£ -	£ -							
Subtotal (BTP costs include £909 implementation costs)	£ 135,633	£ -	£ 341,900	£ -	£ 341,900	£ 107,570	£ 107,570	£ -	£ -	£ 297,390						
ICT																
Subtotal (3 authorities)	£ 26,019	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -						
HR																
Subtotal (2 authorities)	£ 2,529	£ -	£ -	£ -	£ -	£ 107,720	£ 63,910	£ 43,810	£ 43,810	£ 30,000						
Waste & Recycling BVR*																
Removal of can banks	£ 25,000	£ 25,000	£ 12,000	£ 6,250	£ 25,000	£ 12,000	£ 11,000	£ 23,000	£ 23,000							
Withdrawal of freighter service	£ 60,000	£ 60,000	£ -	£ -	£ 60,000	£ 8,750	£ 8,750	£ 8,750	£ -							
Fortnightly collections	£ 399,000	£ 399,000	£ -	£ -	£ 399,000	£ -	£ -	£ -	£ -							
Green waste - reduction in service	£ 66,000	£ 66,000	£ -	£ -	£ 66,000	£ 20,000	£ 20,000	£ 20,000	£ 20,000							
Green waste - compostable sacks	£ 550,000	£ 550,000	£ -	£ -	£ 550,000	£ 70,750	£ 15,000	£ 45,000	£ 30,000							
Subtotal	£ 5,798	£ -	£ 550,000	£ -	£ 550,000	£ 70,750	£ 21,250	£ 11,000	£ 11,000	£ 81,750						
Parking services*																
Subtotal	£ 1,545	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -						
Grand Total	£ 433,690	£ 158,095	£ 693,937	£ 455,539	£ 20,399	£ 1,327,970	£ 167,047	£ 239,400	£ 378,640	£ 155,470	£ 940,557	£ 33,900	£ 194,010	£ 227,910	£ 339,890	£ 93,012

*MBC only work

Item	2009/10	2010/11	2011/12	2012/13	2013/14	Cumulative Identified Annual Savings	Expected Annual Savings (agreed with partners following Business Case and prior to implementation)	Cumulative Expected Annual Savings	Actual Savings taken in the budgets	Cumulative Savings Realised	Estimated Implementation Costs	Actual Implementation Cost
CUMULATIVE FIGURES TO 2010/11												
CUMULATIVE FIGURES FROM MKIP REVIEWS TO 2010/11	£ 852,032	£ -	£ -	£ -	£ -	£ 852,032	£ -	£ -	£ -	£ -	£ -	£ -
CUMULATIVE FIGURES FROM BTP-LED MKIP REVIEWS TO 2010/11												
MBC MKIP contributions 2007/08	£ 71,321	£ -	£ -	£ -	£ -	£ 71,321	£ -	£ -	£ -	£ -	£ -	£ -
MBC MKIP BTP costs 2008/9	£ 59,349	£ -	£ -	£ -	£ -	£ 59,349	£ -	£ -	£ -	£ -	£ -	£ -
MBC MKIP BTP costs 2009/10	£ 30,576	£ -	£ -	£ -	£ -	£ 30,576	£ -	£ -	£ -	£ -	£ -	£ -
Total MKIP BTP cost	£ 161,246	£ -	£ -	£ -	£ -	£ 161,246	£ -	£ -	£ -	£ -	£ -	£ -
Total cost of MBC only work	£ 7,343	£ -	£ -	£ -	£ -	£ 7,343	£ -	£ -	£ -	£ -	£ -	£ -
Total MBC PAYMENTS	£ 168,589	£ -	£ -	£ -	£ -	£ 168,589	£ -	£ -	£ -	£ -	£ -	£ -

Agenda Item 10

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

17 JANUARY 2011

REPORT OF HEAD OF INTERNAL AUDIT PARTNERSHIP

Report prepared by Brian Parsons

1. Review of Audit Committee

1.1 Issue for Consideration

1.1.1 To consider the report from Local Government Improvement and Development (LGID) following the peer review of the Audit Committee, and identify the actions to be taken in relation to the report's findings and conclusions.

1.2 Recommendation of Head of Internal Audit Partnership

- i) That the Audit Committee considers the report from Local Government Improvement and Development and identifies the actions to be taken in relation to the report's findings and conclusions.
- ii) That an action plan is prepared to implement the agreed actions and that the plan is monitored at future meetings of the Committee.

1.3 Reasons for Recommendation

1.3.1 The Audit Committee has, at various times, considered its operation and its effectiveness. Earlier this year an opportunity arose for the Committee to be subject to a peer review conducted by Local Government Improvement and Development as part of a four-way review, to include Ashford, Swale and Tunbridge Wells borough councils. The review was intended to allow the Maidstone Audit Committee to be compared against best practice elsewhere

1.3.2 The review was conducted in September 2010, by a peer team comprising the Head of Corporate Strategy at North Kesteven District Council; the Deputy Leader of North Hertfordshire District Council and the Improvement Manager LGID.

1.3.3 The report from Local Government Improvement and Development is shown at Appendix A. The report comments generally on the Mid-Kent Audit Committees and then goes on to comment specifically on the strengths and areas for development for the Maidstone Audit Committee (and respectively the other three Audit Committees). Members are asked to consider the comments about Maidstone but also, as part of the benchmarking approach, to consider the findings and conclusions about the other three Councils in order to help to identify any other areas for improvement or attention.

1.3.4 The Improvement Manager for LGID, Eamon Lally, will be in attendance at tonight's meeting to present the report and to answer questions from Members.

1.4 Alternative Action and why not Recommended

1.4.1 The Audit Committee could chose not to consider the LGID report, however this would negate the value of the peer review and would mean that the opportunity to make improvements would not be taken.

1.5 Impact on Corporate Objectives

1.5.1 The Audit Committee's role includes consideration or risk, controls and governance across the whole Council. The effectiveness of the Audit Committee therefore has an impact across all of the Council's Corporate Objectives.

1.6 Risk Management

1.6.1 The Audit Committee is a key element of the Council's governance arrangements and plays a particular role in relation to the adequacy of the Council's risk management arrangements. The Committee needs to be effective and to operate to good practice standards in order to deliver on its responsibilities. A failure to operate in this way would provide a risk to the Council that the Committee is not sufficiently effective. The peer review has helped to provide assurance that this risk is being managed but has highlighted further opportunities for improvement.

1.7 Other Implications

1.7.1

1. Financial
2. Staffing
3. Legal

- 4. Equality Impact Needs Assessment
- 5. Environmental/Sustainable Development
- 6. Community Safety
- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management

1.7.2 Although there is no statutory requirement for the Council to maintain an Audit Committee, it is considered to be good practice to do so. The effectiveness of the Committee therefore needs to be measured and improvements made where appropriate.

1.8 Relevant Documents

1.8.1 Appendices: Appendix A - *Local Government Improvement and Development report – Review of Audit Committees*

1.8.2 Background Documents: None

IS THIS A KEY DECISION REPORT?

Yes

No

If yes, when did it first appear in the Forward Plan?

.....

This is a Key Decision because:

.....

Wards/Parishes affected:

.....

APPENDIX A



Review of Audit Committees at

Ashford Borough Council

Maidstone Borough Council

Swale Borough Council

Tunbridge Wells Borough Council

21-23 September 2010

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Summary

The four Audit Committees are undertaking the required duties and responsibilities as set out by the Chartered Institute of Public Finance Accountants (CIPFA), covering audit activity, the regulatory framework and the councils' accounts. Three of the Audit Committees have terms of reference that follow CIPFA guidance. The agendas and minutes demonstrate that the business of the committees reflects the stated terms of reference.

Across all four authorities the review team found that the committee members are enthusiastic about the Audit Committee role and keen to make a significant contribution to the effectiveness of the councils' corporate governance.

The committees receive good administrative support and internal audit staff are a valued source of advice. In Maidstone there is a high degree of clarity about the senior management support and advice to the Audit Committee, which is valued. All the Audit Committees would benefit from clarity about the senior management responsibility for guidance and advice and the distinction between this role and that of the Head of Internal Audit.

Mid Kent Improvement Partnership (MKIP) for internal audit is considered to be a success. It will deliver savings of around £100,000 per year across all four authorities. The internal audit partnership has been a catalyst for discussions between Audit Committees about joint work, and it provides an opportunity for the councils to push the boundaries of best practice, by potentially engaging in more joint working, undertaking joint audits, coordinating work plans and addressing common issues e.g. changes to regulations and guidance.

The Audit Committees now have an opportunity to expand on their existing good practice and work to ensure that governance assurance reflects the changing environment in which councils are operating. This will entail the Audit Committees developing forward plans, linked to the councils strategic and service planning framework, that provide a better balance between statutory agenda items and more local issues. Partnership working is becoming increasingly important to councils and the role of the Audit Committees in relation to the governance of partnerships can be developed further. In developing this role it is important that duplication and overlap with the work of other committees, such as overview and scrutiny committees, is minimised.

To achieve the most from the Audit Committees, councils will need to invest in training. Ashford has been able to provide Audit Committee members with briefings on topical issues and this has been valued. However, all members of Audit Committees should receive ongoing development on wider aspects of

governance assurance and the role of the Audit Committee. The MKIP partnership provides an opportunity for Audit Committee members to learn together and for training to be commissioned at a reasonable cost.

In Tunbridge Wells Borough Council, non-voting co-opted members have been used to good effect and this is an option that all the Audit Committees could explore.

The work of Audit Committees can sometimes seem isolated from the rest of the governance structure. Formal processes for escalating Audit Committee recommendations and concerns should be clarified. With the demise of the external assessment and inspection regime across the public sector the councils need to ensure a continuing focus of the Audit Committee on challenging current practice, championing best practice, and being a catalyst for improvement to achieve objectives.

Report

Background

1. Ashford Borough Council, Maidstone Borough Council, Swale Borough Council and Tunbridge Wells Borough Council invited Local Government Improvement and Development to undertake a review of the councils' Audit Committees.
2. The role of Audit Committees is to provide independent assurance of the adequacy of the council's approach to risk and control and to provide independent scrutiny. Councils are not statutorily obliged to have Audit Committees. However, they are now part of the governance framework for the vast majority of local authorities and they are seen as an important part of effective corporate governance. The Audit Committees of the four borough councils in this review have been in place for a number of years.
3. The authorities asked for the review to enable them to benchmark against examples of best practice and also to help them consider how the Audit Committees can become more proactive in undertaking their functions.
4. The review was undertaken by a peer team composed of:
 - Patricia Phillipson, Head of Corporate Strategy, North Kesteven District Council
 - Cllr Terry Hone, Deputy Leader, North Hertfordshire District Council
 - Eamon Lally, Improvement Manager, LGID
5. The team was on-site from 21-23 September 2010. The programme for the onsite phase included activities designed to enable members of the team to meet and talk to a range of internal and external stakeholders. These activities included:
 - Interviews and discussions with councillors, officers and partners
 - Focus groups with middle managers and frontline staff from partner organisations
 - Reading documents provided by the councils,
6. We would like to thank the authorities for their welcome and professional approach to the review.

Context

7. Geographically Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils occupy mid Kent. The Geographic proximity of the Borough Councils has enabled partnership working to develop. A Mid-Kent Improvement Partnership (MKIP) is in place. Internal Audit is one of the activities of MKIP and this builds on a previous internal audit partnership between Maidstone Borough Council and Ashford Borough Council.



8. The four councils have distinct economic and social characteristics. Swale is ranked as the second most deprived district in Kent (behind Thanet). Tunbridge Wells, Maidstone and Ashford are ranked 9th, 8th and 7th respectively. The net revenue expenditure of the councils is around £24 million for Maidstone, £20 million for Swale and around £16 million for both Ashford and Tunbridge Wells.
9. All of the authorities are led by Conservative administrations. The political compositions of the councils are:

Ashford:	28 Conservative, 8 Liberal Democrats, 3 Ashford Independents, 2 Labour, 2 Independent
Maidstone:	28 Conservative, 23 Liberal Democrats, 4 Independents
Swale:	33 Conservatives, 10 Labour, 3 Liberal Democrats, 1 Independent
Tunbridge Wells:	46 Conservatives, 6 Liberal Democrats

10. The Audit Committees have between 5 and 9 members. All of the Audit Committees are made up of councillors and are cross party. Tunbridge Wells has in addition co-opted three non-voting members to its Audit Committee.

Ashford Borough Council

Strengths

- Well regarded chair and members
- Audit Committee has supported the Council to improve its financial position over the last three years
- Is now achieving greater independence
- Committee reviews its own effectiveness
- Committee well supported by officers
- Briefings are provided to Audit Committee members on topical issues
- Annual governance statement developed with member and officer involvement

Areas for Development

- Risk reports need enhancing
- Committee could expand its governance assurance role to cover partnerships
- Audit Committee should produce an annual report of its activities and effectiveness
- Skills assessment and further development for committee members
- Council could consider appointing co-opted non-voting members
- Greater promotion of the role of the Audit Committee across the Council

11. The Audit Committee in Ashford is broadly well regarded. Those that we interviewed spoke of the passion of the Chair of the Audit Committee for the role. There was recognition that members of the committee brought a wealth of relevant experience, having previously held senior accounting and finance positions. We heard that the atmosphere in the committee meetings was good and that members challenged in a constructive manner.

12. The council's use of resources has improved over the last three years and the Audit Committee has played its part in this. Financial reporting has improved and the Audit Committee has also worked on issues such as data quality. The Audit Commission in its 2008/09 Audit Letter (published in December 2009) noted that the council had a strong Audit Committee.

13. Independence is a very important characteristic of Audit Committees. We were told that the current Leader at Ashford does not attend Audit Committee meetings as a matter of course, as had previously been the case, and that the symbolism of this change provided greater head room for the committee.

14. The practice in Ashford is for a report on the strategic risk register to go to the Audit Committee quarterly. The report sets out any changes to the level of

risk associated with the items contained in the risk register. The reports are comprehensive and this reflects that risk management is a strength in the council. However, we heard that the reports to the committee could be sharper and more focused on key changes and accompanying mitigation, which would enable the committee to be assured that the council's response is appropriate. It also appears that the committee has not had a risk item on the agenda since September 2009.

15. The Audit Committee was established four years ago and there was an expectation that all governance issues would go through the committee. However, this is not currently the position and responsibility for governance issues is quite widely distributed. For example, a Community Partnership Group (council and its main partners) has some responsibility for considering issues relating to the governance of partnerships. In addition, the council's overview and scrutiny function is involved in reviewing issues that have wider governance implications. The overview and scrutiny committee received the Audit Commission's report on partnership working and has responsibility for reviewing the implementation of that report's recommendations. The involvement of a range of committees in governance issues is reflected in the drafting of the Annual Governance Report. This is considered first by a Governance Management Board, made up of the chairs of committees and internal and external auditors, before it goes to the Audit Committee. Although the arrangements seem to work well, there is a question over the extent to which the Audit Committee is enabled to fully consider the governance and risk issues related to partnerships such as Ashford's Future Partnership.
16. There is evidence that the Audit Committee does review its own effectiveness and the participation in this review is an example of that. However, this is an area that could be strengthened. Many Audit Committees produce annual reports setting out the year's activity, successes and challenges. An annual report provides an opportunity to address key issues and to explain and publicise the work of the Audit Committee. Tunbridge Wells produces an annual report which is effective and which could usefully act as a template for other authorities.
17. Ashford, in its choice of members, has had regard for the experience and skills needed to be effective as part of the Audit Committee. The committee benefits from having members with financial and accounting backgrounds. The committee has not appointed any non-voting co-opted members. The experience of those authorities that have brought non-voting co-opted members onto the Audit Committee is that they can bolster the committee by bringing independence and challenge as well as useful skills and experiences from other sectors. Concerns are sometimes expressed that non-voting co-opted members will dilute the democratic mandate of councillors. This need not be the case. Audit Committees are technical rather than political and the evidence in Ashford is that the committee operates in a non-political manner.

There is scope to increase the capacity of the Audit Committee through co-option and the Audit Committee should consider this option.

18. The review team heard that the Audit Committee role was not well understood across the council. We heard that the Audit Committee was often seen by officers as the 'police force' of the committees. There is a role for senior members and senior managers to promote the supportive role of the committee, particularly in terms of helping managers to manage risk.

Maidstone Borough Council

Strengths

- Good calibre Audit Committee with well regarded chair
- Committee seen as quietly effective
- Open debate encouraged e.g. visiting members allowed to voice concerns (e.g. capital programme)
- Strong support from senior officers for the Audit Committee e.g. pre-briefing and wash-up sessions
- Chairs of relevant committees meet regularly to coordinate activity
- Cabinet using Audit Committee to address key VFM issues e.g. Business transformation and MKIP partnership
- Council should proceed with the appointment of a co-opted non-voting member

Areas for development

- Greater challenge of reports needed
- Better tracking of audit recommendations
- The governance assurance role of the Audit Committee could be expanded, but need to avoid any unnecessary duplication with overview and scrutiny
- Best practice indicates that Audit Committee should produce an annual report and seek to measure the effectiveness of the Committee

19. From our discussions with councillors, officers and stakeholders it is clear that the Audit Committee at Maidstone is well regarded. We were told that the members of the committee are of a good calibre and that the committee is well chaired. The committee can point to a number of achievements. Changes to the role and remit of the committee means that it is now responsible for signing-off the council's statement of accounts, which it did for the first time this year.

20. The Audit Committee is seen as effective by internal and external stakeholders. As well as its general assurance role, the committee has undertaken specific value for money reviews. The Committee is currently reviewing the work of the Business Transformation Team in relation to the Mid-Kent Partnership and also the councils approach to business transformation.

21. The Audit Committee is supported very effectively by council officers. The Director for Regeneration and Resources takes a lead in supporting the committee. The support takes the form of agenda planning meetings, pre-meetings and 'wash-up' meetings with the committee chair.

22. The Audit Committee has been able to act as a mechanism for discussing and addressing risk. A recent example is the Maidstone Museum East Wing Redevelopment Project. An internal audit review in August 2010 raised concerns about the funding for this project and the committee received reports from relevant officers on the subject. In considering the issue it has been able to put in place timetable for key updates on the progress for resolving the funding issues. The committee, in this instance, has also usefully acted as a means for councillors who are not members of the committee to gain information and raise questions. The open format of the meetings is helpful in this respect.
23. The discussion above highlights the scrutiny role of the Audit Committee. It is important that the roles of the Audit Committee and the council's scrutiny function are sufficiently distinct to ensure that duplication is kept to a minimum. In the case of Maidstone, the chairs of the relevant committees meet regularly to plan and share work programmes. The committees also refer on matters to each other as appropriate, with the Audit Committee focusing more on value for money issues.
24. The relationship between the Audit Committee and other strands of the council's governance arrangements are also strong. The Audit Committee is independent of the council's cabinet and has its direct relationship with Full Council. However, there is a good working relationship with cabinet. Cabinet has sought to draw on the expertise of the Audit Committee by inviting the committee to look into matters relating to value for money. The Audit Committee's work on business transformation and the MKIP derived from this source.
25. In a move which should strengthen the Audit Committee's independence and provide valuable specialist knowledge the council has agreed to appoint an independent non-voting member to the committee. This is to be welcomed.
26. The review team heard two views on the Audit Committee's approach and style. We heard that the committee was 'quietly effective', but also that the committee could be stronger in terms of its challenge to officers. The Audit Committee was seen by some as operating within the wider council culture of 'managing the message'. The Audit Committee should consider its approach to challenge to ensure that its activity is as effective as possible.
27. The review team was told that the assurance process did not include a system for tracking audit recommendations. One of the key benefits of an Audit Committee is its capacity to 'raise greater awareness of the need for internal control and the implementation of audit recommendations'.¹ If audit recommendations are not being tracked it makes it more difficult to ensure the adequacy with which recommendations are being implemented. The Audit

¹ *A toolkit for local authority Audit Committees, CIPFA*

Committee should consider implementing a system to track audit recommendations.

28. Audit Committees can have a broad role encompassing all governance issues. There is scope for the Audit Committee to expand its role to support the council in its broader partnership working, particularly in terms of governance arrangements and risk, both financial and more generally in terms of delivering key outcomes.
29. There is evidence that the Audit Committee does review its own effectiveness and the participation in this review is an example of that. However, this is an area that could be strengthened. Many Audit Committees produce annual reports setting out the year's activity, successes and challenges. An annual report provides an opportunity to address key issues and to explain and publicise the work of the Audit Committee. Tunbridge Wells produces an annual report which is effective and which could usefully act as a template for other authorities.

Swale Borough Council

Strengths

- Committed and enthusiastic members and the committee addresses the full scope of Audit Committee activity
- Has been very effective when addressing local issues e.g. Faversham Enterprise partnership

Areas for Development

- Committee agendas shaped by Audit Commission cycles, could be greater balance between core and local agenda items
- Committee members need further training around governance assurance
- Skills of the committee could be bolstered through the appointment of co-opted non-voting members
- Senior officers and members need to promote the role and importance of the Audit Committee (e.g. earlier sight of final set of accounts)
- Greater forward planning of the Audit Committee agenda
- Committee should produce an annual report of its activities and effectiveness
- Committee to do more on risk assurance—risk management is an area that is underdeveloped across the council
- Terms of reference could be developed to meet the CIPFA standard

30. The review team heard that Swale's Audit Committee was committed and enthusiastic and that the meetings were lively. The committee members take the role seriously and the committee addresses key issues, particularly those shaped by external audit and audit commission requirements.

31. The Audit Committee has also shown that when it focuses on local issues it can be very effective. An example is the Audit Committee's approach to the grant funding for the Faversham Enterprise Partnership. The Council's executive had referred the reward of the grant to the Audit Committee. The Audit Committee asked to see a business plan, but was not happy with the information provided. The Audit Committee sent the issue back to the Council's executive for further consideration. The view of the members is that they "do not rubber stamp anything".

32. The Audit Committee also seeks to ensure that audit recommendations are implemented. In cases where recommendations are outstanding for long periods of time (one year) the committee can refer the matter to the Council's Policy and Resourcing Committee.

33. The review team heard that the value of the Audit Committee could be enhanced if it was to make more room for local audit to help with the councils

“wider improvement journey”. As stated above the committee has demonstrated that it can take on this role. The Audit Committee should work with the council’s executive and with officers to ensure that its programme is aligned with the council’s local objectives and priorities and includes a focus on some of the council’s wider partnership activities and on non-financial risks.

34. We were told that training for Audit Committee members was underdeveloped. Members were keen to receive training on core aspects of the role as well as on wider governance issues. For some commentators there was a need to improve the focus and direction of the committee and again training on the role of the committee for members would be beneficial.
35. Elected members that we spoke to were ambivalent about the possibility of co-opting non-elected members into non-voting roles on the committee. The concerns expressed included the lack of accountability of non-elected members and that it would be a further demonstration of elected members being “more and more side-lined”. However there was also a recognition that non-voting co-optees could bring additional skills and expertise, which would be welcomed. Two of the Audit Committees reviewed here, Tunbridge wells and Maidstone, have taken the decision to co-opt non-voting members to their committees and in general it is considered to be best practice. Swale Council should consider the co-option of non-voting members to the committee as a means of expanding its expertise.
36. There was a perception that the Audit Committee was seen by officers as being a tick box exercise. The examples given included the final set of accounts coming to the committee the day before they were due to be submitted and a report of the Faversham Enterprise Partnership which was seen as perfunctory. The committee needs to be effective so that the value it adds is recognised. However, senior members and officers should promote the role and value of the Audit Committee across the council.
37. The review team did not get a sense that the Audit Committee took a strategic view about how it planned its work. The Audit Committee could seek to align its work programme to the council’s key corporate objectives and local priorities as set out in the corporate plan and medium term financial strategy. To do so would ensure that the activity of the committee added greatest value to the support the council’s corporate objectives and local priorities.
38. There is evidence that the Audit Committee does review its own effectiveness and the participation in this review is an example of that. However, this is an area that could be strengthened. Many Audit Committees produce annual reports setting out the year’s activity, successes and challenges. An annual report provides an opportunity to address key issues and to explain and

publicise the work of the Audit Committee. Tunbridge Wells produces an annual report which is effective and which could usefully act as a template for other authorities.

39. In our discussions we heard that risk management was a relatively undeveloped area in the council. A new risk management strategy was reviewed by the Audit Committee in March 2010. The Audit Committee has a role in agreeing the strategy and also of considering risk issues when developing the annual internal audit plan. Certainly since the inception of the MKIP Internal audit partnership the focus on risk in developing the audit plan has been in evidence. Maintaining an oversight of the effectiveness of the risk management processes will be an area where the Audit Committee can add value.
40. In most cases we found that the terms of reference for the Audit Committees covered by the other three mid Kent Councils were working to CIPFA's guideline terms of reference. This is not the case in Swale and there is an opportunity to review the terms of reference to ensure that they fully reflect the work of the committee.

Tunbridge Wells Borough Council

Strengths

- Work of the Audit Committee seen as important across the Council
- Independent members valued and seen as effective
- Chair is well regarded
- Annual report seen as an example of good practice

Areas for development

- Formal relationships between cabinet and Audit Committee could be improved to enable Audit Committee to make a greater impact
- Process in place to ensure that ideas and conclusions arising from the meetings are captured and taken forward - recommendations could be smarter
- Committee members should seek and take opportunities to address key/contentious issues through agenda planning
- Member development required for Audit Committee members

41. Through our discussions with stakeholders it is clear that the Audit Committee, its chair and members, are well regarded and agendas are managed well. Stakeholders spoke of members' expertise drawn from their knowledge of the council and its activities and also professional careers, particularly in financial and legal areas. We also heard that the committee was enthusiastic and engaged in its role. The Audit Committee was seen as having been successful. An example was the contribution that the committee had made to the council's improved financial position over the last three years.

42. Tunbridge Wells Audit Committee has three non-voting co-opted non-elected members. The co-opted members were seen as being very effective and were normally a strong feature of the committee's deliberations.

43. Over time the committee has forged its independence and has grown in confidence. The Committee is able to engage in strong and enthusiastic discussions about issues rather than simply rubber stamping.

44. The Audit Committee reviews its own performance. This review is an example of how it evaluates its effectiveness. The Audit Committee also produces an annual report which sets out the committee's role and functions, its attendance record for the previous session, the programme it has completed over the year and a review of its effectiveness. The production of an annual report is considered good practice and is to be commended.

45. The committee is well supported by officers. We were able to attend an Audit Committee meeting at which there was good attendance from senior officers from across the council (as relevant to the agenda). Officers presenting items received challenge, but the relationship between officers and members was clearly respectful on both sides. The general level of support that the Audit Committee receives is also of a good quality. As with other Audit Committees it would be useful to be very clear on who is the lead support to the Audit Committee in terms of supporting members to develop the agenda and shape the future programme for the committee.
46. One of the key areas raised with the review team was the lack of a formal mechanism for the Audit Committee to escalate matters. We were told that there 'was not a confirmed pathway of what to do if you find something wrong'. In particular the issue of the relationship between the Audit Committee and the other key elements of the governance arrangements, including full council and the cabinet were such that it was not clear how the Audit Committee was having a wider impact across council policy. The Audit Committee will need to develop the links, both formal and informal to the council and cabinet to ensure that the pathways are in place to enable it to have a broader impact.
47. Some frustration was expressed that the Audit Committee's deliberations did not always result in a firm conclusions captured as Audit Committee recommendations. Some stakeholders questioned whether the committee was sufficiently inquisitorial in its approach. In the meeting we attended the minutes of the last meeting were amended to make the actions smarter. The Audit Committee should work to ensure that the outcomes of its discussions result in actions and recommendations which are clear and time bound.
48. During our visit we were able to attend a meeting of the Audit Committee. An issue relating to the financial implications for the council of the Tunbridge Wells regeneration, which had currency within the council and the local press was raised as an additional agenda item for the meeting, but no formal space was found for the issue to be raised. There should be scope through the agenda planning process for the Audit Committee and any pre-meetings for issues which are relevant and topical to be admitted to the agenda. It would be beneficial for such a process to be communicated to committee members.
49. We were told that committee members had received no formal training in the role and method of the Audit Committee. This is an area where generally members are selected based on their skills and aptitude for the role. However, there is still a need for members to gain knowledge which will make them successful in their role. For co-optees providing

information and training on the functions of the council would also be valuable. In concert with the other Audit Committees in Mid-Kent the council should consider a programme of development for committee members, including co-opted members.

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

17 JANUARY 2011

REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES

Report prepared by John Owen
Accountant (Systems)

- 1. TREASURY MANAGEMENT STRATEGY 2011/12 – 2013/14**
 - 1.1 Issue for Decision
 - 1.1.1 In accordance with CIPFA's Code of Practice on Treasury Management issued in November 2009, the Audit Committee is asked to consider a Draft Treasury Management Strategy for 2011/12 including a series of Treasury and Prudential Indicators.
 - 1.1.2 The Strategy requires the approval of full Council on 2nd March 2010 and cabinet will make its recommendation to Council at its meeting in February 2011. In the meantime Audit Committee are asked to consider the strategy and make recommendations to Cabinet.
 - 1.2 Recommendation of Head of Finance & Customer Services
 - 1.2.1 It is recommended that The Audit Committee consider the draft strategy and make recommendations to Cabinet for consideration in February 2011.
 - 1.3 Reasons for Recommendation
 - 1.3.1 The council has adopted CIPFA's Code of Practice on Treasury Management and this requires that the Council sets out a treasury management strategy on an annual basis. This report considers that strategy for 2011/12 onwards along with current guidance from CIPFA and the CLG.
 - 1.3.2 The primary requirements of the Code are as follows:
 - a) Receipt by full Council of an annual Treasury Management Strategy – including the Annual Investment strategy and Minimum Revenue Provision Policy – for the year ahead.

- b) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- c) Delegation by the Council of the role of scrutiny of treasury management strategy and policies, a Mid Year Review Report and an Annual Report covering activities during the previous year to Audit Committee.

1.3.3 The process for these approvals are:

- a) Audit Commission will consider the initial draft and make recommendations to Cabinet.
- b) Cabinet will consider and recommend to Council
- c) Council will approve the strategy each March for the forthcoming financial year.

1.4 2010/11 Strategy

1.4.1 The current strategy agreed by Council in February 2010 had recommended the following:-

- a) Keep investments short term (up to 1 year) to help fund the existing capital programme when needed and to make funds available to invest if rates increased;
- b) Amend the counterparty list to show top 10 Building Societies rather than top 30;
- c) No planned borrowing, other than for short-term cashflow purposes. The council is currently debt-free;
- d) That the Head of Finance & Customer Services be given delegated authority (in consultation with the Cabinet Member for Corporate Services) to make use of alternative investment instruments should it be considered prudent to do so and should it be of advantage to the council;
- e) That the council's Treasury Management Practices are amended to reflect these decisions.

1.5 Current Cashflow Performance

- 1.5.1 At the Audit Committee Meeting on 29th November 2010, a mid year review of performance for 2010/11 reported the current position as at 30th September 2010. Listed below is an update on that position.
- 1.5.2 The Council's current portfolio position as at 9th December 2010 is given in the table below.

	Principal £m	Average Rate %
Total Debt	0.0	
Short-term Investments	32.3	1.65
Long-Term Investments	0.0	
Total Investments	32.3	

- 1.5.3 In 2010/11, to date, the level of investments had an average balance of £23.0. This covers investment of balances, capital receipts and other balance sheet assets. This balance is higher than anticipated due to the following reasons:

Lower NNDR Contribution requirement	£5.0m
HB Subsidy 2009/10 Adj.	£2.0m
VAT Fleming Interest	£1.1m
Other	£0.5m
Total	£8.6m

- 1.5.4 The level of investments at 1st April 2010 was £8.7m and has varied during the year as a result of day to day cashflow management. It is anticipated the level of investments at 31st March 2011 will be £18m mainly due to capital slippage, revenue under spends, and the issues listed in 1.5.3.
- 1.5.5 Despite the increased level of investments, the interest rates have remained unchanged. It was originally forecast that rates would move up from early 2010 and continue rising throughout the year. The level of investment income for 2010/11 is expected to be £35k below the estimate of £405k. This variance has been reported to

Cabinet and management action will ensure the budget pressure is resolved.

1.5.6 There has been no need to borrow to date and it is anticipated that this will follow to the end of the year.

1.6 Updated Cashflow Projection

1.6.1 A cashflow projection up to March 2014 has been created reflecting the spending proposals in the Budget Strategy 2011/12 onwards. The cashflow projection shows that anticipated investment income will be £0.3m in 2011/12, £0.6m in 2012/13 and £0.9m in 2013/14. This is based on the selling of Council fixed assets and interest rates increasing, as forecast.

1.6.2 Based on the current cashflow projection the Council has anticipated cash balances at 1st April 2011 available for investment totalling £18m.

1.7 Base Rate Forecast

1.7.1 It is the view of the Council’s Treasury Management Advisors that the first base rate increase is expected to be in quarter ending December 2011 and continue to rise steadily thereafter. A table of Sector’s prediction on base rate is below.

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%

1.8 Economic Background

1.8.1 Following the general election in May 2010, the coalition government has put in place a plan to reduce the public sector deficit over the next five years. The risks arising from the government’s plans include possible job losses, reduced consumer & business confidence and a negative effect on the housing market. These risks must be considered during the development of any future strategies. This will have a knock on effect on consumer and business confidence and appears to have also hit the housing market as house prices started on a negative trend during the summer and autumn of 2010. Mortgage approvals are also at very weak levels and declining, all of which indicates that the housing market is likely to be very weak next year.

1.8.2 The Council’s Treasury Management Advisors have provided the following assessment of the current and near likely situation

- a) CPI has remained high during 2010. It peaked at 3.7% in April and has gradually declined to 3.1% in September (RPI 4.6%), but has started to increase again to 3.3% in November (RPI 4.7%). Although inflation has remained above the Monetary Policy Committee's (MPC's) 2% target, the MPC is confident that inflation will fall back under the target over the next two years after another rise back up to about 3.5% by the end of 2010.
- b) There is some risk of a double dip recession, creating a downward spiral of falling demand, falling jobs and falling prices, although this is currently viewed as being a small risk.
- c) GDP growth is likely to have peaked in the current period of recovery at 1.2% in quarter 2 of 2010. The first estimate of quarter 3 was also unexpectedly high. However, the outlook is for weak growth in 2011/12 although the Bank of England and the Office for Budget Responsibility are forecasting near trend growth (2.5%) i.e. above what most forecasters are currently expecting.
- d) The longer run trend is for gilt yields and PWLB rates to rise due to the high volume of gilt issuance in the UK, and the high volume of debt issuance in other major western countries.

1.9 Evaluation of 2011/12

- 1.9.1 In formulation and executing the strategy for 2011/12, the Council will have regard to the CLG's guidance on Local Government Investments and the 2009 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectional Guidance Notes.
- 1.9.2 CIPFA's Treasury Management Code of Practice states that "in balancing risk against return, local authorities should be more concerned to avoid risks rather than maximising return". Therefore the underlying principles of the strategy are to ensure absolute security of Council funds, and to minimise large variations in annual investment returns, which would impact upon the budget.
- 1.9.3 The Council will also achieve optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to on lend and make a return is unlawful and the Council will not engage in such activity.
- 1.9.4 Investment instruments identified for potential use in the financial year are listed at **Appendix B** under the 'Specified' and 'Non-

Specified' investments categories, as per CLG's guidance. Specified instruments are those investments which are sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum high rating criteria. Non-specified investments are included at the Council's discretion, based on guidance from our Treasury Management Advisors.

- 1.9.5 The Council, in conjunction with its Treasury Advisor, Sector, will use Fitch, Moodys and Standard and Poors ratings in combination to derive its credit criteria. All credit ratings will be monitored daily. The Council is alerted to changes in ratings of all agencies through its use of the Sector creditworthiness service.
- 1.9.6 If a downgrade means the counterparty or investment scheme no longer meets the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- 1.9.7 If a body is placed under negative rating watch (i.e. there is a probability of a rating change in the short term and the likelihood of that change being negative) and it is currently at the minimum acceptable rating for placing investments, then no further investments will be made with that body.
- 1.9.8 In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in a downgrade of an institution or removal from the Council's lending list.
- 1.9.9 Other market intelligence will also be used to determine institutions credit worthiness, such as financial press, financial broker advice and treasury management meetings with other authorities, e.g. Kent Treasury Management Forum. If this information shows a negative outcome, no further investments will be made with that body.
- 1.9.10 At this stage it is anticipated that the current approved forms of investment will be sufficient to deliver the strategy based on current and forecast base rate projections. However, actual base rates can deviate significantly from those forecast, so it would be appropriate to have a flexible approach to the use of the alternative instruments listed in **Appendix B**.
- 1.9.11 The Head of Finance & Customer Services has previously been given delegated authority to use alternative forms of investment, should the appropriate opportunity arise to use them, and should it be prudent and of advantage to the Council to do so. This delegated authority is subject to prior consultation with the Cabinet Member for Corporate Services on any possible use of these instruments. This delegation has not been exercised to date.

1.9.12 Based on current information there will be a balance of £18m invested at the start of 2011/12. Deposits that mature in 2011/12 are as follows:

Investment	Total Invested £m	2011/12 £m
Long Term Investments	0	0
Short Term Investments	18.0	18.0
Totals	18.0	18.0
Use of Balances/Capital receipts		12.9

1.9.13 These maturities will therefore cover the anticipated use of cash balances for the periods above. This leaves £5.1m available for investment, along with day to day cashflow management funds.

1.9.14 As mentioned previously interest rates are projected to rise during 2011 and continue this trend through to December 2013. The budget for investment income is based on this projection. The table below compares the current market rates to the base rate over the same period:

(Rates based on investment of £1m	Market Rate	Forecast base rate
1 Month deposit (Jan 11)	0.60%	0.50%
3 Month Deposit (May 11)	0.90%	0.50%
6 Month Deposit (Aug 11)	1.25%	0.50%
9 Month Deposit (Nov 11)	1.50%	0.50%
1 Year Deposit (Dec 11)	1.85%	0.75%
2 Year Deposit (Dec 12)	2.00%	1.75%
3 Year Deposit (Dec 13)	2.45%	3.25%

1.9.15 This table shows investments up to 2 years offer good value, with the best rates being between 6 and 9 months. After 2 years, with the increases in base rate, they are less promising. It has been suggested by the Council's Treasury Management advisors to keep investment short term (less than 1 year), but maybe use core cash for up to 1 year if rates are at a premium.

1.9.16 The current strategy for 2011/12 onwards shows there is no need to borrow but dependant on sale of Council assets, the current capital programme would need an additional £2.4m of funding. Within the code CIPFA suggest that local authorities are able to borrow ahead of need. This should only occur where the need is identified within the current capital programme and medium term financial strategy. It should also only occur where the carrying costs of the borrowing, up to the time of need to borrow, can be mitigated during the life of the loan and the security of these funds has to be documented prior to borrowing being undertaken.

1.9.17 A profile of the forecasted PWLB rates against Base rate are as follows:

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Bank rate	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%	2.25%	2.75%	3.00%	3.25%	3.25%
5yr PWLB rate	3.00%	3.00%	3.10%	3.20%	3.30%	3.50%	3.80%	4.10%	4.30%	4.40%	4.50%	4.70%	4.90%	5.00%
10yr PWLB rate	4.10%	4.10%	4.10%	4.20%	4.30%	4.40%	4.60%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%	5.40%
25yr PWLB rate	5.00%	5.10%	5.20%	5.30%	5.30%	5.40%	5.40%	5.40%	5.50%	5.50%	5.50%	5.60%	5.70%	5.70%
50yr PWLB rate	5.10%	5.20%	5.30%	5.40%	5.40%	5.50%	5.50%	5.50%	5.60%	5.60%	5.60%	5.60%	5.70%	5.70%

1.10 Strategy for 2011/12

1.10.1 Based on the issues outlined in this section and following consultation with the Council's Treasury Management advisors the following strategy is recommended:

1.10.2 The counterparty list - **Appendix A**

- a) To remain unchanged from the list agreed within the Treasury Management Strategy 2010/11. This includes the top 10 asset sized building societies, along with Kent Reliance, currently rated 11.

- b) Use the Council's Treasury Management Consultant's scheme for rating of institutions for creditworthiness which uses a sophisticated modeling approach with credit rating agencies, Moodys, Fitch and Standard & Poors, along with Sovereign ratings, CDS spreads and credit watches.
- c) Group limits placed on institutions within the same group and not separate for each institution. This is an added security measure as there is a burden upon the parent company. The group limit will be the highest individual credit criteria for the group.
- d) An institution will never have a higher credit rating than the sovereign country it operates within. If the sovereign is downgraded below the rating of an institution, the institution is downgraded to the same level.
- e) The Head of Finance & Customer Services be given delegated responsibility to add or withdraw institutions from the counterparty list when ratings change, either as advised by Sector or from another reliable market source.

1.10.3 Focus on Treasury Management Activity in 2011/12

- a) Invest funds short term (up to one year) so that funds are available to invest when rates increase.
- b) Use up to £3m from core cash balances to be invested for 1 year or above if rates are at a premium over predicted base rates and funds are available for the term.
- c) Internal borrowing, if available, should be used to fund the capital programme, if required, as this is the cheapest form of finance, after foregoing the low interest earned on investments. This also reduces counterparty risk as funds would not need to be placed in the market.

1.10.4 Treasury Indicators

The Indicators important to the Treasury Management strategy are detailed on the attached **Appendix C**, the most important of which are listed below. The upper and lower limits are set with reference to the peaks and flows of cashflow throughout the year. There always exists the possibility of the limits being approached at the start and end of each financial year when the income stream is at its lowest:

a) Authorised Limit for External Debt

This places an upper limit on the Authority's borrowing by indicating a level of debt that the authority calculates is affordable and relevant. Along with the debt held for the financing of capital expenditure and other long term liabilities, this limit includes provision for day to day cash flow needs. Borrowing above this limit should not occur.

b) Operational Boundary for External Debt

This provides a limit for day to day cash flow management. It is the equivalent of the Authorised Limit for External Debt without the allowance for cash flow purposes. It is intended that Treasury Management on a day to day basis should use this limit as a focus. Borrowing to exceed this limit should only occur for short periods of time for cash flow management purposes.

c) Actual Debt

The closing balance of actual gross borrowing plus other long term liabilities. This considers a single point in time and is only directly comparable to the authorised limit and operational boundary at that point in time.

d) Upper Limit for Fixed Rate Exposure

This places a limit on the proportion of borrowing and investment that can be at a fixed rate of interest. Due to the nature of the Council's cashflows it is likely that this limit will only be approached at the start and the end of the financial year when there are less surplus funds available for surplus investment. (Fixed rate is defined as any borrowing or investments where the rate is fixed but only where the period is in excess of one year.)

e) Upper Limit for Variable Rate Exposure

This places a limit on the proportion of borrowing and investment that can be at a variable rate of interest. The limit set reflects the fact that during the year there can be excess surplus funds available for short term investment. These arise from timing differences between receipts received and payments made. (Variable rate is defined as any borrowing or investments for a period up to a maximum of 364 days, irrespective of whether the rate is fixed or not.)

f) Upper Limit for Total Principal Sums Invested over 364 days

This limit has been set in consultation with the Council's Treasury Management Advisers, and the background to this is dealt with in more detail in the proposed investment strategy earlier in this report.

g) **Maturity Structure of New Fixed Rate Borrowing during 2011/12**

This indicates the assumed maturity structure for any borrowing that may occur at a fixed rate of interest, during 2011/12. As any borrowing is expected to be for cash flow purposes only it will be short term borrowing at variable rates.

1.11 Alternative options and why not recommended

1.11.1 The Council is required to endorse a Treasury Management Strategy and monitor and update the strategy and Prudential Indicators as necessary. The Council could endorse a simple strategy for Treasury Management. However this would be contrary to best advice from the Council's advisors and likely to produce a reduced income stream from investments.

1.11.2 External Fund Managers – by appointing external managers local authorities benefit from security of investments, diversification of investment instruments, liquidity management and the potential of enhanced returns and capital appreciation. Managers do operate within the parameters set by local authorities but this involves varying degrees of risk. This option has been discounted on the basis of the risk to capital receipts which would make it difficult to ascertain a suitable sum to assign to an external manager.

1.12 Impact on Corporate Objectives

1.12.1 The Treasury Management Strategy will impact upon all corporate objectives through the resource it provides from the investment of the Council's balances. These resources are incorporated in the budget detailed elsewhere on this agenda.

1.13 Risk Management

1.13.1 Borrowing and investment activity only takes place within a set of clearly-defined guidelines that emphasis the need to place security of funds before any potential return. In addition the Council's Treasury Management advisors provide timely notifications of any potential issues that the Council may need to address.

1.13.2 The risks associated with the delivery of the strategy have been identified as part of the Council's Strategic Risk Register.

1.14 Other Implications

1. Financial	<input checked="" type="checkbox"/>
2. Staffing	<input type="checkbox"/>
3. Legal	<input checked="" type="checkbox"/>
4. Equality Impact Needs Assessment	<input type="checkbox"/>
5. Environmental/Sustainable Development	<input type="checkbox"/>
6. Community Safety	<input type="checkbox"/>
7. Human Rights Act	<input type="checkbox"/>
8. Procurement	<input type="checkbox"/>
9. Asset Management	<input type="checkbox"/>

1.14.1 The 2010/11 Budget includes investment income of £0.7m which will be delivered through the application of the Treasury Management Strategy.

1.14.2 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.15 Relevant Documents

1.15.1 Appendices

Appendix A – Counter Party List
Appendix B – Specified & Non-specified Investments
Appendix C – Prudential Indicators & Treasury Management Indicators 2011/12

1.15.2 Background Documents

Working papers held in the Corporate Finance office.

Sector's Suggested Credit Rating Methodology

Sector has recently implemented a new credit rating system that incorporates credit ratings from all three major rating agencies; Fitch, Moody's, and Standard & Poor's. The system uses all the available ratings and, as such, uses a four-way approach to produce a mathematically calculated, risk-weighted score that is then compared to pre-determined credit scoring bands. The system uses the Long term, Short term, Individual, and Support ratings to produce the credit score. Depending on which band the credit score falls between, determines the duration that Sector suggests lending to for that institution.

Sector Colour Key.

24 months duration / £5m Limit	
12 months duration / £4m limit	
12 months duration / £4m limit - UK Gov Funded Inst.	
6 months duration / £3m limit	
3 month duration / £2m limit	
Building Societies - 6 months £2m limit	

As well as limits on the amount of funds that can be placed with individual counterparties, Sector would suggest imposing group limits. The group limit should be equal to the individual limit of one counterparty within the same group.

Bank Grouping Key

Santander Group, UK	1
Lloyds Banking Group, UK	2
Royal Bank of Scotland plc, UK	3

Institution Name	Country	Group	Deposit	Suggested Term
UK INSTITUTIONS MEETING MINIMUM RATING CRITERIA				
Alliance & Leicester	GBR	1	£2,000,000	3mths
Cater Allen	GBR	1	£2,000,000	3mths
Bank of Scotland Plc	GBR	2	£4,000,000	1yr
Barclays Bank plc	GBR		£3,000,000	6mths
HSBC Bank plc	GBR		£4,000,000	1yr
Lloyds TSB	GBR	2	£4,000,000	1yr
National Westminster Bank	GBR	3	£4,000,000	1yr
Royal Bank of Scotland plc	GBR	3	£4,000,000	1yr
Clydesdale Bank	GBR		£2,000,000	3mths
Santander UK	GBR	1	£2,000,000	3mths
Ulster Bank Ltd	GBR		£3,000,000	1yr
OVERSEAS INSTITUTIONS MEETING MINIMUM RATING CRITERIA				
Commonwealth Bank of Australia	AUS		£5,000,000	2yrs
National Australia Bank	AUS		£5,000,000	2yrs
Australia & New Zealand Banking Group	AUS		£4,000,000	1yr
Westpac Banking Corporation	AUS		£5,000,000	2yrs
Royal Bank of Canada	CAN		£5,000,000	2yrs
Toronto-Dominion Bank	CAN		£5,000,000	2yrs
Bank of Montreal	CAN		£4,000,000	1yr
Bank of Nova Scotia	CAN		£4,000,000	1yr
Canadian Imperial Bank of Commerce	CAN		£3,000,000	6mths
Nordea Bank Finland plc	FIN		£4,000,000	1yr
BNP Paribas	FRA		£4,000,000	1yr
Credit Agricole	FRA		£4,000,000	1yr
Hongkong and Shanghai Banking Corporation	HKG		£5,000,000	2yrs
Sanpaolo IMI	ITA		£4,000,000	1yr
Bank Netherlandse Gemeenten	NLD		£5,000,000	2yrs
Development Bank of Singapore (DBS)	SGP		£4,000,000	1yr
Oversea-Chinese Banking Corporation	SGP		£4,000,000	1yr
United Overseas Bank	SGP		£4,000,000	1yr
Nordea Bank AB	SWE		£4,000,000	1yr
Svenska Handelsbanken	SWE		£4,000,000	1yr
Wells Fargo Bank NA	USA		£3,000,000	6mths
HSBC Bank USA NA	USA		£3,000,000	6mths
Bank of New York	USA		£5,000,000	2yrs
Northern Trust Company (The)	USA		£3,000,000	6mths
UK BUILDING SOCIETIES				
RANK BY ASSET SIZE				
Nationwide Building Society		1	£2,000,000	6mths
Yorkshire		2	£2,000,000	6mths

Appendix A

Coventry	3
Skipton	4
Leeds	5
West Bromwich	6
Principality	7
Newcastle	8
Norwich & Peterborough	9
Nottingham	10
Kent Reliance Building Society	11

£2,000,000	6mths
£2,000,000	6mths
£2,000,000	6mths
£2,000,000	6mths
£2,000,000	6mths
£2,000,000	6mths
£2,000,000	6mths
£2,000,000	6mths
£2,000,000	6mths

OTHER PUBLIC BODIES

UK Government
UK Local Authorities (Inc.Police & Fire Authorities)

£5,000,000	2yrs
£5,000,000	2yrs

EURO-STERLING BOND ISSUERS (AAA RATED)

European Investment Bank
Inter-American Development Bank
International Finance Corporation
European Bank for R&D
International Bank for R&D
GTD Export Finance Corporation

£5,000,000	2yrs
£5,000,000	2yrs
£5,000,000	2yrs
£5,000,000	2yrs
£5,000,000	2yrs
£5,000,000	2yrs

MONEY MARKET FUNDS (AAA RATED)

Goldman Sachs
Goldman Sachs

£5,000,000	2yrs
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LIST OF SPECIFIED & NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS (SHORT TERM ONLY)	Minimum 'High' Credit Criteria	Use
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies *	Short-term F1, Long-term A, Individual B, Support 3	In-house
Certificates of deposits issued by banks and building societies *	Short-term F1, Long-term A, Individual B, Support 3	In-house
UK Government Gilts	Long term AAA	In-house
Bonds issued by multilateral development banks	Long term AAA	In-house
Bonds issued by a financial institution which is guaranteed by the UK government	Long term AAA	In-house
Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house
<i>* Only credit-rated building societies in top 10 ranked by asset size are included</i>		
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Money Market Funds	AAA	In-house

NON-SPECIFIED INVESTMENTS (UP TO 1 YEAR MAXIMUM)	Minimum Credit Criteria	Use
Fixed term deposits with variable rate and variable maturities: -		
Term deposits with unrated Building Societies	Top 10 Building Societies, excluding Nationwide as highly credit rated. Including Kent Reliance rated 11.	In-house
Commercial paper issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house
Corporate Bonds issued by UK banks covered by UK Government guarantee : the use of these investments would constitute capital expenditure	UK Government explicit guarantee	In-house
Corporate Bonds other : the use of these investments would constitute capital expenditure	Short-term F1, Long-term A, Individual B, Support 3	In-house
Other debt issuance by UK banks covered by UK Government guarantee	UK Government explicit guarantee	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies *	Short-term F1, Long-term A, Individual B, Support 3	In-house
Certificates of deposits issued by banks	Short-term F1, Long-term A, Individual B, Support 3	In-house
UK Government Gilts	AAA	In-house
Bonds issued by multilateral development banks	AAA	In-house
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house
Sovereign bond issues (i.e. other than the UK govt)	AAA	In-house

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS**Ratio of Financing Costs to Net Revenue Stream**

2010/11	2011/12	2012/13	2013/14
%	%	%	%
-1.6	-1.8	-3.0	-4.1

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. Borrowing may be needed to fund the current Capital Programme in 2012/13 and additional borrowing in 2013/14.

Incremental Impact of Capital Investment Decisions on the Council Tax

	2010/11	2011/12	2012/13	2013/14
	£,000	£,000	£,000	£,000
i) Forecast of total budgetary requirement no changes to capital programme	7,288	9,850	3,267	1,997
ii) Forecast of total budgetary requirement after changes to capital programme	7,658	10,000	3,450	2,260
iii) Additional Council Tax Required	6.12	2.46	2.97	4.22

Demonstrates the affordability of the capital programme. It demonstrates the impact of the proposed capital programme upon the Council Tax.

Current Financial Plan

2010/11	2011/12	2012/13	2013/14
£,000	£,000	£,000	£,000
7,658	10,000	3,450	2,260

This is the estimate of capital expenditure taken from the Corporate Revenue and Capital Budget 2010/11 Onwards .

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Capital Financing Requirement

2010/11	2011/12	2012/13	2013/14
£,000	£,000	£,000	£,000
0	0	2,371	1,810

This indicator measures the underlying need to borrow for capital purposes.

PRUDENTIAL INDICATORS

TREASURY MANAGEMENT INDICATORS**Authorised Limit for External Debt**

	2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000
Borrowing	8,000	8,000	8,000	8,000
Other Long Term Liabilities	7,074	6,684	6,294	5,891
Total	15,074	14,684	14,294	13,891

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003.

Operational Boundary

	2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000
Borrowing	4,000	4,000	4,000	4,000
Other Long Term Liabilities	6,694	6,294	5,891	5,463
Total	10,694	10,294	9,891	9,463

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but is the prudent estimate, not worse case scenario.

Upper Limit for Fixed Interest Rate Exposure

	2010/11 %	2011/12 %	2012/13 %	2013/14 %
	100	100	100	100

This is the maximum amount of net borrowing and investment that can be at a fixed rate. Variable rate call accounts may be cleared during periods of high payments eg Precept so fixed rate can peak during these periods.

Upper Limit for Variable Interest Rate Exposure

	2010/11 %	2011/12 %	2012/13 %	2013/14 %
	80	80	80	80

This is the maximum amount of net borrowing and investment that can be at a variable rate. The limit set reflects the fact that during the year there can be excess surplus funds available for short term investment. These arise from timing differences between receipts received and payments made.

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Maturity Structure of New Fixed Rate Borrowing during 2011/12

	Upper Limit %	Lower Limit %
Under 12 months	100	0
12 months to under 24 months	100	0
24 months to under 5 years	100	0
5 years to under 10 years	100	0
10 years and over	100	0

It is may be necessary to borrow that at fixed term rates during 2012/13 as well as short term during period. This will be monitored as the year progresses and a decision will then be made.

Principal Invested for more than 364 Days

	2010/11 %	2011/12 %	2012/13 %	2013/14 %
	20	20	20	20

This indicator is set to reflect current advice from our Treasury Management Advisors.

Actual External Debt for 2010/11

	2010/11 £,000
Actual Borrowing	0
Other Long Term Liabilities	6,694
Total	6,694

Actual point in time of external borrowing

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

17 JANUARY 2011

REPORT OF HEAD OF FINANCE & CUSTOMER SERVICES

Report prepared by Paul Riley,
Head of Finance & Customer Services

1. BUDGET STRATEGY 2011/12 ONWARDS

1.1 Issue for Decision

1.1.1 On 22 December 2010 the Cabinet agreed an update for the Budget Strategy 2011/12 Onwards and referred that update to Corporate Services Overview and Scrutiny Committee for consideration.

1.1.2 As the remit of the Audit Committee includes consideration of risk it is also appropriate that the decision is considered by this committee, with a specific emphasis on the consideration of the risk analysis contained within the appendices.

1.2 Recommendation of the Head of Finance & Customer Services

1.2.1 That the Audit Committee considers the risk assessment of the budget strategy contained within Appendix A and makes comment or recommendations to Cabinet for consideration in February 2011.

1.3 Reasons for Recommendation

1.3.1 On 22 December 2010 the Cabinet considered an update to the Budget Strategy 2011/12 Onwards. This update included a risk assessment of the financial issues contained within the report.

1.3.2 The report and original appendices are attached as **Appendix A**. The Cabinet's decision is also attached as **Appendix B**.

1.3.3 The risk assessment of the proposals outlined in the report are given as original Appendix H to the report now attached as **Appendix A** to this report.

1.3.4 The risk assessment considers operational risks rather than strategic risks and as such the actions to mitigate these risks will form part of service plan of the Finance Section for 2011/12 onwards.

1.4 Alternative Action and why not Recommended

1.4.1 There is no constitutional requirement for Cabinet to consult with the Audit Committee on this matter. However the Audit Committee's role in consideration of risk and governance make it appropriate that the Committee consider the risks identified in such a significant strategy and make recommendation to cabinet regarding the assessment.

1.5 Impact on Corporate Objectives

1.5.1 The budget strategy is developed to complement the Strategic Plan and the resources identified within the strategy are focused on delivery the Council's corporate objectives. Any failure to identify and adequately mitigate a risk within the strategy may have a direct consequence on the delivery of a corporate objective.

1.6 Risk Management

1.6.1 Risks identified within the strategy will be monitored by the Finance Section as part of their service planning objectives. Any risks not identified will not be monitored and could increase the possibility of failure of the strategy.

1.6.2 The risks identified are comprehensive and have been subject to debate with Internal Audit, Management Team and Cabinet and are now to be debated by Audit Committee. If unidentified risks remain following this review the Council's budget monitoring process will provide early warning to enable satisfactory action to be taken.

1.7 Other Implications

1.7.1

- 1. Financial
- 2. Staffing
- 3. Legal
- 4. Equality Impact Needs Assessment
- 5. Environmental/Sustainable Development
- 6. Community Safety

- 7. Human Rights Act
- 8. Procurement
- 9. Asset Management

1.8 Relevant Documents

1.8.1 Appendices

Appendix A – Budget Strategy 2011/12 Onwards, report to cabinet 22 December 2010

Appendix B – Record of decision of Cabinet 22 December 2010.

1.8.2 Background Documents

<u>IS THIS A KEY DECISION REPORT?</u>	
Yes	<input type="checkbox"/>
No	<input checked="" type="checkbox"/>
If yes, when did it first appear in the Forward Plan?	
.....	
This is a Key Decision because:	
.....	
Wards/Parishes affected:	
.....	

MAIDSTONE BOROUGH COUNCIL

CABINET

22 DECEMBER 2010

REPORT OF MANAGEMENT TEAM

**Report prepared by Paul Riley,
Head of Finance & Customer Services**

1. Budget Strategy 2011/12 Onwards

1.1 Issue for Decision

1.1.1 This report allows Cabinet to review the initial Budget Strategy agreed in July 2010, in the context of the changing economic climate, and the results of the spending review 2010 and the draft spending settlement published by the Government on 13 December 2010. This review should be completed with a view to consulting Corporate Services Overview and Scrutiny Committee, in accordance with the constitution, on the updated strategy prior to submitting proposals to Council in March 2011.

1.2 Recommendation of Management Team

1.2.1 It is recommended that Cabinet:

- a) Consider the potential changes to the growth items as identified in section 1.7 of this report;
- b) Consider the revised strategic projection set out in Appendix A;
- c) Consider the options for contributions to the pension fund for the funding of the deficit, as outlined in paragraph 1.8.4.4;
- d) Consider the potential savings as identified in Appendix B;
- e) Consider the provisional Capital Programme detailed in Appendix C;
- f) Consider the options for the level of working balances as outlined in section 1.10;
- g) Consider the proposed additional use of balances detailed in Appendix D;

- h) Consider the results of the budget consultation as set out in section 1.11 and Appendices E and F;
- i) Consider the medium term financial strategy as set out in Appendix G in connection with the Strategic Plan elsewhere on this agenda;
- j) Agree a provisional spending and a Council Tax level, as set out in section 1.8, for consultation with Corporate Services Overview and Scrutiny Committee.

1.3 Executive Summary

- 1.3.1 This report builds on the initial budget strategy and strategic financial projection agreed in July 2010. It reviews the factors used in developing that initial strategy and identifies issues that have had an impact on the projection since that date. From that data it then produces a new strategic financial projection. The projection revises the budget requirement (resources available) in 2011/12 to £20.2m.
- 1.3.2 The factors influencing the initial strategy are set out in section 1.4. This details the previous decisions and assumptions that formed the basis of Cabinet's decision in July 2010.
- 1.3.3 Consideration of the economy, movement in economic indicators and the risks in relation to government strategy are set out in section 1.5. Inflation, as measured by the Consumer Price Index (CPI) and Retail Price Index (RPI), remain above the Government's target. Unemployment has reduced and the Office of Budget Responsibility predicts an increase in economic growth for the year of 1.8%.
- 1.3.4 The financial controls and mid year outturn for 2010/11 are considered in section 1.6.
- 1.3.5 A review of the budget pressures outlined in the strategic financial projection is carried out in section 1.7. A number of items have been considered for funding from balances due to their one-off nature. In addition the original provisions relating to an increase in employer contributions to the pension fund and the possible loss of homelessness strategy grant are no longer required.
- 1.3.6 Section 1.8 reviews the resources available to the Council. It identifies the factors that influence the level of Council Tax including the option for a single year freeze on Council Tax. It reviews the resources available from the recent Revenue Support Grant settlement consultation identifying the major changes from previous

assumptions. It finally summarises proposals for savings and efficiencies to bring the budget into line with these resources.

- 1.3.7 The current Capital Programme, a forward projection of the programme and the resources required to finance the full programme are considered in section 1.9. The programme for the period 2010/11 to 2012/13 requires £2.4m of additional resources or prudential borrowing. The report also shows that for each additional year that ongoing schemes are rolled forward at 2012/13 levels, and if no other capital resources are identified, the Council would require additional resources of £1.8m. Separate decisions are required before the Council makes any commitment to spend the resources associated with the schemes and programmes identified in the capital programme.
- 1.3.8 The level and use of balances are considered in section 1.10. The level of balances is higher than previously estimated primarily due to the VAT reclaim and proposals are put forward in this report to fund one-off pressures along with the identification of resources to support government initiatives.
- 1.3.9 The results of the budget consultation are set out in section 1.11. The consultation considered three elements: the proposals put forward by Cabinet Members; additional ideas not identified to date; and the importance of eight discretionary areas to the consultees.
- 1.3.10 The review of the Medium Term Financial Strategy (MTFS) is considered in section 1.12. The links to the Strategic Plan and a risk assessment of the factors influencing the strategic financial projection are outlined for consideration; this complements the authority's draft strategic risk assessment elsewhere in the Cabinet agenda.
- 1.4 Reasons for Recommendation
- 1.4.1 At the July meeting, Cabinet considered the initial budget projection for 2011/12 onwards, based on the financial information available at that time, and agreed the following:
- a) That for planning purposes, the Council Tax increase for 2011/12 and future years be set at 2.5% to inform the strategic projections provided in Appendix F of the report of Management Team;
 - b) That the scenario to be adopted is the "most likely" as outlined in the strategic projections in the report of Management Team;

- c) That the extent of the Capital Programme for 2011/12 onwards be noted;
- d) That the timetable for the Budget Strategy 2011/12 be noted.

1.4.2 The initial financial projection was selected by Cabinet as the most likely of three scenarios. The key assumptions from that scenario were:

- a) An inflation rate of 2% per annum over the period, but dropping to 1% in years 2 and 3;
- b) Anticipated grant reductions of £3.2m or 32% over four years. This was assumed to be evenly spread over the four years;
- c) Additional resources would be required for a number of initiatives including the Local Development Framework, the homelessness strategy and the leisure centre;
- d) A continuation of the annual increase in the national concessionary fares scheme, to facilitate transitional costs of the transfer of the scheme to KCC;
- e) The use of all available capital receipts to fund the capital programme, reducing the level of investment income;
- f) A need to borrow up to £2.0m to finance capital expenditure, creating a need for revenue resources to service the debt;
- g) That the current policy to maintain a minimum balance of 10% of net revenue spend is maintained;
- h) That future Council Tax increases be equivalent to the 2010/11 increase for the purpose of developing the strategy;
- i) That a 0.5% increase in the Council Tax Base be assumed;
- j) That the triennial review of the pension fund would produce a valuation that required an increase in the Council's contribution equivalent to £0.5m per annum for three years.

1.4.3 A number of risks were identified as part of the initial projection as follows:

- a) The uncertainty surrounding the spending review and its effect upon the formula grant assumptions made in the strategy;

- b) The potential non-delivery of the capital receipts from the sale of assets assumed during the programme period, leading to the possible need for additional borrowing to finance the capital programme.
- c) The potential future loss of Homes and Community Agency (HCA) grant aid to the Council's capital programme following the intensive investment programme since 2008/09.
- d) The continuing risk of an income shortfall on the revenue budget due to the recession.

1.4.4 Following these decisions a further report to agree the approach to budget consultation for 2010/11, was approved by Cabinet.

1.5 Economic Background

1.5.1 The recession has had a significant impact upon the Council over the past three years. This impact has led to major changes in the Council's financial strategy. This is most noticeable in its effect upon the income levels achieved by Council services.

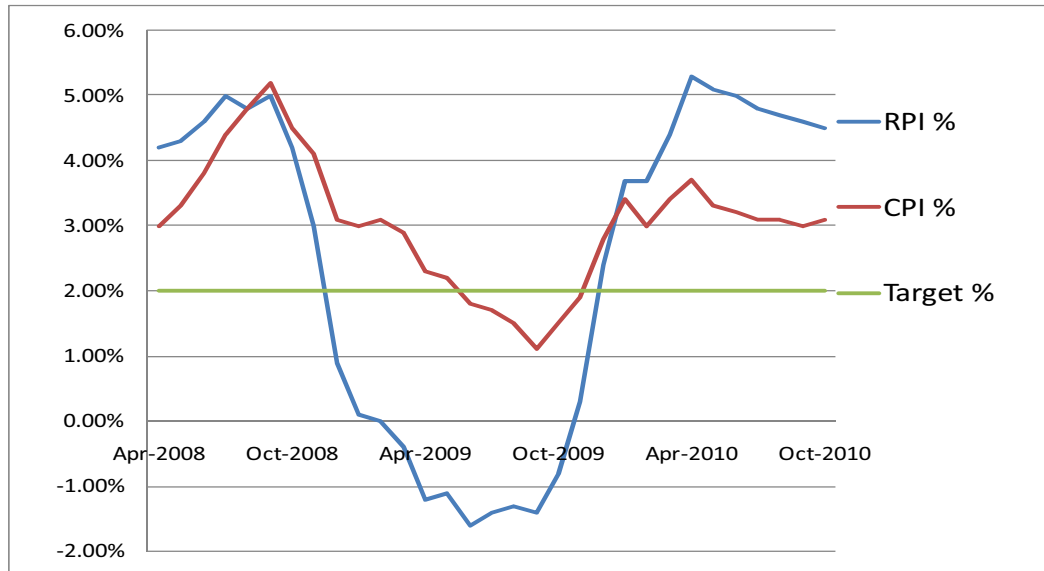
1.5.2 By the end of 2010/11 the Council will have reduced budgeted expectations of income generation by £2.1m per annum. The mid year projection suggests that this reduced target will be achieved. The projection was previously reported to Cabinet as part of the second quarter's budget monitoring report.

1.5.3 The economic indicators for October 2010, the most up to date indicators available at the time of writing, give a mixed message on the strength of the economy.

- a) Consumer Price Index (CPI) inflation rose to 3.2% (3.1% previous month)
- b) Retail Price Index (RPI) inflation fell to 4.5% (4.6% previous month)
- c) In the quarter to September 2010, the economy grew by 0.8% (1.2% in previous quarter)
- d) Unemployment fell to 2.45m or 7.7% of the economically active population in September 2010 (down 17,000 from a year earlier)

1.5.4 The CPI reported above is more than 1% above the Government's 2% target. To place the current position into context with the recession the chart below plots CPI and RPI as annual percentage

increases (or decreases) over the period since April 2008. As can be seen, the indices have fluctuated but have recently remained above 2% for a significant period.



- 1.5.5 At the time of writing the Office of Budget Responsibility predicts current year growth as 1.8%, then 2.1% and 2.6% in the following two years, 2011 and 2012. The CBI, however, see these figures as optimistic.
- 1.5.6 The economy will be affected by the Government's actions as part of the spending review announced in October 2010. The expectation nationally is that borrowing will be held just below £150 billion for the year. In future years public sector spending reductions will remove £103 billion of this annual borrowing.
- 1.5.7 The intended result of the combined effect of economic growth and a reduced annual deficit is to stabilise the economy and enable a rise out of the recession. The major risk to government strategy is that reduced public sector spending may adversely affect economic growth. Economists' views on this matter are very mixed at this time.
- 1.6 Review of 2010/11 to date
- 1.6.1 Cabinet has received two quarterly monitoring reports for 2010/11 in August and October 2010. It is clear from these reports that management action has ensured the current year's budget is resilient, enabling a stable base for future financial pressures to be addressed by the Council.

- 1.6.2 The mid year variance was reported to Cabinet in October 2010 as a favourable variance of £0.75m. A number of significant issues were identified that, in the main, related to time limited issues. Examples included an underspend on concessionary fares which will be the responsibility of the County Council from April 2011 and a business rates rebate for the Tonbridge Road property that has been demolished and will incur no future costs to the point of sale.
- 1.6.3 The Capital Programme, as approved by Council in March 2010, has been revised during this financial year by Cabinet's approval of slippage to future years. The current programme was last considered by Cabinet in November 2010 and expected expenditure in year has reduced to £8.2m. In addition the resources required to finance this reduced level of capital expenditure in 2010/11 are available to the Council. This is primarily due to the fact that the proceeds from the sale of Armstrong Road Depot have been received.
- 1.6.4 This slippage does not affect the overall programme for 2010/11 to 2012/13 as the majority of change relates to the re-profiling of scheme costs between years. This means prudential borrowing or additional capital receipts of £2.4m will still be required by 2012/13 based on current funding assumptions. This issue is considered further in section 1.9 which discusses the future Capital Programme.
- 1.6.5 Revenue balances continue to achieve the Council's policy of a minimum of 10% of net revenue spend after provisional allocation and use as approved by Council in March 2010. One significant variance to the use approved by Council in March 2010 is that there is no longer a requirement to repay VAT on exempt supplies, estimated at £0.2m as a consequence of the major works at the crematorium in 2009/10. This balance is now an additional uncommitted resource.
- 1.6.6 Along with the quarterly budget monitoring reports Cabinet has received quarterly performance reports during the year. At September 2010 the Council's performance showed that 82% of KPIs and LPIs are forecast to end the year at or above target. This is slightly down on the achievement reported to September 2009.
- 1.7 Review of Strategic Projection
- 1.7.1 In July 2010 Cabinet considered three scenarios for the strategic projection and approved their favoured option. This scenario has been used to complete all work since that time and all consultation.
- 1.7.2 Attached as **APPENDIX A** is a revised strategic projection. Since July a number of factors have changed. The major change is that,

following the announcement of the four year spending review, both the medium term financial strategy and the strategic plan have a minimum four year outlook. Specific changes since July 2010 that affect the four year period are given in the table below:

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Reduced Income from Regeneration			-230	+230
Pension Fund Valuation	-500	-500	-500	
Concessionary Fares	-150			
Refuse & Recycling			-300	
Local Development Framework	-400			
Homelessness Strategy	-70			
Cost of Borrowing	-150		+150	
Loss of Income	-50			
Growth Provision	+100			
	-1,120	-500	-880	+230

1.7.3 Further detail of each category of change is given below:-

- a) Reduced income from regeneration provided for the consequences of work on regeneration from a more focused use of some Council resources. Current plans no longer require the single year investment of £0.23m.
- b) Pension fund valuation provided for the expected increase in employer contributions to the pension fund. A successful year by the pension fund, maintained by Kent County Council, together with recent changes nationally, such as connecting future increases to CPI inflation and the move to increase the state pension age, have meant that the value of the fund in 2010 is similar to the value in 2007. The consequence of this is that the Council does not need to increase its contribution towards the deficit.
- c) Concessionary fares provided for transitional and residual costs of the transfer of the service to Kent County Council in 2011/12. Likely residual costs have been identified and funded from within current resources and transitional costs, if they occur, can be covered by the unallocated resources within balances.
- d) Refuse and recycling provided for a future increase in cost at the time of the new contract. At this time it is considered that the new contract in 2013 will not require growth, due to the potential for planned services changes.
- e) Local Development Framework (LDF) work was previously funded from balances. These balances were transferred to

finance the Council's work on the Kent International Gateway. The previous strategic financial projection assumed £0.4m growth for the LDF, but this is a one-off funding requirement. This has been removed and replaced with a proposal for a £0.4m allocation from balances.

- f) Homelessness strategy provided replacement funding for a grant that was expected to cease in 2011/12. The recent finance settlement announcement that this grant will not only continue but be enhanced means there is no requirement to provide alternative funding.
- g) The cost of borrowing provided for the possibility that up to £2m of prudential borrowing would be required in 2010/11 and again in 2011/12. Although possibility of prudential borrowing being required to complete the full capital programme still exists, sale of assets and slippage in the programme during 2010/11 mean sufficient funding should be available for this year. This does not remove the possible future need and the pressure has been moved to 2012/13 and 2013/14 rather than removed.
- h) Loss of income provided for non-specific consequences of the recession on various income generating services. The Council has taken action each year of the recession to reduce its reliance on income in areas affected by the recession. As of 31 March 2011 the expected income from fees and charges has been reduced by over £2m since 31 March 2008. The budget monitoring for 2010/11 shows income generation to be matching this reduced target. This suggests the Council has matched expectation to demand and can reduce its assumptions relating to future losses.
- i) The growth provision has been amended to ensure that the one-off costs of achieving organisational change can be funded.

1.8 Available Resources

1.8.1 **The Council Tax**

- 1.8.1.1 As part of its initial consideration of the MTFS in July 2010, Cabinet agreed to use a 2.5% increase in Council Tax plus a 0.5% increase in the tax base as working assumptions.
- 1.8.1.2 At the meeting of the General Purposes Group on 9 December 2010, a tax base of 60,303.1 was set for 2011/12. This represents a 0.9% increase over the tax base set for 2010/11. The working assumption agreed by Cabinet in July 2010 was an increase of 0.5% which is equivalent to a tax base of 60,064.0. The revised tax base of

60,303.1 results in an increase of £53,000 in the base Council Tax position for 2011/12 before consideration of any percentage increase.

- 1.8.1.3 As part of the spending review 2010 the Government announced, in October, details of its council tax freeze proposal. The proposal is a single year tax freeze (or reduction). Compensation is available through a central government grant equivalent to a 2.5% increase in council tax. This compensation is for four years only and cash limited to the value of the first year's grant.
- 1.8.1.4 The strategic projection at **APPENDIX A** uses the tax base agreed by General Purposes Group and assumes a Council Tax freeze in 2011/12 with the receipt of the cash and time limited grant detailed above. When compared to a model with an actual 2.5% increase in Council Tax in 2011/12, the Council's resources will reduce by £62k which is the loss of that percentage increase over the four years of the grant. In addition, 2015/16 will require additional savings of £380k as a consequence of the loss of grant, a total loss of Council tax funding of £442k.
- 1.8.1.5 The Government is proposing legislation under the localism bill to ensure Council Tax increases cannot be excessive without approval through a local referendum. Until that time it is expected that the government will use capping powers to limit increases. These matters combined mean that it is unlikely that a later increase in Council Tax could compensate for the loss of grant in 2015/16.

1.8.2 **Revenue Support Grant**

- 1.8.2.1 Following the Local Government Finance settlement announcement on 13 December 2010 there have been significant changes to the profile of the Revenue Support Grant.
- 1.8.2.2 Nationally, the announcement's headline issues are:
 - a) A two year settlement with the second year remaining provisional.
 - b) The announcement of plans to adopt a new system of distributing local government funding from 2013; consultation to commence in early 2011.
 - c) A total reduction in grant from £28bn to £24.9bn in 2011/12 which is equivalent to a 12.1% real terms reduction.
 - d) An arrangement for the "tailored" distribution of grants that have previously been ring fenced.

- e) An arrangement for transitional grant for authorities where "revenue spending power" reduces by more than 8.9%.
- f) Changes to damping provisions including the categorisation of authorities into four groups, dependent upon the ratio of grant to Council Tax.

1.8.2.3 The Council's specific settlement issues are:

- a) A grant of £6.45m in 2011/12 and a provisional grant of £5.72m in 2012/13.
- b) A reduction in grant for concessionary fares of £1.77m coupled with a loss of £0.47m from the Department for Transport.
- c) A number of minor adjustments relating to other changes in responsibility, valued at a reduction of £56,495.
- d) Damping at the level of the highest floor group creating a final reduction of -16.58% from the adjusted 2010/11 grant.

1.8.2.4 The two year settlement can be projected to cover four years, based on the spending review data announced by central government in October 2010. The grant reduction in each year, compared to the prediction made in the July 2010 report to Cabinet is given below:-

	Reduction in Grant July 2010 £000	Reduction in Grant Settlement £000
2011/12	-800	-1,282
2012/13	-800	-734
2013/14	-800	-69
2014/15	-800	-429
	-3,200	-2,514

1.8.2.5 There are two major differences between the initial projection and the settlement figures:

- a) The initial projection assumed an even spread of grant reductions however the government has "front-loaded" reductions for local government in order to protect other public services.
- b) The initial projection assumed the reduction to the Council's grant would be made before the transfer out of the £1.8m concessionary fares sum. The settlement reductions have

occurred after the transfer, which has reduced the loss of grant to £0.7m.

1.8.2.6 Although the tailored distribution of grants previously ring fenced has not directly affected this Council, such changes will have affected Kent County Council. The potential negative impact of the County Council's funding reduction will need to be considered and actions identified to mitigate the impact.

1.8.3 Budget requirement and Spending Level.

1.8.3.1 Following the detailed analysis of the level of Council Tax and the settlement notification, it is possible to identify a provisional spending level or budget requirement for each year of the spending review as follows:

	2011/12 £,000	2012/13 £000	2013/14 £000	2014/15 £000
Council Tax Collectable	13,411	13,813	14,227	14,654
Council Tax Adjustment	15	-	-	-
Council Tax Grant	335	335	335	335
Revenue Support Grant	6,449	5,715	5,646	5,217
Budget Requirement	20,210	19,863	20,208	20,206

1.8.4 Savings Target & Efficiency

1.8.4.1 The strategic projection approved by Cabinet in July 2010 required a total savings target of £7.4m over four years to 2014/15. The revised strategic projection at **APPENDIX A** takes account of all the changes detailed earlier in this report and identifies a four year savings target of £4.3m. Due to the profiling of the reductions this target is not evenly spread across the four years. The table below compares annual figures from July 2010 with the current projection.

	July 2010 £,000	Current £,000
2011/12	2,771	1,878
2012/13	1,647	1,068
2013/14	2,168	608
2014/15	844	773
TOTAL	7,430	4,327

1.8.4.2 Following the July 2010 Cabinet meeting a series of proposals have been developed that will achieve the targeted savings for each of the first three years with a contribution to the fourth year. Attached at **APPENDIX B** is a summary, by portfolio, of the value of the savings proposals in each year.

- 1.8.4.3 If the budget is set in March 2011 with a Council Tax freeze and the associated four year grant there will be an increase in the budget pressure in year five. This is set out above in paragraph 1.8.1.4 and the consequence is included in the financial projection at **APPENDIX A**. At this time it would be prudent for the Council to recognise this additional pressure and to identify actions to mitigate the additional pressure in advance of the end of the four year grant.
- 1.8.4.4 At this stage the proposals are being developed and, where they include organisational change in 2011/12, staff consultation has begun or will begin in January 2011. At this time proposals are not fully developed to provide specific details.
- 1.8.4.5 One major proposal included in the summary at **APPENDIX B** relates to the method of contribution to the back funding element of the pension fund. In the past the Council has contributed through a percentage on-cost to the contribution by employees. This could continue for the next three years at a rate based upon predicted employment levels over that period. Alternatively a lump sum payment can be agreed for each of the three years as follows:-

	£,000
2011/12	1,206
2012/13	1,260
2013/14	1,325

The summary given at **APPENDIX B** assumes that the option to pay an annual lump sum as detailed in the table above is agreed. This option produces an annual saving of £0.2m to the Council whilst removing the risk to the fund value from setting the on-cost percentage too low or too high.

- 1.8.4.6 Each of the proposals that make up the four year savings target has been risk rated and a monitoring process has been developed within the Council's performance management system "Covalent" in order to provide Cabinet and Management Team with detailed progress reports.

1.9 Capital Programme

- 1.9.1 The current Capital Programme 2010/11 to 2012/13 was approved by Council in March 2010 and subsequently amended by Cabinet in response to monitoring reports provided during the year.

- 1.9.2 As stated above a number of approved changes have occurred during the year. In addition, in preparation for this report, the schemes in the current programme have been reviewed to identify

where budgets could be reduced. During this time no new schemes have been proposed for inclusion and a number of current schemes have been identified as requiring a reduced budget. The changes identified through this review have been made and a proposed programme for the period 2010/11 to 2014/15 is attached as **APPENDIX C.**

- 1.9.3 The 2010/11 programme is fully funded from resources currently held or from grant commitments. The 2011/12 programme can be fully funded from the currently approved asset sales with a small balance being carried forward to 2012/13. Resources to complete the 2012/13 programme do not currently meet need. A balance of £2.4m is required from further asset sales, grants and contributions or prudential borrowing. This level of prudential borrowing is within the limit approved by Council in March 2010.
- 1.9.4 The extension to the programme for future years, by the continuation of ongoing schemes at their 2012/13 levels, would require identification of additional resources or further borrowing of £1.8m per annum. It should be noted that borrowing at this level would mean exceeding the current prudential limit, would place increased pressure on the strategic projection and require the approval of Council.
- 1.9.5 In accordance with the current MTFS policy, inclusion of a scheme in the programme does not confirm the ability to commence the scheme or permission to incur expenditure unless resources to finance the scheme exist and have been prioritised to that scheme. Cabinet will be required to consider the commencement of individual schemes as future resources become available to the Council.
- 1.9.6 Further opportunities for funding will continue to be explored and identified. It should be noted that a final recommendation on the Capital Programme 2011/12 to 2014/15 is not required until the February 2011 cabinet meeting. The draft programme is however required for the consultation with Corporate Services Overview and Scrutiny Committee.
- 1.10 Review of Balances
- 1.10.1 The MTFS has, in the past, envisaged that the Council will maintain a minimum level of revenue balances of £2m and that Cabinet will set working balances at 10% of net revenue expenditure.
- 1.10.2 Based on the current strategic projection this would set a working balance close to or below the minimum level set by Council. It may be appropriate this year to consider the level of both. The table below shows the value of 10% of net revenue expenditure for the

four years of the spending review period. It also considers the percentage level of working balance that Cabinet's current level of £2.3m would represent of the revised net revenue expenditure (NRE):

Year	Net Revenue Expenditure £,000	10% Balance £,000	Current balance as % NRE
2011/12	20,210	2,021	11.4
2012/13	19,863	1,986	11.6
2013/14	20,208	2,021	11.4
2014/15	20,202	2,020	11.4

- 1.10.3 At this time there is a significant level of unallocated balances available to the Council; there also remains significant uncertainty in terms of the economic environment. It is therefore recommended that the Council takes a prudent approach and maintains a minimum working balance at a cash value of £2.3m and reviews the position regularly taking into account strategic risk and the level of unallocated balances.
- 1.10.4 Cabinet have recently considered a report on the work of the Carbon Reduction Working Party. This group is developing proposals that will enable the Council to achieve reductions in carbon emissions and achieve long term reductions in energy costs. In order to achieve the necessary changes some schemes require up front investment. It is proposed to allocate resources from within balances to provide funding for an invest to save arrangement to achieve these carbon reduction proposals. At this time costs totalling £55,000 have been identified which all have longer term payback periods than the current invest to save payback period of 5 years. A detailed carbon reduction plan and programme of work is scheduled for presentation to Cabinet in March 2011.
- 1.10.5 In response to the Government's localism agenda it is proposed to develop the Council's role as an enabler of localism related activity through a fund of £0.1m that could be set aside from balances. The fund could enable the borough's community based groups and residents to deliver the Council's priorities and achieve efficiencies and improved outcomes. The purpose and use of the fund would be developed through discussion and engagement with Councillors, businesses and voluntary and community groups, which is planned to commence in January 2011, and could include facilitating the establishment of new community based initiatives and social enterprises through direct support and leveraging funds from other sources including the government and national lottery.
- 1.10.6 Attached at **APPENDIX D** is a summary of the current level of balances including a projection to 31 March 2011. Also shown are the proposals for the use of balances outlined elsewhere in this

report. As at 31 March 2011 balances are predicted to be £5.8m of which £2.3m is held as minimum working balance, a further £0.9m is unallocated general balances and £2m is available from the VAT reclaim. After incorporation of all uses proposed in this report balances will total £4.8m and including the VAT reclaim £1.9m of this will remain unallocated.

1.11 Budget Consultation

1.11.1 In August 2010, Cabinet considered a report on options for budget consultation for 2011/12 onwards. Cabinet approved a consultation in line with the programme set out below:

A minimum twelve week consultation to:

- Raise awareness of the budget situation, the statutory services the Council provides, and the savings options considered by Cabinet;
- To find out which discretionary services matter most to local people;
- To encourage comments on the service options considered by Cabinet; and
- To ask for other suggestions for savings.

1.11.2 A road show, website pages and a consultation leaflet was designed with the theme of "MY Council, what matters to ME" to focus the consultation on the issues that matter most to Maidstone people.

1.11.3 The main activity at each road show was designed to encourage respondents to indicate which discretionary areas of service matter most to them. Respondents were given a choice of eight discretionary services and asked to indicate up to four which matter most to them.

1.11.4 The eight discretionary areas were:

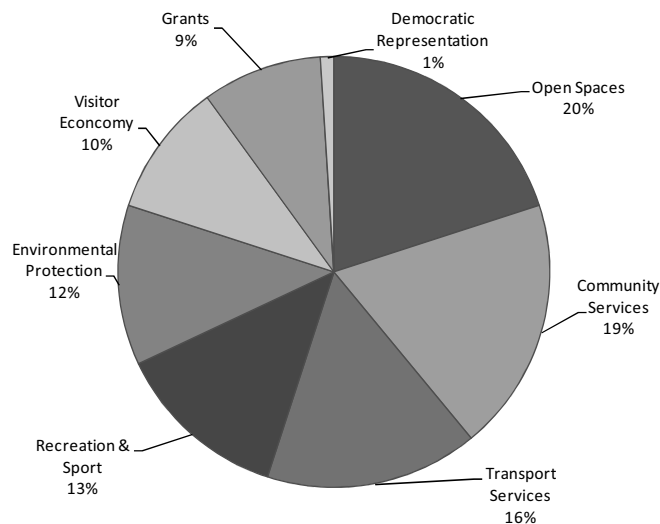
- Community Services – community safety, CCTV and community development
- Democratic Representation – civic occasions and events
- Environmental Protection – health promotion and toilets
- Transport Services – bus shelters and rural bus services
- Recreation & Sport – Maidstone Leisure Centre, sports and youth activities
- Open spaces, parks and recreation grounds
- Grants to voluntary and charitable organisations
- Tourism, visitor information centre, town centre management, conference venue marketing and Christmas light

- 1.11.5 Officers and Members of the Cabinet took the road show to 12 public events at locations such as Tesco Grove Green supermarket, Maidstone Leisure Centre, Staplehurst Library, Yalding Farmers Market and Maidstone Gateway. The events were a mix of rural and urban locations. In all 1,829 respondents completed the discretionary services activity.
- 1.11.6 In addition to this activity, the road show was taken to the four neighbourhood forums, the Citizens Advice Bureau (CAB) meeting, the Older Person's Forum and the Voluntary and Community Sector focus group. In addition, at the rural conference, where a briefing on the budget strategy was given, the leaflet was handed to all attendees.
- 1.11.7 Council staff were consulted through the Staff Forum and at a series of listening days. A briefing was given at the rural conference and delegates were given the explanatory leaflet.
- 1.11.8 The notes of the neighbourhood forum meetings are attached at **APPENDIX E**.
- 1.11.9 More than 50 people completed the consultation leaflet or web form. A full list of the comments is attached at **APPENDIX F**.
- 1.11.10 These comments show that there is a consensus of opinion on a number of issues including the need to maximise efficiency through savings on consumables such as paper, envelopes and postage, using buying consortiums and reducing office and buildings costs such as heating and lighting and opening hours.
- 1.11.11 There is support, particularly at the Neighbourhood Forums for more partnerships working and outsourcing work and a suggestion that powers and services could be devolved to parish councils to save money.
- 1.11.12 A number of people have written about concurrent functions with comments about fairness.
- 1.11.13 Several consultees encouraged the Council to consider raising more income from services. Suggestions include planning, parking, waste collection, planning enforcement, charging entry at the museum, and charging for bus passes.
- 1.11.14 Democratic services were mentioned at the Neighbourhood Forums and by other consultees. Suggestions included saving money on elections costs, reducing the number of councillors and going to four yearly elections. This area was ranked the least important discretionary area by consultees.

- 1.11.15 Grants were the second least important area for consultees but there was an acknowledgement in the comments of the part played by the voluntary sector now and in future.
- 1.11.16 Capital spending was mentioned by some with suggestions that the programme should be rescheduled or the High Street Regeneration programme or Museum East Wing project cut or reduced.
- 1.11.17 Officer and Councillor remuneration and expenses were mentioned by several consultees suggesting savings in salaries and pension costs.
- 1.11.18 There were several comments in support of the cabinet's initial thoughts on savings and efficiencies. These included "Cabinet's proposals to return people to work are a real step in the right direction". "Focus on central services is the right focus". "Savings should be focused around lean processes of shared services and procurement".
- 1.11.19 The comments and opinions are detailed in the appendices however the key issues that require further review are detailed below:
- Areas requiring more consideration:
 - Joint Working, including procurement;
 - Central service reductions;
 - Staff and Member direct cost reductions.
 - New areas for focus:
 - Office Accommodation;
 - Cost of democracy; and
 - Income generation.
 - Areas of conflicting public opinion:
 - Reductions in grant aid;
 - Extent of outsourcing; and
 - Extent of localism.
- 1.11.20 In addition to these issues, the table highlights the result of the survey into discretionary services that matter most to the residents of the borough. This table is reproduced in the order of importance according to the result:

Service Area	Description	% of Vote
Open Spaces	Parks & open spaces	20
Community Services	Community Safety, Community Development & CCTV	19
Transport Services	Support for socially desirable buses & Bus shelter maintenance	16
Recreation & Sport	Leisure Centre, youth & sport provision	13
Environmental Protection	Public conveniences and health promotion	12
Visitor Economy	Tourism and visitor information centre	10
Grants	Grant aid	9
Democratic Representation	Town Hall and civic events	1

This result is represented below as a pie chart for ease of comparison:



1.11.21 It should be noted that the number of issues identified through the consultation for further consideration is low. The vast majority of opinion and commentary supports the actions already taken by Cabinet or recommended in this report.

1.11.22 Additional areas for consideration include further efficiency in the use of office space, the cost of democracy and the opportunities for enhancing income generation. Further work on these issues will be undertaken to identify opportunities for savings.

1.12 Links to the Strategic Plan

- 1.12.1 The review of the Strategic Plan in preparation for 2011/12 onwards is presented to Cabinet elsewhere on this agenda. This draft Strategic Plan provides greater simplicity and focus on the priorities of the Council.
- 1.12.2 The review has been progressed jointly by the Policy & Performance Team and Corporate Finance. The purpose of the co-ordinated approach was to ensure appropriate links between the Strategic Plan and the MTFS.
- 1.12.3 An updated draft of the MTFS is attached as **APPENDIX G** and is, in essence, the formal statement of the objectives outlined in this budget strategy report. The final document will be published as an integral part of the budget and will therefore be directly linked to the final approved versions of the strategic projection at Appendix A, the savings proposals at Appendix B and the capital programme at Appendix C.
- 1.12.4 The MTFS has been enhanced by the inclusion of a full risk analysis and it is intended that, along with consultation with Corporate Services Overview and Scrutiny, this risk analysis will form the focus of additional consultation this year with the Audit Committee in relation to its impact on strategic risk and governance. The risk analysis is separately attached as **APPENDIX G**.
- 1.13 Alternative Action and why not Recommended
- 1.13.1 A number of alternative assumptions are included in the report and appendices for Cabinet's consideration.
- 1.13.2 The production of the budget for 2011/12 is an element of the statutory process of calculating the Council Tax for 2011/12. In addition the completed and approved document is required to be robust and adequate under the Local Government Act 2003. A statement to this effect must be given by the Chief Financial Officer. On this basis the actions outline in this report must be considered.
- 1.14 Impact on Corporate Objectives
- 1.14.1 The budget strategy and the resultant MTFS involve assessing the level of resources available for the delivery of the Council's key outcomes and is a means by which the Council directs these resources. In particular this report should be seen as complementary to the Strategic Plan report elsewhere on this agenda.
- 1.15 Risk Management

- 1.15.1 The level of resources, the impact of service demands and the overall budget process are all strategic risks. This is particularly so in a recession such as is currently being experienced. The process of development of this budget strategy commenced in July 2010 and is supported by the budget monitoring reports. Both contain assessment of budget pressures in 2010/11 and future years, consideration of the level of resources available, review of a wide range of factors affecting the budget and consideration of other financial activity of the Council. This work enables Cabinet to address the strategic risks in an effective and consistent manner over the medium term financial strategy period.
- 1.15.2 The projection discussed in this report includes a Council Tax increase that enables a balanced budget to be produced. This increase is considered in light of the recent announcement by central government regarding expectations on council tax increases. The increase used in this report is in line with the government expected Council Tax freeze.
- 1.15.3 The MTFs attached at **APPENDIX G** has undergone a risk assessment of the key risk incorporated within the strategy. This assessment is at a level below the strategic risk recognised above and is attached as **APPENDIX H**. This assessment will be monitored and, if the risks begin to materialise, the issues will be escalated to Management Team and Cabinet through the standard monitoring process and reports.

1.16 Other Implications

1.16.1

1.	Financial	X
2.	Staffing	X
3.	Legal	X
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.16.2 The financial implications are detailed in the body of this report.

1.16.3 The budget strategy considers the resources necessary to fund staffing levels and pay increments. In addition the report contains

proposals that may produce organisational change following the appropriate consultation.

1.16.4 This report intends to provide the Cabinet with firm proposals to enable the Council to set a balanced budget and a Council tax for the year 2011/12 as it is statutorily obliged to do.

1.17 Relevant Documents

1.17.1 Appendices

- A – Strategic Projection 2011/12 to 2015/16
- B – Potential savings 2011/12 to 2014/15
- C – Capital Programme 2010/11 to 2014/15
- D – General Fund Balances
- E – Comments from the Neighbourhood Forums
- F – Analysis of consultation responses
- G – Medium Term Financial Strategy
- H – Financial Risk Analysis.

1.17.2 Background Documents

Consultation from the Department for Communities and Local Government on Revenue Grant Settlement 2011/12

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision? Yes No

If yes, when did it appear in the Forward Plan? August 2010.

Is this an Urgent Key Decision? Yes No

Reason for Urgency

N/A

BUDGET STRATEGY 2011/12 ONWARDS

DRAFT STRATEGIC PROJECTION 2011/12 to 2015/16

2010/11 £,000		2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000
	FINANCED BY					
9,510	RSG	7,731	6,449	5,715	5,646	5,217
	RSG LOSS	-1,282	-734	-69	-429	-396
11	COLLECTION FUND ADJUSTMENT	15				
13,290	COUNCIL TAX	13,411	13,813	14,227	14,654	15,094
	COUNCIL TAX GRANT	335	335	335	335	
22,811	TOTAL RESOURCES AVAILABLE	20,210	19,863	20,208	20,206	19,915
22,295	CURRENT SERVICE SPEND	20,990	20,210	19,863	20,208	20,206
	INFLATION INCREASES					
320	PAY AND CONTRACTUAL COMMITMENTS	322	211	263	351	436
	ADJUSTMENTS FOR CONTRACTUAL COMMITMENTS					
80	ELECTIONS			-80	180	
80	REDUCTION IN BENEFIT GRANT	36	40	40	40	40
50	CAR PARK INCOME LOSS	50	50	50	50	50
130	COBTREE FINAL PAYMENT	80	20			
	LOST INCOME FROM REGENERATION			200		
	ADJUSTMENT FOR NATIONAL INITIATIVES					
200	CONCESSIONARY FARES					
115	RECYCLING					
	COUNCIL TAX BENEFIT			80		
	LOCAL PRIORITIES					
25	ASSET MANAGEMENT					
25	CIVIC WARDEN SERVICE					
370	LOSS OF INTEREST	150	100	100		
	COST OF BORROWING		150	150		
275	LEISURE CENTRE REFURBISHMENT	160				
250	LOSS OF INCOME	50				
200	PARK & RIDE					
	MINOR INITIATIVES					
	GROWTH PROVISION	250	150	150	150	150
24,415	TOTAL PREDICTED REQUIREMENT	22,088	20,931	20,816	20,979	20,882
1,604	ANNUAL SAVINGS TARGET	1,878	1,068	608	773	967

BUDGET STRATEGY 2011/12 ONWARDS

SAVINGS PROPOSALS

PORTFOLIO:	Values			
	Sum of 2011/12 £	Sum of 2012/13 £	Sum of 2013/14 £	Sum of 2014/15 £
1. Leader				
Central Services	266,160	50,000	128,140	
Contingency		100,000	100,000	80,000
Pension Backfunding	217,270			
1. Leader Total	483,430	150,000	228,140	80,000
2. Community Services				
Community Services	176,680	11,000		
Grants	209,400	25,000		
2. Community Services Total	386,080	36,000		
3. Corporate Services				
Audit Partnership	41,000			
Central Services	229,170	388,520	177,530	
Change & Scrutiny			30,290	
Corporate Support				
Democratic Services		23,380		
Licensing Partnership				
Procurement		84,290		
Property Services	87,920			
3. Corporate Services Total	358,090	496,190	207,820	
4. Environment				
Parking	37,000	130,000	100,000	
Procurement				
Regulatory Services	111,000			
Street Cleansing	126,000	7,000		
Waste & Recycling			40,000	
4. Environment Total	274,000	137,000	140,000	
5. Leisure & Culture				
Cemetery & Crematorium	40,100			
Culture & Heritage		86,500		
Open Spaces	52,590	30,290		
Recreation & Sport	30,000	15,000		
5. Leisure & Culture Total	122,690	131,790		
6. Regeneration				
Building Control	30,000			
Economic Development	117,960			
Housing	50,000	25,000	25,000	
Planning	54,990	93,000	7,000	
6. Regeneration Total	252,950	118,000	32,000	
Grand Total	1,877,240	1,068,980	607,960	80,000

BUDGET STRATEGY 2011/12 ONWARDS

DRAFT CAPITAL PROGRAMME 2011/12 TO 2014/15

SUMMARY

CAPITAL PROGRAMME SUMMARY	Estimate 2010/11	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14	Estimate 2014/15
	£	£	£	£	£
EXPENDITURE					
Leader of the Council	0	0	0	0	0
Community Services	27,296	250,000	0	0	0
Corporate Services	334,840	370,000	330,000	330,000	330,000
Environment	30,714	26,336	0	0	0
Leisure & Culture	3,164,019	3,319,161	50,000	50,000	50,000
Regeneration	4,100,770	6,035,000	3,070,000	1,880,000	1,880,000
GRAND TOTAL - ALL PORTFOLIOS	7,657,639	10,000,497	3,450,000	2,260,000	2,260,000

FUNDING					
Revenue Support	1,643,350				
Use of Capital Receipts - Asset Disposals	0	3,471,411			
- Sale of Council Houses / VAT	0				
- Previous Receipts/Carry Forward	1,914,164	3,668,136	328,589		
Capital Grants and Contributions	4,100,125	2,860,950	750,000	450,000	450,000
Borrowing	0	0	2,371,411	1,810,000	1,810,000
GRAND TOTAL - ALL PORTFOLIOS	7,657,639	10,000,497	3,450,000	2,260,000	2,260,000

BUDGET STRATEGY 2011/12 ONWARDS

DRAFT CAPITAL PROGRAMME 2011/12 TO 2014/15

LEADER OF THE COUNCIL	Estimate 2010/11	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14	Estimate 2014/15
	£	£	£	£	£
LEADER OF THE COUNCIL TOTAL	0	0	0	0	0

COMMUNITY SERVICES	Estimate 2010/11	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14	Estimate 2014/15
	£	£	£	£	£
CCTV	8,816	250,000	0	0	0
Village Hall Grants	18,480	0	0	0	0
COMMUNITY SERVICES TOTAL	27,296	250,000	0	0	0

CORPORATE SERVICES	Estimate 2010/11	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14	Estimate 2014/15
	£	£	£	£	£
Asset Management / Corporate Property	151,590	190,000	150,000	150,000	150,000
Software / PC Upgrade and Replacement	180,000	180,000	180,000	180,000	180,000
Upgrade Amenity lighting	3,250	0	0	0	0
CORPORATE SERVICES TOTAL	334,840	370,000	330,000	330,000	330,000

ENVIRONMENT	Estimate 2010/11	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14	Estimate 2014/15
	£	£	£	£	£
CCTV - Park & Ride Sites	5,200	0	0	0	0
Improvements to the Council's Car Parks	814	26,336	0	0	0
Land Drainage/Improvement to Ditches & Watercourses	24,700	0	0	0	0
ENVIRONMENT TOTAL	30,714	26,336	0	0	0

BUDGET STRATEGY 2011/12 ONWARDS

DRAFT CAPITAL PROGRAMME 2011/12 TO 2014/15

LEISURE & CULTURE	Estimate 2010/11	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14	Estimate 2014/15
	£	£	£	£	£
Brenchley Gardens - Upgrading & Improvements	8,650	0	0	0	0
Cobtree Golf Course	6,950	0	0	0	0
Continued Improvements to Play Areas	96,200	125,000	50,000	50,000	50,000
Green Space Strategy	50,500	22,540	0	0	0
Leisure Centre Roof	570,830	0	0	0	0
Mercury Abatement Works and Cremator Replacement	112,200	0	0	0	0
Mote Park Regeneration	278,150	2,170,530	0	0	0
Museum Improvements (Access / Toilets)	1,975,339	966,091	0	0	0
Small Scale Capital Works Programme	65,200	35,000	0	0	0
LEISURE & CULTURE TOTAL	3,164,019	3,319,161	50,000	50,000	50,000

REGENERATION	Estimate 2010/11	Estimate 2011/12	Estimate 2012/13	Estimate 2013/14	Estimate 2014/15
	£	£	£	£	£
Gypsy Site Improvements	50,000	160,000	0	0	0
Growth Point - High Street Project	198,630	2,260,000	1,190,000	0	0
Planning Delivery	9,350	0	0	0	0
Renovation Grants	1,844,000	1,844,000	1,380,000	1,380,000	1,380,000
South Maidstone Project	0	0	0	0	0
Support for Social Housing	1,853,790	1,721,000	500,000	500,000	500,000
Regeneration Schemes	145,000	50,000	0	0	0
REGENERATION TOTAL	4,100,770	6,035,000	3,070,000	1,880,000	1,880,000

BUDGET STRATEGY 2011/12 ONWARDS

GENERAL FUND BALANCES

	PROVISIONALLY ALLOCATED					Overall Total £000	
	Total General Fund £000	Trading Accounts £000	Asset Replacement £000	VAT Reclaim £,000	Invest to Save £000		LDF Fund £000
Balance 31 March 2010	5,222	30	7	2,227	551	352	8,389
Proposed Use 2010/11	-255		40	-250	-12	-352	-829
Use of 2009/10 carry Forward in 2010/11	-1,747						-1,747
Projected Balance 31/03/2011	3,220	30	47	1,977	539	0	5,813
Uses Proposed in Report							
Concessionary Fares Transition	-150						-150
Local Development Framework	-400						-400
Shared Service Set-up Cost				-336			-336
Carbon Reduction Plans					-55		-55
Localism Related Activity				-100			-100
Projected Future Balance	2,670	30	47	1,541	484	0	4,772

BUDGET STRATEGY 2011/12 ONWARDS

COMMENTS FROM THE NEIGHBOURHOOD FORUMS

**Maidstone Rural West & South Neighbourhood Forum
Marden – 21 October 2010**

Present:

Kent County Council

County Councillors Hotson and Mrs Stockell

Maidstone Borough Council

Councillors Nelson-Gracie (Chairman) and Parr

Parish Council Members

Councillors Miss Brown (Yalding) and Butcher (Staplehurst)

Visiting Members

Maidstone Borough Council

Councillor JA Wilson

Parish Councils

Councillors Hollister (Loose), Sawtell (Hunton) and Mrs Reed (Marden)

Feedback/comments:

1. The Cabinet's Proposals:

- Outsource building regulations to maximize income
- Renegotiate the leisure centre contract
- Joint working/outsourcing CCTV - Police responsibility to fund
- Reduce election costs – fewer polling stations/less paperwork/all elections at the same time
- Reduce the number of civic events
- More use of consortiums to purchase goods and services
- Reschedule the capital programme
- Consider increases in planning, parking and other fees and income
- Devolve power to local councils to realise savings in some areas
- More emphasis on economic development/does it make sense to cut

2. Other Suggestions for savings

- Save money on waste and recycling services/generate income

- Save money on paper, envelopes and postage – meeting agendas and papers
- Devolve street cleaning

3. Discretionary Services

- Discretionary Service (Table 3, consultation leaflet) - Community services, environmental protection, recreation & sport, and grants
- Core Services (Table 2, consultation leaflet) - Community services, environmental protection, transport services, and recreation & sport (specifically youth)

**Maidstone Rural North & East Neighbourhood Forum
Lenham Community Centre – 28 October 2010**

Present:

**Kent County Council
Maidstone Borough Council**

County Councillor Whittle.
Councillors - Ash, Barned (Chairman),
and Horne.

Parish Council Members

Councillors - Godfrey and Greenwood
(Lenham), Stead (Vice Chairman)
(Boxley), Cathcart (Stockbury), Cobbett
(Hollingbourne), Morley (Thurnham),
McLaggan (Detling) ,Young and Street
(Bearsted), Round (Headcorn), Evans
(Broomfield & Kingswood) and Harris
(Leeds).

Feedback/comments:

4. The Cabinet's Proposals:

- Central Services – should be cut more dramatically.
- Museum, Hazlitt, Arts – not enough savings here. Museum should charge entry.
- Contracted Services – would these be better brought back in-house?

5. Other Suggestions for savings

- Nothing should be sacrosanct.
- Simplification of the Planning structure – a North and South structure could save money.
- Look at all fixed costs of all core services.
- Enforcement – introduce a levy or fine.
- Elections – 4 yearly elections will save money.
- Concessionary Fares – age is being raised so there could be savings.
- Street Cleaning – no evidence this takes place – why does it cost so much if it is not being done.
- Democratic Representation – civic events – more savings could be made.

6. Discretionary Services

- Open spaces, parks and recreation grounds
- Economic Development
- Grants to voluntary and charitable organisations
- Transport Services

<p style="text-align: center;">Maidstone Central and North East Neighbourhood Forum St Philip's Church, Maidstone – 1 November 2010</p>
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Present:

Kent County Council
(Chairman),
Maidstone Borough Council

County Councillors Chittenden,
Robertson and Daley.
Councillors Naghi, Mrs Robertson and
Vizzard

Community Groups

Hermitage Quarry Liaison Group
College Avenue Residents Association
Churches Together Maidstone
Collis Millennium Green Trust.

Visiting Members

Maidstone Borough Council

Councillors Paterson, Ms Smith, Warner
and Mrs Wilson

Feedback/comments:

7. The Cabinet's Proposals:

- What will the cuts mean for services?
- The CAB and voluntary sector will be more important because of the cuts to public services.
- The Government is asking for savings and a Big Society.
- Cabinet members should be present on these occasions.
- Some savings will reduce some services.
- Urban and rural residents are entitled to the same level of service. Rural residents might pay twice for services.
- Where does Park and Ride sit? (NB in Box 2 - a core/important service).
- CCTV is not an essential service. It is a police responsibility and serves the town centre. Are there any proposals to save money - perhaps during non peak hours?
- Where does the money come from and where could we raise more money?
- Over the past 15 years the borough council's tax rises have been pennies per week.
- The Government's cuts will be difficult to achieve.

**Maidstone South & South East Neighbourhood Forum
Christ Church Hall, Park Wood – 11 November 2010**

Present:

Kent County Council	County Councillors Cooke, Chell, Jennifer McDonald
Maidstone Borough Council	David Barton, Ian Chittenden, David Marchant, Adrian Brindle
Parish Councillors	Derek Mortimer (Tovil PC & South Ward), Hugh Vaux (Greenhill Otham), Sue Griffith (Otham), Simon Leonard (Otham),
Others	Paul Butcher (Parkwood Youth), Michael Heath (KHS), Christopher Morgan Jones (All Saints), Steve Charman

Feedback/comments:

8. The Cabinet's Proposals:

- Concurrent functions – savings would lead to double taxation. It should clear that parished and non parished areas are not disadvantaged. There is a risk to employment in the parishes.
- Central services – what is the impact on residents? (*These efficiency savings will be achieved for example by not filling vacancies/natural wastage and joint and shared services.*)
- Youth services – what impact?
- Council tax increase – what is it?
- Government directives – Is there anything that we will be told not to do?
- Growth money?

9. Other Suggestions for savings:

- New Income – consider new areas for income and partnering KCC and others to develop and preserve services.
- Licensing and Planning – Do they pay their way? (*The fees are set government.*)
- Debt Service? (*There is a sum of £300,000 in the budget.*)
- Empty houses/shops etc - Any new income streams?
- Elections – Four yearly elections will save money.
- New ways of delivering services – services have to be delivered in a new way, through partnership and to bring in funds. Frontline services and our most vulnerable people can be protected if we look at place based budgeting.

- Debtors – How much, what does the council do. (*We use courts and other methods to collect debts.*)
- Has the council budgeted for an increase – (*Yes.*)

10. Discretionary Services:

- Parks and open spaces – the budget is spent mainly in the urban area.
- Economic development – What's included? (*Tourism, visitor information centre, town centre management, conference venue marketing and Christmas lights.*)
- Grants to charities – the savings will be harder on charities than others.
- Toilets – These are important!
- Civic occasions + public arts – These 'nice to have' things are most at risk.

BUDGET STRATEGY 2011/12 ONWARDS

ANALYSIS OF CONSULTATION RESPONSES

MY Council – What matters to ME
Maidstone council's budget consultation 2011-2014

	Comments on the Cabinet's proposals	Suggestions for savings	Which discretionary services matter most to you
1.		<i>Make employees pay for their pension contributions, not the public you serve. Cut the executive pay perks.</i>	<i>Schools & bin collections</i>
2.	<i>Re-open toilets.</i>	<i>No Christmas lights for 3 years. No sport support. Cut grass in parks less. Hold work on new library & archives – KCC.</i>	<i>Toilets and grants to vol organisations. New Museum and fitting out to be a priority. Hazlitt.</i>
3.	<i>Focus on central services is the right focus. Democratic representation should be a deeper reduction – less focus on communication.</i>	<i>Democratic representation, reduction in members support, allowances, civic occasions and etc. The latter is broadly unnecessary and the former should be seriously reduced. Grants process/third sector support needs to be reviewed to ensure value for money and that grants are not "buying votes".</i>	<i>Support for young people's activities; the Museum and Arts centre/activities, green space, parks, play areas.</i>
4.	<i>NOT ENOUGH DETAIL – what percentage of total budget does each cut represent?</i>	<i>Planning/Building Control. Central Services. Transport Services.</i>	
5.	<i>Don't like the idea but if it's got to be done then fair enough.</i>	<i>Elections. Parking Enforcement. Democratic Representation. Planning & Policy.</i>	<i>Housing Benefit. Street Cleansing. Economical Development. Culture & Heritage.</i>
6.		<i>I suggest that Maidstone Borough Council should be the first in the country to license anyone who calls door to door in pursuit of trade. Licences to cost £5,000 p.a. Final accounts to be submitted to MBC. Lapel badges showing licence number to be worn. Badges with photo to cost £25 and updated yearly.</i>	
7.	<i>I think it disgusting that Sutton Road cemetery has not got a chapel where services can be conducted for funerals. Standing around a grave in the pouring rains is not acceptable. I know you are trying to save money but this project should be carried out and repairs done to the chapel. Think what it would be like if a loved one of a Councillor had to experience this!!</i>	<i>I think that 'L' drivers using South Park Car Park should pay an extra fee to maintain the car park. They use this as a business and often there are 5-10 'L' cars in there. If they would not agree BAN them from the car parks. It is very dangerous using them as children are often around the car parks.</i>	<i>Free bus travel. Open spaces. Environmental protection</i>
8.		<i>Ex DSO – Move to Gillingham BC when CCT arrived. Believe DSO Managers and client monitoring officers overpaid with too many perks. In general feels MBC is a good Council.</i>	

BUDGET STRATEGY 2011/12 ONWARDS

ANALYSIS OF CONSULTATION RESPONSES

9.	<i>It is not clear what the rationale is behind any of the numbers. Nor is it clear what the impact will be. Therefore, I don't feel consulted.</i>	<i>Self promotion activities. General administration. Governmental/politicking.</i>	<i>Community Services – from street cleaning, open spaces, arts, planning/building control</i>
10	<i>Bus passes should be from the age of 70 years. Most people are still working 60/65 also put us back on half fare when we go out of Kent, people on the dole should work for their money like they do in America, we are too soft in England, there are plenty of jobs without taking the park works and street cleaners jobs away.</i>	<i>The bus service should not be so many in Town every 10 minutes the 82/86 and they run with only 3/4 people on them what a waste also too many buses for Coxheath. Why I live in Marden we have good bus services we have 2 the 26/89 you should cut the services on the town buses then you would save.</i>	<i>Sort benefit money out, people I know who are on benefits can afford a car/smoke/drink/have all mod cons that are on the market, people should be watched a bit more if incapacity benefits. We have one in the village, he plays on it and gets away with it that's taking the piss he wants kicking all round England.</i>
11	<i>Making Maidstone an attractive vibrant town is important for everyone, both retail and residents. Therefore by reducing parking costs and the need for enforcement frees up more money but reducing the budget on street cleaning is not acceptable as dirty streets give the wrong impression.</i>	<i>The council could save money by setting council office lights to time switches and using 'waste/recycling' to generate electricity/heating in schools and leisure centres. Community Services – use more volunteers.</i>	<i>Open Spaces, Economic Development, Recreation & Sport are essential for the youth of the town and their future pride in the area.</i>
12	<i>Parks – benches in Palace Avenue</i>		
13		<i>Redwell Lane – bus shelter light.</i>	
14	<i>I don't think nothing about it because our opinions won't happen anyway.</i>	<i>Get rid of disabled and OAP bus passes and make them pay like everybody else. It's unfair at the moment. That would save a fortune.</i>	<i>It would be nice to have all toilets open when we need to go because we have to use McDonalds when Brenchley Gardens toilet for girls is shut but men's are open.</i>
15	<i>Sadly, in the current financial circumstances, I think that MBC will for the next few years, have to save money wherever it can although I would not want to see redundancies. Individuals have to practice good housekeeping at home and similar budgeting must also extend to the council. Obviously I hope that the stated proposals do not cause too much hardship for Maidstone's residents.</i>	<i>Building regulations – Design and Construction – When renovation or new buildings are planned thought should be given to the installation of solar panels and other energy saving devices. Although initially adding to the costs, future savings would be made thus soon recouping the initial outlay. With winter approaching the lighting and heating will be on for many more hours thus creating an enormous expense especially in large/public buildings. This expense could be reduced/offset by the installation and benefits of today's technology. Whilst travelling abroad I have encountered some escalators which only move when a person approaches and travels on them thus leaving the escalators stationary for part of the time. When I spoke of this simple idea I was told that its innovation had created great savings on electricity. To reduce heat loss etc we have doors which open and close automatically by use of</i>	<i>A good public transport service which would assist in keeping the number of individual cars off the road. To ensure good environmental conditions I would like to see Waste, Recycling and Street Cleaning continued as currently carried out. Having footpaths treated in bad weather.</i>

BUDGET STRATEGY 2011/12 ONWARDS

ANALYSIS OF CONSULTATION RESPONSES

		<i>a 'magic eye' so why don't we consider installing (in suitable buildings) a similar application to escalators.</i>	
16		<i>If road cleaners and sweepers were kept on and used to manage teams of the unemployed and those due to serve community service, savings of probably the entire £2m could be made.</i>	<i>Community Services. Economic Development.</i>
17	<i>Grants to voluntary groups and charities could be cut some more.</i>	<i>Re Box 2 number 4 – concessionary fares – I thought that central government paid for bus passes!</i>	<i>Transport services, open spaces and parks, economic development (all, except the High Street makeover which is a disaster at this time of credit squeeze and downturn).</i>
18	<i>Central Services must be looked into. Community Services cuts are a concern. There seems to be a very drastic cut in waste recycling and street cleaning.</i>	<i>Civic Functions. No more concrete columns with green lights – utter waste of £9,000. More efficient allocation of contract work.</i>	<i>Our OAP bus passes. A clean county town, verges kept cut. Local PCSO presence. Waste and recycling.</i>
19	<i>I think most people would say that they are all important. I also think not many people think the work planned for the High Street at the cost of £4m is needed. This £4m could be used to make the savings we must make.</i>		<i>In days of cutbacks one thing that is guaranteed to rise is crime. How can we even think of cutting Police or CCTV.</i>
20	<i>Difficult to see where more cuts can be made across the board except generally reduce heating and light in all public offices and buildings (these are generally overheated, savings can be made), Pay less expenses to all Council staff and elected representatives. Reduce hours of libraries, museum, leisure centre etc.</i>	<i>Democratic representation – pay less expenses. Cut down on civic events/ceremonies. Council elections – hold these once only every 4 years and pay less expenses. Overall – reduce expenses paid to all council staff in time of austerity. Put up cost of fees for planning applications (to cover costs). Make cuts in tourism, visitor information centre, conference marketing and xmas lights (no-one will want to visit Maidstone in time of austerity). Reduce heating and lights in public buildings and offices.</i>	<i>Community health and safety are most important. Keep Youth activities, open spaces, rec grounds and parks – discretionary.</i>
21	<i>Community Safety – cut back on unnecessary street lighting in villages/residential areas/roads (e.g. Lenham is lit all night). Reconsider motorway lighting. CCTV – consider costing. Arts – more private funding. Cut back severely on civic events and occasions. Reassess charitable/voluntary grants.</i>	<i>Save money on street lights/CCTV. Encourage private enterprise for parks and leisure centres. Voluntary input to recycling (collection and delivery). Encourage local shops to cut out unnecessary travel concessions.</i>	<i>Rural bus services. Sports and youth activities. Economic Development of the whole area – particularly support for small town and rural businesses.</i>
22	<i>I believe the cabinet proposal to completely phase out the concurrent function grant to the rural parishes is tantamount to destroying parish councils 50% first year reduction 2010/2011 and two further cuts of 25% will</i>	<i>Cut down on officers and their large salaries. Think before injecting lots of money into projects that only improve the lives of the residents of Maidstone town.</i>	<i>Lenham PC already run their own rural bus service, CCTV system + 3 community halls, run their own children's play areas x 3, have their own picnic park, football field/recreational field, run the public toilets in the village. All this is run with the help of C/F grant</i>

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	<i>destroy many of the services that parish councils are expected to supply.</i>		<i>and Maidstone town residents enjoy by only paying Council tax, no PRECEPT, like the rural areas.</i>
23		<i>Scrap the £1.4m high Street Scheme. Scrap or reduce the Members' salaries and freeze officers salaries.</i>	
24	<i>I am very concerned to hear about the cuts to Parish Councils, e.g. concurrent functions. The cuts should be fair i.e. 25% overall and therefore 25% to Parish Councils. People who live in the villages should not have to pay more (or twice) for the same services received in the town. If this is not achievable then bring back the Holingbourne R.D.C!</i>	<i>Obviously <u>Central Services</u> and <u>Committee meetings</u>. Less officer workers, non-jobs etc. More people out on the ground doing essential reports.</i>	<i>Community Safety and CCTV should be maintained. Scrap civic events and occasions. Keep toilets but scrap health promotion. Keep rural bus services. Maintain open spaces but maybe reduce numbers of cuts of grass etc.</i>
25	<i>Maidstone Museum and arts should never be FREE. Admission e.g. £2 token entrance fee would help finances.</i>	<i>We don't need ANY more footbridges over the river please! A much more modest High St 'tart up' scheme would be more acceptable to the council tax payer; don't think millions should be spent in the present financial climate. Support for social housing must be capped and the cost gradually be reduced. Modest Xmas lights (good for environment).</i>	<i>Youth activities, sports, or we could catch up with Chatham 'obesity' in the future. Properly maintained and clearly signposted public toilets, as some are closed and the others seem to be falling apart, very INCONVENIENT to visiting shoppers. Keep Park & Ride passes as we don't need anymore traffic in Maidstone and save our trees! CCTV is welcome.</i>
26	<i>Grants to voluntary and charitable organisation should be scrapped until such time there are surplus funds.</i>	<i>Grass cutting in public areas i.e Highcroft Green cut so regularly it's a joke, grass cutting could be 50% of its current cutting. People should be made aware of dropping litter and dumping rubbish and fined heavily, this would result in less money needed for cleaning services.</i>	<i>Community Services.</i>
27	<i>Maidstone <u>must</u> be an attractive and safe place to live for people of all ages and abilities and social levels. At the same time building and traffic are reducing its appeal so should be reduced. Safety is paramount as should be promotion of knowledge and the arts (private sector will add clubs/gyms etc). Local and voluntary groups are essential and invaluable in all areas of the community as are open spaces and multi cultural events, reduced public transport fares for all and clean and healthy streets.</i>	<i>Stop building in Maidstone over the next 5 years. We have many private sports/gyms who should offer off peak or subsidised exercise programmes for those with health needs etc supplied by the Council. Why does the private sector require grants for housing? A minimum charge for public transport may encourage misuse and leave concessions for those over 65.</i>	<i>Community Services, Transport services, open spaces etc, grants to voluntary and charitable organisations and environmental protection.</i>
28	<i>I am surprised that the Council does not repair the small church in the Sutton Road cemetery. If you could find a sponsor to help rebuild, the income for the cemetery would increase. Many people do not have their own church</i>	<i>Concessionary Bus Fares for over 60s. Perhaps they could be means tested or ask people to not apply for them if they could afford to pay the bus fare. Will probably mean people will bring their cars into town. Cut parking charges for the town – it will encourage people</i>	<i>Transport services, etc. In fact all the services are important. Everyone has a different requirement. I love walking in Mote Park and South Park but others may think they are not as important as one of the other services. An overall cut to all services would be</i>

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	<i>that they attend, and would prefer a church service but this is not always available. Planning enforcement could be cut- the Council do not at present provide the level of service required.</i>	<i>to come to Maidstone to shop.</i>	<i>best so we can at least have something for everyone.</i>
29	<i>Stop spending on the unsightly museum wing! Why was this development allowed?! Do not reduce street (and pavement) cleaning it is essential – as is planning enforcement.</i>	<i>Turning off street lights in Coxheath and similar estates after 11 p.m. (and in Maidstone side streets). Fewer lights on in daytime (in streets/inside shops) Don't alter the High Street. Force clubs/pubs to shut earlier in the town.</i>	<i>Street cleaning – litter removal. Protecting environment, reducing/eliminating herbicide use – let more wild flowers thrive. Stop cutting down trees just because they're big – large <u>wide</u> old trees are <u>stable</u> and cannot fall.</i>
30		<i>Box 2 - Item 1 – since this is the largest budget item, I hope this support is given, especially to people of the Borough and not to asylum seekers or other drifters who happen to appear in our community. If responsibility is forced upon the Borough, by whatever means, then we should have recourse from National Government for any monies spent.</i>	<i>Item 1 – without having a detail knowledge of these services, it's difficult to comment. Item 2 – 7 – acceptable. Item 8 – Some activities under this title may be classified 'a service'. Is there any means of charging a fee in these cases to mitigate the expense.</i>
31	<i>I think grants to voluntary organisations are important as they will probably take on tasks previously provided by councils. This will encourage more people to volunteer provided they are not penalised by being held "responsible" if things go wrong! GLAD IT ISN'T MY JOB TO DECIDE WHERE TO CUT.</i>	<i>Paper could be saved by staff being trained to, where possible, to use both sides of paper when sending/typing letters. I have often received letters with the "yours sincerely" on a 2nd page! ALSO sharing of facilities with other councils. How about encouraging ALL only to put their bins out if full (or ¾) this could save the refuse collectors time and effort.</i>	<i>The bus pass. Street cleaning/litter clearance. I feel money should still be spent on facilities for children – sports and parks/play areas. It is important for families to have places to visit, locally and free. Bus passes mean the elderly can get out and about. Otherwise they stay indoors, do not get exercise and become depressed thus increasing Health and Social costs.</i>
32	<i>If we can believe them, I think it is a reflection of the financial times we are in. The product of years of Labour possibly 'bury their hands in the sand'.</i>	<i>Scrap payments to:- Community Services, Community Safety and Community Development Grants to charitable organisations Tourism promotion Mobile Library Health promotion Democratic representation and decision making process!!</i>	<i>Planning enforcement policy. AS A COUNCIL YOU FAIL MISERABLY HERE. Maintenance of roads and footways.</i>
33	<i>It is difficult to comment on the proposals when there are not details of how savings would be made in each area. Clearly, central government need the voluntary sector to take on certain tasks they no longer will fund therefore withdrawing funding from them will not be helpful. Maidstone Leisure Centre should remain in MBC overall control as a 'sell off' to private concerns would inevitably lead</i>		<i>All box 3 services are important therefore some reduced funding will be necessary for MBC to comply with required reduction of finance.</i>

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	<i>to price rises.</i>		
34	<i>Difficult to comment without knowing the budget breakdowns.</i>	<i>Civic occasions & events. Investigate housing benefit for people not entitled to claim.</i>	<i>Community policing – rural areas Transport.</i>
35	<i>Some areas have greater focus than others and with information provided difficult to give balanced steer – on a personal note savings should focused around, lean processes of shared services, procurement, muscle when utilising external providers and personally feel a tougher approach to greater accountability needed on the spend relating to social housing.</i>	<i>As outlined before, key challenge will be maintaining service levels but pitching need vs 'nice to have', reduced waste collection will drive greater recycling etc etc – we have become a throw away society and it needs to change.</i>	<i>All of the 8 areas have benefits to some degree – the areas that matter most to me are Community Services, Environmental Protection, Transport Services, Recreation and Sport, Open Spaces and Parks and Economic Development. For me, Community Safety is important but how many people are convicted by use of CCTV. Also charitable organisations come in many forms and should be less reliant on central funding and ultimately be what they are called – charitable.</i>
36	<i>1 in 3 Councillors should be dismissed</i>		
37			<i>Provide and charge for a hazardous waste collection service. The weekend freighter service e.g. for residents to dispose of small items. Make sure that people using the weekend freighter one from Maidstone.</i>
38	<i>The phrase 'sacred cows' comes to mind. Where the Council provides 'paid for by user' services the charges must cover all fixed and variable costs plus a 20% profit margin. Cut back on services!! In 24 years the public footpath in this cul de sac has been swept once!</i>	<i>If regulations permit charge an annual fee (frozen for 3 years) of £50 per annum. If not permissible lobby Government to change regulations. No more annual elections for Councillors. Reduce number of councillors by one third. Greater co-operation with Councils to pool resources. Increase by 20% redesign and construction regulations inspections, consent etc. Increase the number of council tax payments made by direct debit.</i>	<i>Rubbish collection Street cleaning – including leaves Freighter waste disposal service. <u>Discretionary Services</u> Environmental Protection Transport Services Open Spaces</i>
39			<i>There should be more seating in Fremlin Walk and the seating in Palace Avenue should be reinstated.</i>
40			<i>The council should do one thing at a time and do it well.</i>
41			<i>The toilets at King Street car park should be reopened as they are appropriately placed for disabled parking.</i>
42		<i>Cut street lighting.</i>	
43		<i>Cut concessionary bus passes – make it half fare only.</i>	
44		<i>Get offenders to sweep the streets for nothing.</i>	
45		<i>Charge a fee of £25 for the concessionary bus pass.</i>	
46		<i>Save money on staff uniforms.</i>	
47		<i>Install a photo booth in the Gateway to get an income and provide a service.</i>	

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48	<i>Is there a net profit on recycling services – if not, cut costs by reducing effort. This has become mantra and should be reinvestigated. We have an incinerator, use the excess as fuel.</i>	<i>Seek at least 10% savings on Democratic Representation and Central Services. Increase charge on planning applications. Charge £10 annually for bus passes. This is equivalent to 4 trips to town at full fare. Many would not then bother to apply, with further savings achieved.</i>	<i>They all matter but it is a question of degree – savings can be found, apply a rigid 10% cut.</i>
49	<i>Democratic Representation – why no savings for 2011/12? Civic occasions and events all need catering. You can always make savings in food/drink. I do at home so you guys should be able to.</i>	<i>Look at your housekeeping for staff:- Cheaper coffee in machines etc Cheaper loo paper. Remove uniform perk for staff in office buildings. Tell them dress code black and white. Cheaper cleaning materials. Concessionary fare to start at 65 not 60.</i>	<i>Important services:- Police Refuse Transport Parks Community Environment Tourism But get it right first time!</i>
50	<i>Rural bus services because no local shops, all been allowed to close when one has some sort of disability</i>	<i>Think we could put lots of new things on hold, if no money, just do the vital things like the museum such a waste – it's about people (too many of us)</i>	<i>Waste and recycling This is such a vital service and all the waste in the country is dreadful.</i>
51	<i>Reasonable</i>	<i>Bus passes</i>	<i>Waste and recycling collections. Community safety, CCTV and community development. Grants to voluntary organisations, open spaces, parks, footpaths, Maidstone leisure centre.</i>
52	<i>Cabinet's proposals for trying to return people to work rather than a lifetime of sponging on benefits – a real step in the right direction. Why are we obliged to pay family allowance benefits to immigrants working in this country – but dependents living abroad?</i>	<i>Final salary pension settlement should be scrapped for Council staff in line with the private sector – why should general public fund an ever increasing amount of money. Bus passes should only be eligible for issue when pension age attained (most people are still at work at 60 years of age). Winter fuel allowance should only be payable from pension age (65/66 years) – Central Government? Housing benefits – more limited. Rents for social housing should be more in line with commercial levels and not for life but a defined period only. Encourage people to keep their own street tidy/litter free – move verges etc.</i>	<i>Recreation and sport facilities. Building regulations etc – maintain the character of Maidstone – non intensive population explosion. Democratic representation/Council elections. Good public transport facilities at reasonable prices.</i>
53	<i>The savings to be found in years 2012-13 and 2013-14 are going to be difficult. I would like to see Environmental Protection and Waste and Recycling favoured above other areas.</i>	<i>Slim down central services with more efficiency on social housing, planning applications, Economic Development and Maidstone Museum.</i>	<i>Environmental Protection, Waste & Recycling, Open Spaces, Community Safety.</i>
54	<i>All completely mind boggling to the layman! Just figures! But I do feel money is probably</i>	<i>Not go ahead with the ridiculous redesigning of the town centre High Street. It's perfectly adequate for Maidstone</i>	<i>Youth activities, sport for all, youth clubs and places to keep teenagers (bored and frustrated) occupied,</i>

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	<p><i>wasted in all areas. Parks important, open spaces.</i></p>	<p><i>- how about developing Lower/Upper Stone Street, an eyesore and depressing! And DON'T import Chinese granite!! Keep it local, support UK jobs!! Don't cut down on the Arts.</i></p>	<p><i>involved and off the streets. Clean streets, pride in the town and NOT JUST THE CENTRE! Car parking prices! The arts and music in Maidstone. Trees and the environment.</i></p>
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BUDGET STRATEGY 2011/12 ONWARDS**DRAFT MEDIUM TERM FINANCIAL STRATEGY 2011
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1. **INTRODUCTION**

- 1.1 This financial strategy aims to support the council's corporate objectives as identified in the strategic plan 2011 to 2015. Whilst achieving this, major issues relating to resources and facing the council in the medium term will also be highlighted.
- 1.2 The intention is to set out the revenue and capital spending plans of the council at a high level. The success of these plans will depend upon the resources available to the council, the approach taken to ensure that these resources are aligned over the medium term to reflect corporate objectives and these resources being controlled in a way that ensures long-term stability.
- 1.3 The government announced details of its spending review in October 2010 and has since consulted on the formula grant settlement for 2011/12 and 2012/13. This settlement means significant reductions in revenue support grant for the Council. The approach of this strategy is to develop a four year plan with consideration of the impact of material issues on a fifth year. The two year settlement has required a number of assumptions about further years of the strategy and these have been based around the Spending Review 2010 data.
- 1.4 Although this document is developed for the medium term with an outlook from four to five years, the council will review the strategy on an annual basis for the following period in order to reflect changes in circumstances which impact upon the strategy. This review will be completed to coincide with the annual review of the strategic plan. This will enable Members and Officers to ensure changes are appropriately reflected in both documents through links to the strategic plan key outcomes. Production of this document and the balanced budget it facilitates support the key outcomes of the strategic plan in their own right.
- 1.5 In addition the council will consult with a wide range of stakeholders and partners during the development period and give serious consideration to their views and responses.

2. REVENUE

2.1 Expenditure

2.1.1 The portfolio budgets in the full revenue estimates include detailed proposals for dealing with financial pressures and service demand, this financial strategy adopts a high-level review of the corporate objectives and budget pressures over the five-year period. This approach ensures a focus on factors that may influence the Council's stated aim to maintain working balances and ensure that they are used for specific and special activities and not to balance the budget. The financial projection assumes that the level of balances will be maintained, over the five year period, at or above the working level set annually by Cabinet.

2.1.2 Pay and price inflation:

The financial projection makes an allocation for pay increases on an annual basis. This increase must allow for a staff pay award, any incremental increases earned through competence appraisal and any increase in employer contributions such as national insurance.

Other costs will need to consider a suitable inflation index. Large elements of this cost will be tied to conditions of contracts which will specify the annual increase necessary, other costs will increase by the annual increase in an inflation index such as the retail price index or the consumer price index.

Table 1 below details the factors used for each year.

Strategic Issue	2011/12	2012/13	2013/14	2014/15	2015/16
	%	%	%	%	%
Pay Inflation	0.0	0.0	1.0	1.5	2.0
Other Costs Inflation	0.0	0.0	2.0	2.0	2.0
Contractual Commitments	2.0	2.0	2.0	2.0	2.0

[Table 1: Pay & price Indices]

2.1.3 Corporate objectives and key priorities:

In addition to these inflationary pressures the Council will develop and implement improvements to the corporate objectives identified in the strategic plan, and where significant any local objectives identified in service plans.

The financial projection will also provide, where necessary, resources for national statutory responsibilities where these are to be provided locally.

Table 2 below identifies the links between the financial projection and key objectives.

SP KO	Strategic Issue	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000
	Revenue Provision for Borrowing		150	150		
	Leisure Centre	160				
	Set-up cost provision	250				

[Table 2: Strategic Issues, links to other documents]

2.2 Funding

2.2.1 Resources available for the revenue budget are heavily constrained making the issue key to the financial planning process. The financial projection assumes that resources are maximised. The strategy identifies three separate categories of resource government grant, locally derived income from fees and charges and council tax. Where the financial projection includes the use of fixed term grant or income sources each portfolio is responsible for preparing and acting on suitable exit strategies at the end of the fixed term.

2.2.2 Government Grant:

The current revenue support grant settlement is a two year settlement with the second year notified to Councils as provisional. The Government has reported that during that two year period they will adopt a new method for the distribution of revenue support. The strategy responds to this by utilising the figures from the two year settlement and projecting forward on the basis of the Government's intentions as outlined in the Spending Review of 2010.

Other grants received from the government are similarly under threat from the effects of the national economy and the efficiency agenda as it affects government departments. The strategy will assume future grant aid is likely to be at risk but only consider the freezing of such grants at their 2010/11 cash values unless further data is available. Table 4 identifies expected variances from this assumption.

2.2.3 Fees & Charges

The Council has a policy on the development of fees and charges that fall within its control. This policy ensures that an evaluation of market forces and links to the strategic plan or service plans are drivers of changes in price. This means that any increases in this funding source will be identified through each portfolio's detailed budget preparation work. At the level of this strategy the

assumption is that in overall terms the increase will be commensurate with general inflation. Due to the final effects of the recession, for 2011/12 the financial projection will assume total cash income is frozen at 2010/11 values but will increase slowly in response to the predicted end to the recession.

2.2.4 Council Tax

The Council has a responsive approach to the level of Council tax and will set this at an appropriate level commensurate with the needs of the strategic plan. It has set a policy in recent years of an increase that avoids the threat of council tax capping but remains flexible on the level of that increase, thus focusing the strategy on its ability to set a balanced budget.

The Government's objective of a national Council Tax freeze has been formulated into the strategic projection and the Council has modelled the future financial risk inherent in accepting the Government grant. The fifth year of this strategy identifies the loss of grant and the resulting additional savings required. The purpose of this strategy is to identify such risk and provide the Council with opportunity to prepare for future events in a considered and timely manner.

Table 3 below details the factors used for each resource type and Table 4 details the links between the financial projection and the major risk factors.

Strategic Issue	2011/12 %	2012/13 %	2013/14 %	2014/15 %	2015/16 %
Revenue Support Grant decrease	-16.6	-11.3	-1.2	-7.6	-7.6
Fees & Charges increase	0.0	1.0	2.0	2.0	2.0
Council Tax increase	0.0	2.5	2.5	2.5	2.5

[Table 3: Resource and income indices]

SP KO	Strategic Issue	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000
21	Housing Benefit Admin Grant	36	40	40	40	40
21	Parking Income	50	50	50	50	50
21	Regeneration Income			200		
21	Interest on Investments	150	100	100		
21	Income Generation	50				
14	Cobtree Charity	80	20			

[Table 4: Strategic Issues, links to other documents]

3. CAPITAL

3.1 Programme

3.1.1 The strategy for the capital programme requires consideration of two issues, the scheme specifics and the overall programme.

3.1.2 The overall programme is considered in terms of the prudential borrowing principles of sustainability, affordability and prudence. The overall programme assessment also considers the relative priority of schemes as they enhance the provision of corporate or service based objectives.

3.1.3 The inclusion of capital schemes within the overall programme requires an assessment based on affordability in revenue and capital terms and deliverability in terms of ability to complete, whole life cost and risk assessment.

3.1.4 Prioritisation of schemes will occur in the following order:

- a) For statutory reasons;
- b) Fully or partly self funding schemes with focus on corporate objectives;
- c) Other schemes with focus on corporate objectives;
- d) Maintenance / Improvement of property portfolio not linked to corporate objectives;
- e) Other non priority schemes with a significant funding gearing.

3.1.5 The programme for the period 2010/11 to 2012/13 focuses on a series of key projects reflecting the strategic plan and a series of projects providing investment in the property assets. The detailed Capital Programme provides the link between the strategic plan key objectives and the current programme.

3.1.6 The capital programme is a three year programme and Table 5 below summarises the 2010/11 to 2012/13 programme by portfolio. This table incorporates the programme for 2009/10 for information.

Portfolio	2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
Leader	0	0	0	0	0
Community Services	28	250	0	0	0
Corporate Services	335	370	330	330	330
Environment	31	26	0	0	0
Leisure & Culture	3,164	3,319	50	50	50
Regeneration	4,100	6,035	3,080	1,880	1,880
	7,658	10,000	3,450	2,260	2,260

[Table 5: Capital programme]

3.2 Funding

3.2.1 Since 2004 the Council has been debt free and the major sources of funding for capital expenditure has come from capital receipts and government grant. The medium term financial strategy has, in the past, identified the time when such resources would reduce to the point where alternative funding would be required to support a continued programme of capital expenditure. The most recent strategy identifies that the most likely need for immediate funding will occur in 2012/13.

3.2.2 Although commitment to a scheme is given by its inclusion in the programme, the strategy requires that funding is identified in advance of formal commencement of work. This assumption can be maintained up to the level of the Council's prudential borrowing limit as set in the Prudential Indicators. The quarterly monitoring of the capital programme enables Cabinet to take effective decisions based on current levels of funding before major projects commence.

Table 6 below identifies the current funding assumptions and the minimum risk of prudential borrowing need.

Funding Source	2010/11 £,000	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000
Confirmed:					
Capital receipts	1,914	3,668	0	0	0
Capital grant	4,100	2,561	450	450	450
Revenue	1,644	0	0	0	0
Assumed:					
Capital receipts	0	3,471	329	0	0
External funding	0	300	300	0	0
Prudential borrowing or other source.	0	0	2,371	1,810	1,810
	7,658	10,000	3,450	2,260	2,260

[Table 6: Capital financing, confirmed and assumed]

4. RESERVES

- 4.1 The Council holds a series of balances and reserves in order to provide financial stability and protection from unforeseen circumstances or events. In setting the level of these balances and reserves an assessment is made of the potential risks and opportunities that could reduce or enhance those balances.
- 4.2 All revenue balances at 1st April 2010 total £8.3m and it is estimated that this balance will be £5.8m by 1st April 2011. The major items reducing the balance are approved budget carry forwards of £1.7m from 2009/10 resources into 2010/11 for prior agreed purposes and support for the Local development Framework and minor initiatives.
- 4.3 The balances comprise a general balance and a series of specific allocations the breakdown of these is given in Table 7 below.

Balances	01/04/2010 £,000	01/04/2011 £,000	01/04/2012 £,000
General balance	5,222	3,220	2,670
Trading account surpluses	30	30	30
Asset replacement	7	47	47
Invest to save initiatives	551	539	484
Local development Framework	352	0	0
VAT Reclaim	2,227	1,977	1,541
Total	8,389	5,813	4,772

[Table 7: Revenue balances]

- 4.4 In addition to revenue reserves a small number of capital reserves exist due to the timing of expenditure in the Capital Programme.
- 4.5 Available capital receipts at 1st April 2010 total £2m and it is estimated that this balance will be used up during 2010/11.
- 4.6 Other capital balances include grants and contributions unapplied which total £1.5m at 1st April 2010. These balances are, in most cases, received for specific schemes and applied only to finance those schemes.

5. Efficiency

- 5.1.1 The Council's strategic plan recognises corporate excellence as a priority, identifying value for money services that residents are satisfied with, as a key outcome. This theme runs through service plans and by this the Council's approach to efficiency is integrated in to all decision making.
- 5.1.2 The Council has successfully achieved all its government set efficiency targets and will not cease to monitor and improve upon levels of efficiency both through improved service levels and reduced costs.
- 5.1.3 The Council uses a number of measures to identify locations to achieve efficiency and gauge success. These include:
- Annual best value reviews performed by officers and by members.
 - Kent wide benchmarking to measure unit cost and performance levels and compare these over time and across Kent.
 - Other benchmarking exercises undertaken by local managers to challenge service delivery in their own area.
 - The identification of efficiency targets that match the government's requirements over the period of this medium term financial strategy.
- 5.1.4 Efficiency proposals are carefully measured for effect upon capacity, acceptable levels of service, quality standards, and the potential of shared service provision. All efficiency proposals consider the effect of fixed costs and the effect on the base financial standing of the Council and the opportunity for reinvestment of gains into priority services or toward achievement of corporate objectives.
- 5.1.5 The adoption of efficiency and VFM as part of this strategy helps to ensure that the financial projection will remain within available resources.
- 5.1.6 The financial projection identifies the need for savings to make a balanced budget, which must be considered in line with the development of efficiency savings. Table 8 below details the required saving for each year, based on the factors used in the financial projection, and the percentage of net revenue spend the given saving represents.

Strategic Projection	2011/12 £,000	2012/13 £,000	2013/14 £,000	2014/15 £,000	2015/16 £,000
Annual Savings Requirement	1,878	1,068	608	773	967
Percentage Saving	9.29%	5.38%	3.01%	3.83%	4.86%

[Table 8: Annual savings requirement]

5.1.7 The Council has required the savings target to be met in the medium term and at this time proposals are in place to provide efficiency and savings to meet the requirement through to 2013/14. The Council is continuing to develop long term proposals to ensure the future risk is mitigated at the earliest time.

6. **CONSULTATION**

- 6.1 The Council has a co-ordinated approach to consultation on the budget process. To this end a specific focus is set annually in order to avoid annual consultations that review similar issues.
- 6.2 The Council therefore consults annually on this strategy and the proposed budget for the forthcoming year. The intention of the consultation is to both inform and be informed by local residents, businesses and stakeholders.
- 6.3 In recent years the consultation has considered the level of council tax increase acceptable and the service areas where reductions should occur, the elasticity of demand for services provided by the Council with a related fee and for this strategy the consultation focused on the long term factors faced by the Council due to the current economic climate and the relative importance residents place on a range of discretionary services provided by the Council.

7. **RISK MANAGEMENT**

- 7.1 In outlining the resources available to the Council and the focus of those resources on the strategic priorities, this strategy must consider the barriers to achieving the resource levels assumed by the budget.
- 7.2 A full risk assessment of the strategy has been completed and forms part of the operational risk assessment of the services provided by the Head of Finance and Customer services.
- 7.3 Eleven major risk areas have been identified and action plans have been developed for each. The eleven areas are as follows:
 - a) The level of balances;
 - b) Inflation rates;
 - c) The national deficit;
 - d) External grants and contributions;
 - e) Limitations on Council Tax increases;
 - f) Fees and charges;
 - g) Capital financing;
 - h) Horizon scanning;
 - i) Delivery of efficiency;
 - j) Pension fund valuations;
 - k) Savings targets;

BUDGET STRATEGY 2011/12 ONWARDS

RISK ASSESSMENT

Risk Management: Risk Scenario

Section:

Risk No	Risk Name	Vulnerability (Why, what's happening, what's the problem)	Trigger/risk (What's the event/ what could go wrong?)	Consequences (What would occur as a result, how much of a problem would it be, to whom and why?)
1.	Level of Balances	Effectiveness of agreed minimum level of working balances. For 2011/12 this is expected to be £2.3 million or 10% of net revenue spend.	<p>A. Minimum balance is insufficient to cover unexpected events.</p> <p>B. Minimum balance is in excess of real need.</p>	<p>A. 1) Large single event with consequences greater than £2.3 million.</p> <p>2) A series of smaller events over the medium term that deplete balances during a period when the Council is unable to replenish them.</p> <p>B. 1) A failure to resource an opportunity due to resource limitations.</p>
2.	Inflation Rate Predictions	Inflation rates allow for predicted increases in salary, contractual and general expenditure and income from fees and charges. Their accuracy as predictions becomes a greater vulnerability as the period into the future increases.	<p>A) Actual levels are above predictions.</p> <p>B) Actual levels are below predictions.</p>	<p>A general failure to budget effectively for growth over the period of the medium term financial strategy resulting in:</p> <p>A) A failure to resource future expenditure levels resulting in adverse levels of expenditure and an unexpected drain on balances.</p> <p>B) Over provision of savings and/or the failure to provide planned levels of service provision.</p>

BUDGET STRATEGY 2011/12 ONWARDS

RISK ASSESSMENT

3.	National Strategy	Effectiveness of the strategy outlined by Central Government in the spending review.	Failure of national strategy to reduce structural deficit.	The spending review and grant settlement may require amendment during the four years of the medium term financial strategy. This would mean a revision to the strategy outlined including a requirement to make additional savings.
4.	Grants & Contributions	Funding received through Grants & Contributions from other Public Sector bodies.	A reduction in funding from sources within the public sector could occur as a cascade effect from the consequences of the spending review on that body.	The consequence of this risk is service specific and where services rely upon external resourcing or partnership arrangements the service may become at risk of termination if funding cannot be maintained.
5.	Limitation of Council Tax Increases	The arrangement announced by Central Government to require a public referendum on "excessive" increases in council tax, coupled with the proposed one year freeze on council tax levels.	The council tax freeze is funded by a time limited fixed cash grant that lasts for four years. In year five a significant loss of income will occur that may not be recoverable by a specific increase in council tax, if this is considered excessive.	<p>A 2.5% increase in current council tax levels is valued at £334,000 per annum. This would be the level of fixed grant for the four years of the spending review period.</p> <p>The compounding effect of an annual increase of 2.5% over years 2 – 4 would mean a cash loss of £60,000 to the Council when compared to a situation where a 2.5% increase is applied to the year 1 council tax.</p> <p>The year 5 effect, following the end of the time limited grant, would be a permanent reduction in resources of £377,000 per annum. This would still equate to the need for an "extra" 2.5% increase in council tax and potentially make the 2015/16 increase "excessive".</p>

BUDGET STRATEGY 2011/12 ONWARDS

RISK ASSESSMENT

6.	Fees & Charges	Fees and charges and other service based income sources could fail to deliver.	Services may be affected by loss of demand due to price. Service demand may be affected further by the recession.	Both will bring a loss of income for service budgets.
7.	Capital Financing	Availability of funding for the capital programme.	A) Assets identified for sale will not achieve their target price or sell at all. B) Borrowing is not confirmed. C) Additional/alternative sources of funding are not identified.	The capital programme cannot be complete until resources are found. Approval of schemes in the programme would occur on a priority basis as resources are identified.
8.	Horizon scanning	Appropriate risks and opportunities must be recognised in advance.	Work on horizon scanning requires input from all service managers. Recognition of finance consequences may be too late.	Where financial consequences of future events are likely to be significant, failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy. This would most likely place a drain upon balances or reduce service levels.
9.	Efficiency	Level of savings of significant value with a risk of non-delivery considered to be high.	Failure to adequately monitor delivery and/or react to failure to deliver.	Nine savings proposals are identified as having a high risk of non-delivery. These total £0.75 million over three years. Failure to deliver would place an additional drain on other services and/or balances.
10.	Pensions	Pension fund valuation	The triennial review uses assumptions to ensure funding meets the demand of current members. There is a possibility that funding assumptions are incorrect. KCC performance in investing fund	The level to which the scheme is valued is affected by all of the triggers and has a direct effect on the employer contribution to the scheme. The scheme cost to the council could increase significantly in all cases.

BUDGET STRATEGY 2011/12 ONWARDS

RISK ASSESSMENT

			<p>balances has a direct influence on the current value of the fund.</p> <p>A major reduction in staffing levels.</p> <p>A high level of early retirement from the Council.</p>	
11.	Savings Target	The process to identify savings over the full four year period is not complete for any year.	That sufficient and suitable proposals to save the balance of the pressure on the medium term financial strategy.	Failure to produce a balanced budget in line with the principles of the medium term financial strategy.

BUDGET STRATEGY 2011/12 ONWARDS

RISK ASSESSMENT

Risk Management: Risk Profile

The risks have been mapped against a typical appetite to risk. The risk assessment has been prepared in the context of key service objectives. The risks at this stage have not been 'mitigated'.

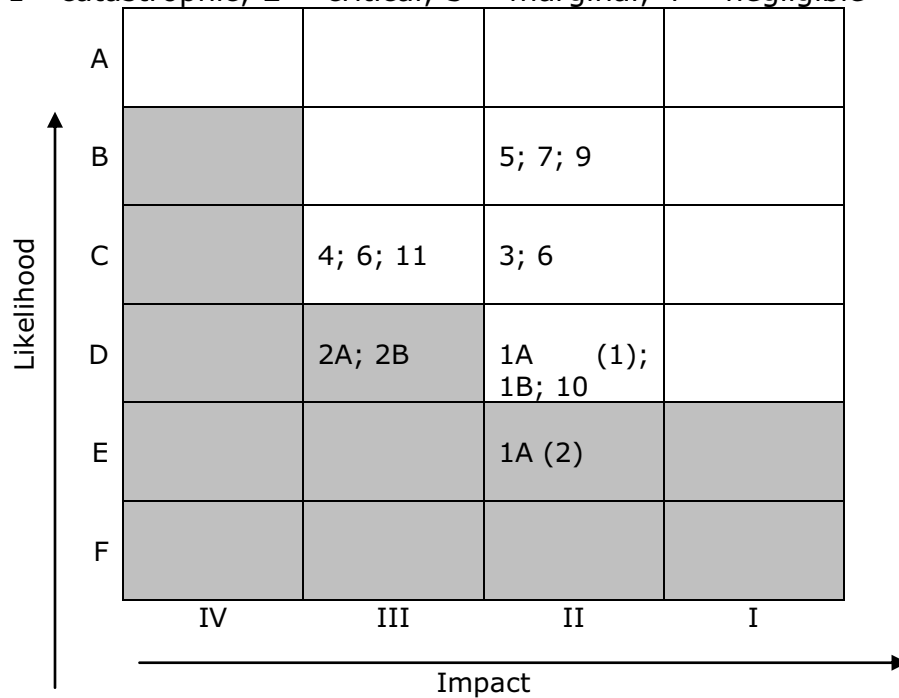
The **vertical axis** shows **Likelihood**:

A = very high; B = high; C = significant; D = low; E = very low; F = almost impossible

The **horizontal axis** shows **Impact**:

1= catastrophic; 2 = critical; 3 = marginal; 4 = negligible

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MAIDSTONE BOROUGH COUNCIL

CABINET

22 DECEMBER 2010

REPORT OF MANAGEMENT TEAM

Budget Strategy 2011/12 Onwards

Decision of the Cabinet

In order to facilitate consultation with Corporate Services Overview and Scrutiny Committee, Cabinet:

- a) Agree a provisional spending level of £20.21 million for 2011/12 and a Council Tax freeze in line with the Government's proposal.
- b) Agree that working balances be set at £2.3million at this time and to monitor this level as part of the standard budget monitoring during 2011/12;
- c) Note the draft medium term financial strategy as set out in Appendix G and its connection to the draft strategic plan;
- d) Note the results of the budget consultation as set out in section 1.11 and Appendices E and F of the report;
- e) Agree the changes to the budget pressures as identified in section 1.7 of the report;
- f) Agree the revised strategic projection set out in Appendix A of the report;
- g) Agree to payment by annual instalment of the Council's contribution to fund the pension fund deficit for the three years 2011/12 to 2013/14 as set out in paragraph 1.8.4.5 of the report;
- h) Agree the savings identified in Appendix B of the report;
- i) Agree the proposed additional use of balances detailed in Appendix D of the report;
- j) Agree the provisional Capital Programme detailed in Appendix C of the report;

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

Work Programme

**01 January 2011 to
30 April 2012**






Chairman: Cllr John Horne



Statement of Purpose:

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process, including approval of the annual statement of accounts.

Audit Committee Members:

	<p>Councillor John Horne (Chairman) Detling & Thurnham Ward johnhorne@maidstone.gov.uk Tel: 01622 739377</p>		
	<p>Councillor Derek Butler Boxley Ward derekbutler@maidstone.gov.uk Tel: 01634 684854</p>		<p>Councillor Rodd Nelson-Gracie Marden & Yalding Ward roddnelsongracie@maidstone.gov.uk Tel: 01622 814263</p>
	<p>Councillor Fran Smith Fant Ward fransmith@maidstone.gov.uk Tel: 01622 720623</p>		<p>Councillor Mervyn Warner North Ward Mervynwarner@maidstone.gov.uk Tel: 01622 753220</p>

Date of Meeting	Title of Report and Brief Summary of Decision to be made	Contact Officer
17 January 2011	<p>Maidstone Museum East Wing Redevelopment</p> <p>To note the current position relating to the Maidstone Museum East Wing redevelopment project.</p>	<p>Brian Morgan, Assistant Director of Regeneration and Cultural Services Simon Lace, Museums and Heritage Manager</p>
17 January 2011	<p>Review of the Business Transformation Partnership</p> <p>To consider and comment on the findings of the review undertaken of the Business Transformation Partnership.</p>	<p>Georgia Hawkes, Head of Business Improvement</p>
17 January 2011	<p>Review of Audit Committee</p> <p>To consider the outcome of the LGI and D review of the Audit Committee and the incorporation of any actions to be taken in relation to the report's findings and conclusions into the Committee's future work programme.</p>	<p>Brian Parsons, Head of Internal Audit Partnership</p>
17 January 2011	<p>Treasury Management Strategy 2011/12 – 2013/14</p> <p>To refer the Committee's initial thoughts on the draft Treasury Management Strategy 2011/12 to Cabinet.</p>	<p>Paul Riley, Head of Finance and Customer Services</p>

17 January 2011	Budget Strategy 2011/12 Onwards To consider the risk assessment of the budget strategy 2011/12 onwards and comment on or make recommendations to Cabinet.	Paul Riley, Head of Finance and Customer Services
21 March 2011	Internal Audit Strategic Plan 2011/12 To note the content of the Internal Audit Strategic Plan for 2011/12.	Brian Parsons, Head of Internal Audit Partnership
21 March 2011	External Auditor's Work Plan 2011/12 and Fee Proposals To consider and comment on the External Auditor's Work Plan 2011/12 and fee proposals.	Zena Cooke, Director of Regeneration and Communities Paul Riley, Head of Finance and Customer Services
21 March 2011	Strategic Risk Register To consider and comment on the process for identifying and managing the strategic and operational risks that might affect the ability of the Council to deliver its priorities.	Brian Parsons, Head of Internal Audit Partnership
6 June 2011	Annual Governance Statement 2010/11 To endorse the Annual Governance Statement for inclusion in the Statement of Accounts.	Paul Riley, Head of Finance and Customer Services
6 June 2011	Local Code of Corporate Governance - Annual Update To approve the Local Code of Corporate	Paul Riley, Head of Finance and Customer Services

	Governance.	
6 June 2011	<p>Internal Audit Annual Report 2010/11</p> <p>To consider the work of the Internal Audit Section over the financial year 2010/11 and to decide whether the outcome of the Internal Audit work etc. provides evidence of a substantial level of control within the Council.</p>	Brian Parsons, Head of Internal Audit Partnership
6 June 2011	<p>Future Assurance Arrangements</p> <p>To comment on the adequacy of the Council's governance and performance arrangements in the absence of the Audit Commission.</p>	Zena Cooke, Director of Regeneration and Communities Brian Parsons, Head of Internal Audit Partnership
6 June 2011	<p>Internal Audit Partnership First Year Review</p> <p>To note progress on the implementation of the Internal Audit Partnership.</p>	Brian Parsons, Head of Internal Audit Partnership
6 June 2011	<p>Quarterly Work in Progress Report from the External Auditors</p> <p>To note the position with regard to work being undertaken by external audit.</p>	Brian Parsons, Head of Internal Audit Partnership
20 June 2011	<p>Treasury Management Performance 2010/11</p> <p>To note the activities of the treasury management function for the 2010/11 financial year and to recommend amendments to current procedures as appropriate.</p>	Paul Riley, Head of Finance and Customer Services

20 June 2011	Statement of Accounts 2010/11 To approve the Statement of Accounts for the financial year ended 31 March 2011.	Paul Riley, Head of Finance and Customer Services
20 June 2011	Audit Committee Annual Report 2010/11 To approve the Audit Committee Annual Report 2010/11 for submission to the Council.	Zena Cooke, Director of Regeneration and Communities
19 September 2011	Audit Commission's Annual Governance Report 2010/11 To approve the Audit Commission's Annual Governance Report 2010/11 and any amendments to the Statement of Accounts.	Zena Cooke, Director of Regeneration and Communities Paul Riley, Head of Finance and Customer Services
19 September 2011	Quarterly Work in Progress Report from the External Auditors To note the position with regard to work being undertaken by external audit.	Brian Parsons, Head of Internal Audit Partnership
28 November 2011	Internal Audit - Six Monthly Interim Report To consider the work of the Internal Audit Section over the six month period April to September 2011 and to note the outcomes of the Internal Audit work.	Brian Parsons, Head of Internal Audit Partnership
28 November 2011	Treasury Management Strategy Mid Year Performance 2011/12 To note the activities of the treasury management function for the 2011/12	Paul Riley, Head of Finance and Customer Services

	financial year to date and to recommend amendments to current procedures as appropriate.	
28 November 2011	<p>Quarterly Work in Progress Report from the External Auditors</p> <p>To note the position with regard to work being undertaken by external audit.</p>	Brian Parsons, Head of Internal Audit Partnership
16 January 2012	<p>Strategic Risk Register</p> <p>To consider and comment to Cabinet on the adequacy of risk management within the Authority.</p>	Brian Parsons, Head of Internal Audit Partnership
16 January 2012	<p>Annual Audit Letter 2010/11</p> <p>To note and comment on the Audit Commission's Annual Audit Letter to Maidstone Borough Council and to make any recommendations to Cabinet and/or Council.</p>	Zena Cooke, Director of Regeneration and Communities Paul Riley, Head of Finance and Customer Services
19 March 2012	<p>Quarterly Work in Progress Report from the External Auditors</p> <p>To note the position with regard to work being undertaken by external audit.</p>	Brian Parsons, Head of Internal Audit Partnership