

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 30 July 2018
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Bartlett, Coulling (Parish Representative), Cox, Daley, Garland, Harvey (Vice-Chairman), McLoughlin (Chairman), Perry, Purle and Webb

The Chairman will assume that all Members will read the reports before attending the meeting. Officers are asked to assume the same when introducing reports.

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Issued on Friday 20 July 2018

Continued Over/:

Alison Broom

Alison Broom, Chief Executive

| | |
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PUBLIC SPEAKING AND ALTERNATIVE FORMATS

If you require this information in an alternative format please contact us; call **01622 602899** or email committee@maidstone.gov.uk.

In order to speak at this meeting, please contact Democratic Services using the contact details above by 5 p.m. one clear working day before the meeting – 26 July 2018. If asking a question, you will need to provide the full text in writing. If making a statement, you will need to tell us which agenda item you wish to speak on. Please note that slots will be allocated on a first come, first served basis.

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MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON MONDAY 19 MARCH 2018

Present: Councillor McLoughlin (Chairman) and
Councillors Adkinson, Butler, Coulling (Parish
Representative) Fissenden, Harvey and Webb

Also Present: Mr Darren Wells of Grant Thornton – External
Auditor

78. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors English, Mrs Gooch and Perry.

79. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

80. URGENT ITEMS

There were no urgent items.

81. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

82. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

83. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

84. EXEMPT ITEMS

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

85. MINUTES OF THE MEETING HELD ON 15 JANUARY 2018

RESOLVED: That the Minutes of the meeting held on 15 January 2018 be approved as a correct record and signed.

86. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

87. COMMITTEE WORK PROGRAMME 2018/19

Mr Mark Green, Director of Finance and Business Improvement, advised the Committee that the Officers were putting together the Work Programme for 2018/19. The Chairman had suggested that the following items be included:

- Update on Contract Monitoring (a new Contract Monitoring Officer had been appointed)
- Maidstone Property Holdings – Governance Arrangements

Details of the Work Programme, once finalised, would be circulated to Members.

The Chairman said that if any other Members wished to include items in the Work Programme, then they should forward them to the Director of Finance and Business Improvement.

88. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

Mrs Christine Nuttall, Senior Corporate Governance Lawyer, presented the report of the Head of Legal Partnership and Monitoring Officer on complaints received under the Members' Code of Conduct between 1 November 2017 and 28 February 2018. It was noted that:

- In the last report to the Committee on 20 November 2017, it was stated that two complaints were still awaiting initial assessment. The final decision in relation to both complaints (one relating to a Borough Councillor and one relating to a Parish Councillor) was that there had been no breach of the Code of Conduct.
- Whilst it was stated in the current report that no new complaints had been received since the last meeting, this was no longer the case as a complaint relating to a Borough Councillor had been received that day. No further information could be provided at this stage of the process.

RESOLVED: That the report be noted.

89. GENERAL DATA PROTECTION REGULATION PREPARATION UPDATE

Mrs Angela Woodhouse, Head of Policy, Communications and Governance introduced the report providing an update on the General Data Protection Regulation (GDPR) that would replace the Data Protection Act (DPA) 1998, with effect from 25 May 2018.

Mrs Woodhouse advised the Committee that the report outlined progress made on raising awareness and training, auditing information held by the

Council, information sharing and the documentation the Council was required to have on processes. A third of the total action plan had been completed. The Information Commissioner's Office had been very clear that organisations did not have to be fully compliant by 25 May 2018. However, the Council had to be able to demonstrate that it had a clear plan and preparations in place for compliance. A lot of work had been undertaken, but there was still a lot to be done going beyond 25 May 2018.

In response to questions, the Head of Policy, Communications and Governance/Policy and Information Manager explained that:

- The GDPR Practitioner course had been provided by Act Now and details could be made available. The Council was still awaiting an e-learning module for Councillors from the Local Government Association. The module had already been delayed once, and was now expected by Easter. As soon as the module was available on-line, a link would be sent to Members. Earlier in the year, Officers had attended a conference which included a basic introduction to the GDPR. A link to YouTube videos of speakers could be sent to Members to enable them to learn more about the GDPR.
- In terms of risk management, it was a major concern that suppliers might not be able to demonstrate compliance with the GDPR. The risk related to the lack of control and the possibility of having to make new arrangements in future. There might be additional costs involved that could not have been planned for. Discussions were taking place with suppliers and the ICT and Procurement Teams, but there were unknown elements at the moment.
- The Information Commissioner's Office had made it very clear that so long as the Council had a plan and could demonstrate that it was making preparations for the GDPR, taking account of the risks involved and planning appropriate mitigation, then there was leeway in being fully compliant by 25 May 2018.
- Work had not started yet on shared service arrangements in the context of GDPR, but risks would start to reduce as discussions took place with MKS partners, and areas of concern were identified.
- The Officers would be more than happy to provide advice and information to Parish Councils through KALC, in addition to information that was available from the Information Commissioner's Office, having regard in particular to their responsibilities as providers of devolved services.
- In terms of progress against the action plan, some actions might be delayed, such as the provision of guidance on the Council's website and additional guidance and training for staff. The record of processing activities would be completed in time and whilst some privacy notices might be delayed, overarching ones would be in place.

- The penalty for data breaches would increase significantly from up to £500k now to up to 20m euros depending on the issue and the impact on the individual.

RESOLVED: That the update on the Council's preparation for the GDPR be noted.

90. INTERNAL AUDIT & ASSURANCE PLAN 2018/19

Mr Rich Clarke, Head of Audit Partnership, introduced his report setting out the Internal Audit and Assurance Plan 2018/19, including the intended project list.

It was noted that:

- The Public Sector Internal Audit Standards (the Standards) required an Audit Service to produce and publish a risk based Plan at least annually for approval by Members. It was necessary to consider input from senior management and Members.
- In Mid-Kent Audit, planning was a continuous activity, but the team began the programme working towards the 2018/19 Plan document in late 2017. Although the Plan had been the subject of broad consultation with management, it had been compiled independently and without being subject to inappropriate influence.
- It was a requirement of the Standards to begin Internal Audit Planning with a risk assessment. This assessment must consider risks to the Council from global changes as well as those recognised within its own risk management. It was also necessary to keep that risk assessment current. Mid-Kent Audit would continue to consider responses as risks and priorities might change throughout the year. Global risks identified included the General Data Protection Regulation, cybersecurity, political uncertainty, vendor risk, workforce planning and the evolving role of Internal Audit in understanding and providing assurance against a wide range of corporate risks.

In response to questions, the Head of Audit Partnership/Audit Manager explained that:

- In terms of Member reporting, Mid-Kent Audit reported in summary the outcome of each project to the Committee in June/July and November/December each year. If Members were interested in specific reports, they could be circulated upon request.
- Delays in the Local Plan being adopted and subsequently delivering the desired outcomes had been included as a corporate risk in the Risk Register. The Council's Corporate Leadership Team would be reviewing the Risk Register the next day, and consideration could be given to factoring in the risks associated with any delays in undertaking the first review of the Local Plan.

The Committee thanked the Head of Audit Partnership for a very good report, presented in an understandable format.

RESOLVED:

1. That the Internal Audit and Assurance Plan for 2018/19, attached as Appendix 1 to the report of the Head of Audit Partnership, be approved.
2. That the view of the Head of Audit Partnership that the Partnership currently has sufficient resources to deliver the Plan and a robust Head of Audit Opinion be noted.
3. That the Head of Audit Partnership's assurance that the Plan is compiled independently and without inappropriate influence from management be noted.

91. ANNUAL ACCOUNTS PREPARATION

Miss Ellie Dunnet, Head of Finance, presented her report setting out the proposed process for the preparation, audit and approval of the 2017/18 Statement of Accounts and summarising the changes to the Local Audit Regulations under the Local Authority Audit and Accountability Act which would come into effect later this year.

It was noted that:

- The impact of these changes meant that the timetable for producing, auditing and signing off the Statement of Accounts had been accelerated to meet the new deadline of 31 July.
- Given the reduced timeframe, it would not be practical for a draft version of the Accounts to be formally considered by the Committee, which represented a change to the current process. There was no legal requirement for the Committee to review the draft Accounts prior to approving the final version, although in the past it had been considered useful to allow early consideration of the draft document by Committee Members. Plans were in place to accommodate this through an informal briefing session for Members in June. In addition, the draft Accounts would be available on the Council's website and for inspection by the public from 31 May onwards.
- Grant Thornton, the External Auditor, would commence work on 9 July, in advance of the meeting of the Audit, Governance and Standards Committee to approve the accounts on 30 July. It had not been possible to bring forward the start date of the audit, as Grant Thornton was heavily committed at this time of year. Grant Thornton would be carrying out early audit testing in March in order to reduce the volume of work to be carried out at the final audit.
- As the audit would still be in progress at the agenda deadline date, it was likely that the External Auditor's Audit Findings report would be

presented as an urgent update to the agenda for the July meeting, in order to ensure that it included the most up to date information that might be of use to Members in considering their decision to approve the accounts.

In considering the revised timetable for producing, auditing and signing off the Statement of Accounts, Members expressed a preference for an informal briefing in June, rather than a formal meeting.

RESOLVED:

1. That the arrangements for preparation and sign off of the 2017/18 Statement of Accounts be noted, specifically:
 - That the Committee will no longer be asked to formally consider the draft version of the Accounts; and
 - That the External Auditor's Audit Findings Report will be presented as an urgent update to the agenda for the July meeting due to the timing of external audit work.
2. That representatives of the External Auditor be invited to attend the informal briefing on the draft Statement of Accounts in June.

92. EXTERNAL AUDIT PROGRESS REPORT MARCH 2018

Mr Darren Wells presented the report of the External Auditor on the progress to date against the 2017/18 audit plan. The report also provided a summary of emerging national issues and developments of relevance to the local government sector.

RESOLVED: That the External Auditor's progress report, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

93. EXTERNAL AUDITOR'S AUDIT PLAN 2017/18

Mr Darren Wells presented the External Auditor's Audit Plan for delivering the audit of the 2017/18 financial statements and value for money conclusion in order to meet the statutory deadline for publication of audited local government accounts which had been brought forward to 31 July 2018. The report included details of the significant risks identified, the reasonably possible risks identified, the concept of materiality and the anticipated audit fee.

In response to questions by Members, Mr Wells explained that:

- The risks identified were fairly generic across all local authorities and were not unique to Maidstone.
- The reason for identifying employee remuneration as a reasonably possible risk was because payroll expenditure represented a significant

percentage (16%) of the Council's operating expenditure, which included Housing Benefit.

- The External Auditor had determined planning materiality to be £1.813m (PY £1.787m) which equated to 2% of the Council's forecast gross expenditure for the year. The External Auditor was obliged to report uncorrected omissions or misstatements other than those which were "clearly trivial" to those charged with governance. Clearly trivial had been set at £90,700 (PY £89k). Trivial was based on total expenditure and total income reflected in the Statement of Accounts. Whilst £90k might not seem trivial to the public, the External Auditor had to frame the audit based on spend. Triviality was calculated as a % of materiality (5%) and provided a basis on which the External Auditor could then report back and ask Officers to make changes. If the level was set lower, the impact would be that for every error in the notes or main statements found, the External Auditor would be asking the Officers to make those changes, thereby potentially increasing the amount the External Auditor had to do and report back. The aim was to strike a balance between ensuring that the Statements were fairly presented, but in the most economic and efficient way.

RESOLVED: That the External Auditor's Audit Plan for the year ending 31 March 2018, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

94. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

Mr Mark Green, Director of Finance and Business Improvement, introduced his report providing an update on the budget risks facing the Council. It was noted that:

- There continued to be inherent risks from uncertainty about the national economic position and the future funding of local government. The Government would be looking at options for dealing with negative Revenue Support Grant (RSG), and since the Council was facing £1.6m of RSG in 2019/20, this was very welcome.
- The wider economic climate impacted the Council in particular through exposure to fluctuations in business rates income. Around 35% of the Council's business rates income came from the retail sector which was particularly exposed to economic fluctuations and general trends in consumer behaviour.
- The increasing size of the Capital Programme and its importance to delivering the Council's strategic objectives meant that the impact of an inability to fund the Capital Programme would be significantly greater in future. Mitigation of the risks was being addressed through such measures as careful investment appraisal and strong project management.

In response to questions, Mr Green explained that:

- The risk matrix and the risk register covered the key budget risks over the period of the Medium Term Financial Strategy.
- Audit risks differed from budget risks. There were no “red” risks in relation to the budget strategy at present.
- The size of the Council’s Capital Programme was not unusual. Other Councils had bigger Capital Programmes and Maidstone’s was likely to be near the average.

RESOLVED: That the updated risk assessment of the Budget Strategy, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted, and that the risks should continue to be monitored.

95. APPOINTMENT TO ENFORCEMENT SUB-COMMITTEE ESTABLISHED BY A MEMORANDUM OF UNDERSTANDING IN RELATION TO THE DEVELOPMENTS AT BRUNSWICK STREET AND UNION STREET

Mr Mark Green, Director of Finance and Business Improvement, introduced his report concerning the appointment of an independent person to the Enforcement Sub-Committees established pursuant to Memorandums of Understanding to oversee the delivery and implementation of the planning mitigation required for the Council’s proposed developments at Brunswick Street and Union Street.

It was noted that:

- The Council would shortly be commencing two developments to provide a mix of affordable homes, homes for sale and homes for rent at Brunswick Street and Union Street. It was therefore landowner, developer and local planning authority in relation to these developments.
- The law allowed a local planning authority to grant planning permission to itself. On 19 December 2017, the Council’s Planning Committee resolved to grant planning permission for the Council’s proposed developments at Brunswick Street and Union Street subject to conditions and a legal agreement.
- In such situations where the Council was landowner, developer and the enforcing planning authority, the Council was unable to secure the required planning mitigation in the same way that it would be by a third party landowner/developer who had entered into a planning obligation with the Council pursuant to Section 106 of the Town & Country Planning Act 1990. Leading Counsel had advised that a solution which best fitted these circumstances was to have a Memorandum of Understanding (“MoU”) secured pursuant to other statutory powers which reflected the protections envisaged by Section 106 and was made between the landowning function and the planning decision making function of the Council. Two such MoUs had now

been drawn up for the proposed developments at Brunswick Street and Union Street respectively.

- As part of the Council's requirements to be open, transparent and accountable each MoU proposed the establishment of an Enforcement Sub-Committee that would ensure that the planning mitigation secured by the MoU was realised.
- It was a requirement that an independent person who was neither an employee nor an elected Member of Maidstone Borough Council be appointed to sit on each Enforcement Sub-Committee. It was considered appropriate, given the remit of the Audit, Governance and Standards Committee, for it to appoint the independent person.
- The Enforcement Sub-Committees would be stand-alone, created purely for the purpose of monitoring compliance with the respective MoU, resolving any disputes or differences and confirming the discharge of the planning obligations created by the MoU. They would not therefore report into any other Committee and would not form part of the wider Maidstone Borough Council committee structure.

RESOLVED:

1. That the requirement to appoint an independent person to the Enforcement Sub-Committees established pursuant to Memorandums of Understanding to oversee the delivery and implementation of the planning mitigation required for the Council's proposed developments at Brunswick Street and Union Street be noted.
2. That Councillor Peter Coulling, Parish Council representative on the Audit, Governance and Standards Committee, be appointed to serve as the Independent Person on the Enforcement Sub-Committees.
3. That, in the event of any conflict of interest in the roles becoming apparent, the Director of Finance and Business Improvement be given delegated powers to implement the process for making an alternative appointment.

Note: Councillor Coulling left the meeting whilst the appointment was discussed.

96. **COUNCILLOR DEREK BUTLER**

It was noted that this was Councillor Butler's last meeting of the Audit, Governance and Standards Committee as he would not be seeking re-election in May.

RESOLVED: That Councillor Butler be thanked for his contribution and diligence as a long serving Member of the Audit, Governance and Standards Committee.

97. DURATION OF MEETING

6.30 p.m. to 7.45 p.m.

MAIDSTONE BOROUGH COUNCIL

Audit, Governance and Standards Committee

MINUTES OF THE MEETING HELD ON TUESDAY 22 MAY 2018

Present: Councillor McLoughlin (Chairman), and
Councillors Bartlett, Mrs Blackmore, Cox, Daley,
Harvey, Perry, Purle and Webb

1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Garland.

2. NOTIFICATION OF SUBSTITUTE MEMBERS

Councillor Blackmore was present as a Substitute for Councillor Garland.

3. ELECTION OF CHAIRMAN

RESOLVED: That Councillor McLoughlin be elected as Chairman of the Committee for the Municipal Year 2018/19.

4. APPOINTMENT OF VICE-CHAIRMAN

RESOLVED: That Councillor Harvey be appointed as Vice Chairman of the Committee for the Municipal Year 2018/19.

5. DURATION OF MEETING

6.33 p.m. to 6.35 p.m.

| Report Title | Committee | Month | Lead | Report Author |
|--|-----------|--------|------------------|-------------------|
| CIPFA Position Statement on Audit Committees and Independent Members | AGS | Sep-18 | Rich Clarke | |
| Complaints Received under the Members' Code of Conduct | AGS | Sep-18 | Patricia Narebor | Christine Nuttall |
| Contract Monitoring Update | AGS | Sep-18 | Mark Green | Georgia Hawkes |
| Budget Strategy - Risk Assessment (Regular Update) | AGS | Sep-18 | Mark Green | Ellie Dunnet |
| GDPR Update | AGS | Sep-18 | Angela Woodhouse | Angela Woodhouse |
| External Auditor's Annual Audit Letter 2017/18 | AGS | Sep-18 | Mark Green | Ellie Dunnet |
| Internal Audit Interim Update | AGS | Nov-18 | Rich Clarke | Rich Clarke |
| Maidstone Property Holdings Governance Arrangements | AGS | Nov-18 | Mark Green | Ellie Dunnet |
| External Audit Update Report November 2018 | AGS | Nov-18 | Mark Green | Ellie Dunnet |
| Treasury Management Mid-Year Review 2018/19 | AGS | Nov-18 | Ellie Dunnet | John Owen |
| Budget Strategy - Risk Assessment (Regular Update) | AGS | Nov-18 | Mark Green | Ellie Dunnet |
| Complaints Received under the Members' Code of Conduct | AGS | Jan-19 | Patricia Narebor | |
| Annual Governance Statement Update | AGS | Jan-19 | Angela Woodhouse | Angela Woodhouse |
| Budget Strategy - Risk Assessment (Regular Update) | AGS | Jan-19 | Mark Green | Ellie Dunnet |
| Housing Benefit Grant Claim | AGS | Jan-19 | Rich Clarke | Rich Clarke |
| Internal Audit Charter | AGS | Jan-19 | Rich Clarke | Rich Clarke |
| Treasury Management Strategy 2018/19 | AGS | Jan-19 | Ellie Dunnet | John Owen |
| Audit & Assurance Plan | AGS | Mar-19 | Rich Clarke | Rich Clarke |
| External Audit Update Report March 2019 | AGS | Mar-19 | Mark Green | Ellie Dunnet |
| Budget Strategy - Risk Assessment (Regular Update) | AGS | Mar-19 | Mark Green | Ellie Dunnet |
| External Auditor's Audit Plan 2018/19 | AGS | Mar-19 | Mark Green | Ellie Dunnet |
| Appointment of a Public Open Space and Recreation Delivery Officer | AGS | TBA | | |

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

30 JULY 2018

REFERENCE FROM DEMOCRACY COMMITTEE

CHANGES TO FINANCIAL AND CONTRACT PROCEDURE RULES

The Democracy Committee, at its meeting held on 2 July 2018, considered a report by the Head of Commissioning and Business Improvement recommending changes to simplify the Contract Procedure Rules in the Council's Constitution improve compliance and manage procurement risk. It was noted that:

- The simplification of the Contract Procedure Rules was proposed following a recent review of procurement by Internal Audit which identified some compliance issues and problems with services not always following the correct procurement processes. As part of the management response to the Internal Audit report, the Council commissioned a Procurement Consultant to review the Contract Procedure Rules.
- It was recognised, as part of this review, that the current regulations and processes were more complicated than necessary and that poor compliance was mainly due to lack of awareness rather than malicious avoidance. It became clear that the parts of the Constitution relating to procurement and contracts ought to be easier to understand, so a number of changes were proposed, including replacing some wording with flowcharts and removing any duplication. The changes also gave rise to a small number of changes to the Financial Procedure Rules.
- Simplification of the Contract Procedure Rules was just one of the measures being taken to improve compliance with the Council's procurement processes. For example, an easy to follow Purchasing Guide had been prepared by the Procurement Consultant and the Procurement Team to help Officers understand the correct processes and key Officers had been trained on this.
- Whilst the majority of the proposed changes were to simplify the wording of the Contract Procedure Rules, a few additional changes to the Constitution were proposed as follows:

Changing the levels at which contracts are required to be sealed;

Increasing the emphasis on the need for contracts to be signed or sealed before commencement of works/services;

Removing the need for a risk assessment for all procurements over £10k; and

Removing reference to the submission and opening of paper tenders.

- In addition to the training already provided for key purchasing Officers, there would be an ongoing programme of procurement training to ensure that all appropriate Officers understood and complied with the required processes and guidance would be added to the Purchasing Guide. Meetings would be held

with the Procurement Team to ensure continuation of the training programme going forward. Involvement of the Team as a whole would build resilience.

During the discussion, it was suggested and agreed that the Audit, Governance and Standards Committee, which has an ongoing interest in procurement and contract management, be asked to make provision in its work programme to monitor training on and compliance with the revised Financial and Contract Procedure Rules, including the Purchasing Guide.

The Committee agreed:

1. That the revised wording and incorporation of flow charts into the Financial and Contract Procedure Rules of the Constitution, as detailed in Appendices 1 and 2 to the report of the Head of Commissioning and Business Improvement, be accepted.
2. That the level for sealing of contracts for non-construction projects be increased to £1m unless the Head of Mid-Kent Legal Services deems that a non-construction contract for a lower amount requires execution under seal.
3. That the requirement for a procurement risk assessment at £10k be removed.
4. That the increased emphasis on contract formulation and signing before commencement of service be agreed.
5. That delegated authority be given to the Head of Mid-Kent Legal Services to review the proposed revisions and incorporate appropriate changes to the Constitution to ensure that works, goods and services are appropriately commissioned and to undertake a cross-referencing exercise with other sections of the document, including the Scheme of Delegations, to ensure compliance with legislative requirements and consistency, prior to Council approval.
6. That the Audit, Governance and Standards Committee be asked to make provision in its work programme to monitor training on and compliance with the revised Financial and Contract Procedure Rules, including the Purchasing Guide.

The review and cross referencing exercise referred to in paragraph 5 above did not give rise to further changes and the Council, at its meeting held on 18 July 2018, agreed the proposed changes to the Financial and Contract Procedure Rules.

RECOMMENDED: That the Audit, Governance and Standards Committee consider making provision in its work programme to monitor training on and compliance with the revised Financial and Contract Procedure Rules, including the Purchasing Guide.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

30 July 2018

Annual Governance Statement 2017-18

| | |
|---|---|
| Final Decision-Maker | Audit, Governance and Standards Committee |
| Lead Head of Service/Lead Director | Angela Woodhouse, Head of Policy, Communications and Governance |
| Lead Officer and Report Author | Angela Woodhouse, Head of Policy, Communications and Governance |
| Classification | Public |
| Wards affected | All |

Executive Summary

Attached at Appendix A is the Annual Governance Statement for 2017-18. The purpose of the Annual Governance Statement is to provide assurance on the Council's governance arrangements. The local code of corporate governance was revised and adopted in 2017 and does not require refreshing this year.

This report makes the following recommendations to this Committee:

1. To approve the Annual Governance Statement.

Timetable

| Meeting | Date |
|---|--------------|
| Audit, Governance and Standards Committee | 30 July 2018 |

Annual Governance Statement 2017-18

1. INTRODUCTION AND BACKGROUND

- 1.1 Each year the Council reviews its governance arrangements to ensure compliance with the Local Code of Corporate Governance. The purpose of the review is to provide assurance that governance arrangements are adequate and operating effectively and to identify action which is planned to ensure effective governance in the future. The outcome of the review takes the form of an Annual Governance Statement (AGS) prepared on behalf of the Leader at the Council and Chief Executive.
- 1.2 The Council produces the AGS to accompany the statement of accounts. The Audit, Governance and Standards Committee is asked to consider this statement. The statement looks back at the governance arrangements for 2017-18 and identifies areas for action for 2018-19 to ensure good governance is maintained. We do not consider that there are any significant governance issues arising from the review; we have however identified actions for 2018-19 to ensure good standards of governance are maintained and these are set in Appendix A.
- 1.3 Action taken last year includes a resident survey and the delivery of the communication and engagement action plan for 2017-18 and the continuation of a member sounding board and monthly bulletin for members. There was also an externally led away day for group leaders and regular briefings for all members on key topics to ensure members are engaged and informed. The work on risk management has continued with a risk appetite being agreed and changes to the committee report template. The council was putting in place measures to ensure compliance with GDPR and the new Data Protection Act 2018 including training across the council.

2. AVAILABLE OPTIONS

- 2.1 The AGS is a requirement of statutory regulations and provides assurance about the Council's governance arrangements. The Committee is asked to review the Annual Governance Statement and recommend amendments as appropriate.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The Committee is asked to review the Annual Governance Statement and action plan and approve the areas suggested for improvement for 2018-19.

4. RISK

4.1 The Annual Governance Statement considers and gives assurance to the Council’s approach to risk management.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 The Annual Governance Statement has been reviewed by the Corporate Governance Group and the Council’s Leadership Team.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 Once approved the Annual Governance Statement is made available on our website and shared with our external auditors.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|---------------------------------------|---|---|
| Impact on Corporate Priorities | Effective corporate governance arrangements ensure the council’s priorities are understood and delivered | Head of Policy, Communications and Governance |
| Risk Management | Already covered in the risk section | Head of Policy, Communications and Governance |
| Financial | This report has no direct financial implications. The AGS is a requirement of statutory regulations and provides assurance about the Council’s governance arrangements. | Section 151 Officer & Finance Team |
| Staffing | We will deliver the action plan with our current staffing. | Head of Policy, Communications and Governance |
| Legal | Under the Council’s Constitution one of the functions of the Committee is to oversee the production of the Council’s Annual Governance Statement. There are no legal implications | Team Leader (Corporate Governance), MKLS |

| | | |
|------------------------------------|---|---|
| | identified in the report. The Annual Statement demonstrates measures are in place to ensure good governance arrangements which enable the Council to meet its statutory requirements. | |
| Privacy and Data Protection | There is action detailed in the plan for 2017-18 on compliance with Data Protection requirements. The Audit, Governance and Standards Committee will receive updates on the GDPR action plan in 2018-19. | |
| Equalities | Effective corporate governance arrangements include behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law as set out in the code of corporate governance | Head of Policy, Communications and Governance |
| Crime and Disorder | Effective corporate governance arrangements include behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law as set out in the code of corporate governance | Head of Policy, Communications and Governance |
| Procurement | Effective corporate governance arrangements include behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law as set out in the code of corporate governance | Head of Policy, Communications and Governance |

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Annual Governance Statement 2017-18
-

9. BACKGROUND PAPERS

None

Annual Governance Statement

2017-18

Introduction

The Annual Governance Statement is a review of the council's governance arrangements in 2017-18. The statement evaluates how we meet the governance framework and provides an opinion on whether the current governance arrangements are fit for purpose.

Scope of Responsibility

Maidstone Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Maidstone Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This Annual Governance Statement for 2018 also meets the requirements of the Accounts and Audit Regulations 2015, regulation 6(1) which requires an authority to conduct a review of the effectiveness of its system of internal control and the duty to prepare an annual governance statement.

The Council's section 151 Officer, Mark Green and the Monitoring Officer, Patricia Narebor are key members of the Corporate Leadership Team, reviewing all decisions taken through Leadership Team, Committees and Full Council. The Section 151 officer has a number of statutory duties, including the duty to report any unlawful financial activity involving the authority (past, present or proposed) or failure to set or keep to a balanced budget. The Section 151 officer also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit.

The Monitoring Officer serves as the guardian of the Council's Constitution and the decision-making process. During the course of 2017-18 amendments to the Constitution have been referred to the Democracy Committee and revisions implemented in line with the decision of the Committee and under the monitoring officer's delegation. The Monitoring Officer is also responsible for advising the Council on the legality of its decisions and providing guidance to councillors and officers on the Council's Constitution and its powers. This includes dealing with complaints under the Councillors' Code of Conduct.

The Corporate Leadership Team is led by the Chief Executive who is the Council's chief policy advisor with overall corporate management and operational responsibility.

The Council operates a committee system of governance and the Leader is the Council's political and elected head, the focus for political direction and the chief spokesperson for the Borough. The Leader is also Chair of Policy and Resources Committee. The Council has four service based committees taking decisions within their terms of reference as agreed by Council, individual Councillors do not have the power to make decisions. In addition there are committees that

deal with licensing, planning, audit, governance and standards; democracy; urgent matters employment and other regulatory matters.

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

The Council has approved and adopted a Local Code of Corporate Governance in 2017, which is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) and Society of Local Authority Chief Executive's (SOLACE) Framework [Delivering Good Governance in Local Government Guidance Notes for English Authorities 2016](#).

Our Governance Framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve the council's objectives, and therefore can only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the council's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The monitoring of Corporate Governance has a high priority at the Council. The Head of Policy, Communications and Governance is responsible for Corporate Governance. A small working group made up of the Head of Finance, the Head of Legal services (Monitoring Officer) and the Head of Policy and Communications assisted by the Head of Audit Partnership reports biannually to the Corporate Leadership Team and the Audit, Governance and Standards Committee on governance matters.

This governance framework has been in place at Maidstone Borough Council for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts.

The International Framework: Good Governance in the Public Sector states that

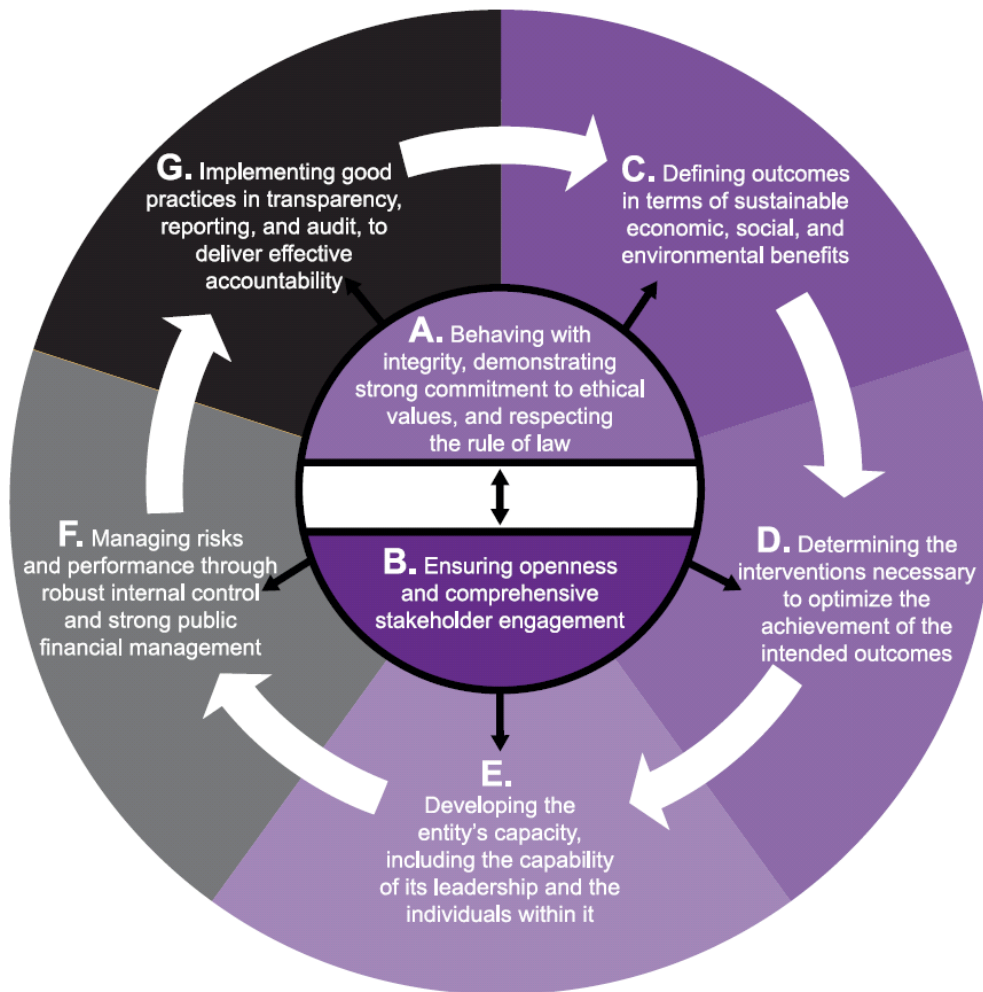
"Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved."

Our Local Code sets out the framework within which we conduct our business and affairs and the governance structure we have in place. Whilst this code sets

out principles, processes and policies, it is the application of the framework that will demonstrate good governance.

This statement sets out how we have demonstrated and met those principles in 2017-18.

The 7 principles within the Local Code of Corporate Governance



Review of Effectiveness

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law

The Council adopted a new local code of corporate governance in 2017 which complies with the latest CIPFA and SOLACE "Delivering Good Governance in Local Government".

The Council also has in place a local code of conduct for Councillors and a code of conduct for staff. Code of Conduct training is carried out annually for Councillors and included in the new councillor induction programme. During the municipal year 2017-2018, there were 4 code of conduct complaints dealt with under the Localism Act 2011 against parish councillors and 3 complaints against Borough Councillors. None were referred to the Standards Committee for a formal investigation hearing.

Information on the code of conduct is set out in the staff handbook and is included in the induction for all new employees.

A [Register of Interests](#) is maintained and training is offered to councillors on standards, interests and our code of conduct. Councillor and Officer codes of conduct are in place. A register of gifts and hospitality is maintained and staff are regularly reminded to complete this. Information on conduct is included in our Staff Handbook. Under the Local Government Act 1972, section 117, the Council requires officers to disclose any direct or indirect pecuniary interests they may have in any contract or potential contract involving the Council. This entails reminders being issued to all staff on an annual basis with registers maintained by the Monitoring Officer.

The [Audit, Governance and Standards Committee](#) purpose is to promote and maintain high standards of Councillor and Officer conduct within the Council. The Committee has responsibility for adopting and reviewing the Annual Governance Statement; independent assurance of the adequacy of the financial and risk management framework and the associated control environment.

We have a clearly defined set of core values that are embedded at the Council, they form part of our competency framework, are used as part of the appraisal process. Annually we hold a staff awards event for those who have demonstrated they have exceeded the standards by going above and beyond the expected in their behaviour:

- Service

- Teamwork
- Responsibility
- Integrity
- Value
- Equality

There is an [Equality Policy](#) in place for the organisation a new equality policy and objectives were agreed in 2017-18.

The Democracy Committee approved a member development programme that included training on interests and conduct. The Programme is focused on the following areas for Member Development:

- Support and build on existing skills for their role in the community now and in the future
- Support and build on existing skills for the various roles undertaken within and on behalf of the Council

The constitution is kept under review by the Democracy Committee and the Monitoring Officer, with changes agreed by full Council.

B. Ensuring openness and comprehensive stakeholder engagement

The Policy and Information Team and Communications Team work together with teams across the Council to ensure consultation is run consistently and effectively and are well communicated to all stakeholders. This collaborative working enables the teams to more effectively manage the consultation process, and in particular, better manage barriers such as such as consultation fatigue. Recognising of the importance of effective engagement with our stakeholders, the Council became a member of the Consultation Institute earlier in the year, which provides a wealth of resources and insight. Officers are currently undertaking accredited training via the Institute to further improve our approach and processes.

A Member Sounding Board is in place to consider how Councillors engage with officers, public consultation and engagement, share information as well as get involved in communications projects such as the residents' survey. This has ensured Councillors have an opportunity at an early stage to influence public engagement. The board were involved in the development of the 2017 resident survey, the Council magazine Borough Insight and the redevelopment of our website.

Over the course of 2017-18 we have carried out a number of consultations and surveys our largest being the Resident Survey 2017 which had over 2000 responses. Other consultations included taxi licensing, the low emission strategy, park and ride and council tax.

The council has a Communication and Engagement Action Plan in place which is reviewed annually and approved by the Policy and Resources Committee, we also have a statement of community involvement plan in place for planning covering a whole variety of means of communicating with and involving residents.

We believe in transparency and have a large amount of information available on the [data and information](#) pages of our website including details of payments to suppliers, decision notices, performance information, a list of our assets and senior staff salaries. We have dealt with a large volume of FOI requests in 2017-18 processing 98% on time.

The Council takes up opportunities to engage with partners and stakeholders through avenues such as the Developers' forum, Parish Liaison meetings, Maidstone Destination Management Plan, BME forum, Children and Young People forum, Voluntary and Community Services focus group, disability network and older person's forum.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.

The Council has a clear vision set out in the [Strategic Plan](#). The Strategic Plan is refreshed annually. In 2017/18 we refreshed and updated the Strategic Plan, this was led by Committees using information from the resident survey.

Outcomes are measured through strategy action plan updates, performance measures and targets which are reported regularly to Wider Leadership Team and the Service Committees.

To ensure the delivery of the strategic plan priorities and actions each service is required to produce a service plan and individuals also identify how they meet the priorities in their objectives for the year. The Investors in People (IiP) review in January 2017 identified Strategic Planning as a strength, "*Staff clearly understand the challenges ahead and all take part in discussing service plans and their contribution.*"

Our corporate report template requires report authors to identify how decisions align with the Council's priorities and show the options that have been

considered and the impact of the recommended course of action. We have a robust risk management framework in place.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The [Council's Constitution](#) clearly defines the roles and responsibilities of Officers and Councillors. The Head of Legal Partnership has reviewed the constitutional arrangements and made recommendations for amendment in 2017/18.

The Council's four service committees are responsible for making decisions on the services delivered by the Council. The four service committees, Democracy Committee and Audit, Governance and Standards Committee have work programmes in place. These programmes detail the decisions and reports for the year and are reviewed monthly by each committee. Details of committees and their work can be found on our [website](#).

Performance is reported on a quarterly basis to each service committee as well as updates on plans and strategies throughout the year.

The highest level risks on the Comprehensive [Risk Register](#), were reported and monitored by Corporate Leadership Team throughout the year, and action taken to manage risks to an acceptable level. Further to this, risks updates were reported to Policy & Resources Committee and also to Audit, Governance and Standards Committee during the year for oversight and challenge.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The Council in 2017 was accredited Silver following an Investors in People assessment. To achieve this level the council had to demonstrate that we have in place regular appraisals, service plans, learning and development activities, recruitment and selection procedures as well as a clear strategic vision, good leadership and strong corporate values.

The appraisal process for staff includes a personal development section where staff are encouraged to think about development needs and identify training required. This information is then fed into the Learning and Development team

and assists with the development of the programme for the year. The Council has a management toolkit and training programme and introduced the “Maidstone manager” in 2017-18 which sets out the behaviour and standards that are expected of managers.

The Council has a learning and development programme in place for officers and councillors. This has been assessed as good in the IiP assessment. There is a wide variety of training offered to staff and councillors.

F. Managing risks and performance through robust internal control and strong public financial management

The Council manages risk through a comprehensive risk management framework. This involves identification of risk at corporate and service levels, ownership of individual risks by named officers, development of controls to mitigate risks, and regular reporting. Quarterly reports are presented to the Corporate Leadership Team and bi-annual reports to Policy and Resources Committee. Members take an active interest in the risk management process and engage fully in discussion about individual risks. The Council has in place a robust risk management framework and guidance, risk management is considered by the Audit Governance and Standards Committee.

Performance reports aligned to the Council’s priorities are reported to the wider leadership team and service committees.

Service committees carry out policy and strategy development. Financial performance is reported to all the service committees on a quarterly basis.

Monthly budget spending is reported to budget holders and quarterly review meetings with the Director of Finance and Business Improvement are in place. The corporate report template requires information explaining the legal and financial impact of decisions and the S151 Officer and Monitoring Officer are required to comment on financial and legal implications of reports.

The Council has an anti-fraud and corruption policy in place and a whistle blowing policy.

The Council has appointed a Data Protection Officer and in 2017 put in place a GDPR action plan to ensure compliance with the new Data Protection Legislation. The information management group chaired by the Senior Information Risk Owner meets quarterly to review information management practice and policies.

The Council took part in a review of the Kent and Medway Information sharing Partnership in 2017 -18 and a new agreement has been signed for 2018-19.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Council's website includes information that is required under transparency. We publish an [annual report](#) as part of our statement of accounts which includes our performance, progress against priorities and financial performance. We report the results of public consultation on our website and our committee meetings are webcast.

The Whistleblowing Policy was updated in 2016 and is due to be refreshed in September 2018. The policy is available on the intranet and sets out a confidential reporting process for those who wish to raise concerns.

The annual governance statement and action plan is published on-line as part of the statement of accounts and reported to the Audit, Governance and Standards Committee. The Local Code of Corporate Governance was rewritten in 2017 and will be refreshed in 2019.

Internal audit activity is reported on an annual basis to the Audit, Governance and Standards Committee to inform members of the internal audit activity that has taken place during the year.

Internal Audit Opinion

The Head of Internal Audit will present the annual report and opinion to Audit, Governance and Standards Committee on 30 July 2018. The specific extract of that report that includes the opinion reads:

Internal Control

I am satisfied that during the year ended 31 March 2018 the Council managed a system of internal control that offers sound assurance on control effectiveness.

Governance

I am satisfied that Council's corporate governance arrangements for the year ended 31 March 2018 comply in all material respects with guidance on proper practices.

Risk Management

I am satisfied the risk management arrangements at the Council for the year ended 31 March 2018 are effective and provide sound assurance.

In addition, the report notes findings at a weak assurance level on *accounts receivable, procurement and land charges*. These are included among the governance actions below.

Governance actions 2017-18 - Update

| Governance Issue | Action Update |
|--|--|
| Engaging with local people: -Implementing new Customer Service Standards -Refresh of the Communication and Engagement Strategy | New Customer Service Standards in place Resident Survey 2017 undertaken Communication and Engagement Action Plan 2017-18 agreed and delivered 3 editions of Borough Insight delivered |
| Member and Officer Relationships -Externally led away day -Member Bulletin | Externally led away day held where the governance arrangements were endorsed. Monthly member bulletin introduced Sounding boards in place Regular briefings for key topics |
| Risk Management -setting the risk appetite -improving report writing in relation to risk | New report writing template agreed Risk appetite agreed |
| Decision Making - Improving report writing - Officers trained to deliver accurate procedural advice in meetings - | New report template in place Training for report authors delivered Training for democratic services staff |
| Information Management - Ensure the council is compliant with the new General Data Protection Regulations (GDPR) | Action plan in place further action identified for summer 2018. Progress has been reported to Leadership Team and Audit, Governance and Standards Committee Elearning module and team talks rolled out across the council Briefings held for councillors |
| Contract Management - Improving consistency and effectiveness of contract management across the council | Contracts and Compliance Officer was appointed September 2017. Review of contract management processes completed Management actions being undertaken |

| Governance Issue | Action Update |
|-----------------------------------|---|
| | to address recommendations identified in the Internal Audit review of Procurement. |
| Audit Reviews with weak assurance | |
| Hazlitt Theatre | All recommendations implemented and reassessed as sound |
| Health & Safety | All recommendations implemented and reassessed as sound |
| Park and Ride | All recommendations implemented and reassessed as sound |
| Performance Management | 1 high priority and 1 medium priority recommendations outstanding and reassessed as sound in March 2018 |

Governance Actions for 2018-19

We do not consider there are any significant governance issues arising from the review; we have however identified actions to ensure good standards of governance are maintained. Updates on the actions will be provided to the Audit Governance and Standards Committee on a six monthly basis and kept under review by the Corporate Governance Group.

| Governance Issue | Action |
|--|--|
| Develop a clear and consistent strategic narrative with agreed vision and priorities | The Strategic Plan will be revised one year ahead of schedule to ensure that the review of the Local Plan flows from an up to date agreed strategic vision |
| Audit Reviews with weak assurance: <ul style="list-style-type: none"> • Accounts receivable (focussed on debt recovery) • Procurement (focussed on small to medium contracts) • Land charges (focussed on controls between partner authorities) | Recommended actions implemented |
| Stress Survey | Implement actions arising from the stress survey results to improve organisational resilience |
| Risks: | |

| Governance Issue | Action |
|---|---|
| Housing Pressures Continue to Increase | Homelessness Strategy Closer working with the private sector In house housing management team |
| Project Failure – failure of significant capital projects of a housing and regeneration nature | Detailed and consistent analysis of project risks at committee approval stage |
| Financial Restrictions – The Council does not achieve its income or savings targets or does not have the funding to meet standards or deliver aims. | MTFS adopted Lobbying to avoid council suffering from negative RSG |
| Data Protection Compliance | Implement the GDPR action plan |
| PCI compliance | Completion of compliance project to ensure the council is fully compliant |

Conclusion

Overall we are compliant and our governance arrangements are fit for purpose.

A number of actions have been identified to ensure we maintain good governance standards in 2018-19.

The actions we propose to take are set out in the table above.

Signed

Chief Executive:

Date:

Leader of the Council:

Date:

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

30 July 2018

Audit, Governance and Standards Committee – Parish Council Representation

| | |
|---------------------------------------|---|
| Final Decision-Maker | Council |
| Lead Head of Service | Angela Woodhouse, Head of Policy, Communications and Governance |
| Lead Officer and Report Author | Debbie Snook, Democratic Services Officer |
| Classification | Public |
| Wards affected | All |

Executive Summary

This report seeks to regularise the situation regarding Parish Council representation on the Audit, Governance and Standards Committee and to address discrepancies within the Constitution.

This report makes the following recommendations to this Committee:

1. That the Council be recommended to agree changes to the Constitution to:
 - Clarify that the Hearings Sub-Committee no longer exists and has been replaced by the Hearing Panel.
 - Specify that the Hearing Panel consists of three voting elected Councillors drawn from the Audit, Governance and Standards Committee plus one non-voting Parish Councillor drawn from the Audit, Governance and Standards Committee when a Parish Councillor is the subject of a complaint.
 - Specify that the Audit, Governance and Standards Committee comprises nine Councillors plus two non-voting Parish Councillors appointed by the Council for a three year term of office.

2. Delegate authority to the Head of Mid Kent Legal Partnership to incorporate appropriate changes to the Constitution to effect the required changes and/or to reflect legislative requirements prior to Council approval.

Timetable

| Meeting | Date |
|---|-------------------|
| Audit, Governance and Standards Committee | 30 July 2018 |
| Council | 26 September 2018 |

Audit, Governance and Standards Committee – Parish Council Representation

1. INTRODUCTION AND BACKGROUND

1.1 The Audit, Governance and Standards Committee is constituted under Part 2.2.12 of Part 2 of the Constitution. The membership of the Committee is described as:

Nine Councillors plus two non-voting Parish Councillors for the Standards Hearings Sub-Committee, for Parish Council matters; and the Council's Independent Person (s) also to be invited.

1.2 The functions of the Audit, Governance and Standards Committee set out in Part 2.2.12 of Part 2 of the Constitution do not correspond with the arrangements for dealing with complaints of alleged breaches of the Councillors' Code of Conduct set out in Part 4.2 of the Constitution. The Hearings Sub-Committee referred to in Section 2.2.12 as comprising three Councillors (plus one non-voting Parish representative when a Parish Councillor is the subject of the complaint) has been replaced in Part 4.2 by a Hearing Panel consisting of three voting elected Councillors drawn from the Audit, Governance and Standards Committee. There is no reference to Parish Council representation in Part 4.2.

1.3 It is necessary, therefore, to clarify that the Hearings Sub-Committee no longer exists and has been replaced by the Hearing Panel, and to determine whether the Hearing Panel should or should not include one non-voting Parish Councillor when a Parish Councillor is the subject of the complaint.

1.4 The inclusion of Parish Councillors on the Audit, Governance and Standards Committee also needs to be regularised. As stated above, the Constitution provides for two non-voting Parish Councillors specifically for the Hearings Sub-Committee, for Parish Council matters. There is currently a vacancy. The appointed Parish Councillor has been attending Audit, Governance and Standards Committee meetings and participates, at the invitation of the Chairman, in the debate, but in a non-voting capacity. This is not in accordance with the Constitution.

1.5 Parish Council representatives are appointed by the Council upon the nomination of the Maidstone Area Committee of the Kent Association of Local Councils.

2. AVAILABLE OPTIONS

2.1 To do nothing, but this will not address the discrepancies within the Constitution or regularise the situation which has arisen regarding a Parish Council representative attending and participating in Audit, Governance and Standards Committee meetings.

- 2.2 To recommend to Council that changes be made to the Constitution to address the discrepancies within the Constitution and regularise the situation which has arisen regarding a Parish Council representative attending and participating in Audit, Governance and Standards Committee meetings.
-

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 It is proposed that the Council be recommended to agree that changes be made to the Constitution to:

- Clarify that the Hearings Sub-Committee no longer exists and has been replaced by the Hearing Panel.
- Specify that the Hearing Panel consists of three voting elected Councillors drawn from the Audit, Governance and Standards Committee plus one non-voting Parish Councillor drawn from the Audit, Governance and Standards Committee when a Parish Councillor is the subject of a complaint. It is considered that the inclusion of a Parish Council representative will provide valuable Parish perspective and knowledge.
- Specify that the Audit, Governance and Standards Committee comprises nine Councillors plus two non-voting Parish Councillors appointed by the Council for a three year term of office. It is considered that the Parish Council representatives can make a worthwhile contribution to the debate and that to cease the precedent which has been set could create ill-feeling. It is also considered that the reference to the Council's Independent Person should be deleted as their attendance would be by invitation.
- Specify that the Parish Council representatives be appointed for a period of three years.

- 3.2 This will address the discrepancies within the Constitution and regularise the situation which has arisen regarding a Parish Council representative attending and participating in Audit, Governance and Standards Committee meetings.
-

4. RISK

- 4.1 Accepting the recommendations will mitigate against the risks associated with discrepancies within and non-compliance with the Constitution.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The report has been prepared following discussions with the Chairman and Vice-Chairman of the Audit, Governance and Standards Committee.
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 If the recommendations are agreed, then a further report will be submitted to the Council in September 2018, and the Maidstone Area Committee of the Kent Association of Local Councils will be asked to nominate a second Parish Council representative to fill the vacancy which has arisen.
-

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|---------------------------------------|---|--|
| Impact on Corporate Priorities | We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims through improved governance arrangements. | Debbie Snook, Democratic Services Officer |
| Risk Management | See paragraph 4.1 above. | Debbie Snook, Democratic Services Officer |
| Financial | The proposals set out in the recommendations are all within already approved budgetary headings and so no new funding is required. They allow the Parish Council representatives to participate in Audit, Governance and Standards Committee, which provides some independent input to the work of the Committee. | Section 151 Officer & Finance Team |
| Staffing | The recommendations if accepted will be delivered within current staffing resources. | Debbie Snook, Democratic Services Officer |

| | | |
|------------------------------------|--|--|
| Legal | Failure to accept the recommendations without agreeing suitable alternatives will place the Council in breach of its Constitution. | Legal Team |
| Privacy and Data Protection | There are no implications for privacy and data protection | Legal Team |
| Equalities | The report does not propose a change in service so will not require an equalities impact assessment. | Equalities and Corporate Policy Manager |
| Crime and Disorder | No impact. | Debbie Snook, Democratic Services Officer |
| Procurement | No impact. | Debbie Snook, Democratic Services Officer |

8. REPORT APPENDICES

None

9. BACKGROUND PAPERS

None

Agenda Item 15

Audit, Governance & Standards

30 July 2018

Audit, Governance & Standards Committee – Annual Report 2017/18

| | |
|---|---|
| Final Decision-Maker | Audit, Governance & Standards Committee |
| Lead Head of Service/Lead Director | Rich Clarke – Head of Audit Partnership |
| Lead Officer and Report Author | Alison Blake – Audit Manager |
| Classification | Public |
| Wards affected | N/A |

Executive Summary

The report outlines how the Audit, Governance & Standards Committee has effectively discharged its duties during 2017/18. The report provides assurance to the Council that important internal control, governance and risk management issues are being monitored and addressed by the Committee.

This report makes the following recommendations to this Committee:

1. That the Audit, Governance & Standards Committee Annual Report for 2017/18 is **agreed**.
2. That the Chairman of the Audit, Governance & Standards Committee provides the report to a meeting of the full Council to demonstrate how the Committee has discharged its duties.
3. That the Committee, subject to any comment or amendment, **agrees** the briefing sessions proposed in Appendix A.

Timetable

| Meeting | Date |
|---|-------------------|
| Audit, Governance & Standards Committee | 30 July 2018 |
| Council | 26 September 2018 |

1. INTRODUCTION AND BACKGROUND

- 1.1 The Audit, Governance & Standards Committee is required to monitor audit activity (internal and external), review and comment on the effectiveness of the Council's regulatory framework and review and approve the Council's annual statements of accounts and scrutinise associated strategy and policy. This reports sets out how this has been achieved during 2017/18.
- 1.2 This is the third year that the Committee has reported its activity in this way since updating its Terms of Reference in 2014/15 to include Standards.
- 1.3 Since September 2015 the Committee has had a programme of development briefings designed to complement and provide insight into the types of issues the Committee consider. Throughout 2017/18 a number of briefings were provided, as outlined in Appendix A. This report proposes briefings for 2018/19 and includes a suggested timetable for the Committee to agree.
-

2. AVAILABLE OPTIONS

- 2.1 The production and presentation of an annual report is required by the Committee's terms of reference. Therefore no other alternative options can be recommended.
- 2.2 The Committee has previously requested and agreed to receive regular updates and briefings on pertinent issues relevant to the Committee's terms of reference. This report provides an updated programme and therefore proposes no alternative option.
-

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 This report provides the Council with assurance that important governance, risk and standards issues are monitored and addressed.
- 3.2 Our recommendation is for the Committee to agree the Audit, Governance & Standards Committee Annual Report (Appendix A), subject to any comments and amendments. In accordance with the Terms of Reference, that the Chairman of the Audit, Governance & Standards Committee then provides the report to a meeting of full Council setting out how the committee has discharged its duties.
-

4. RISK

- 4.1 There are no risk management implications identified with this decision.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 This report was compiled through consultation between Officers and the Chairman of the Audit, Governance & Standards Committee.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 The report will be presented to Full Council in accordance with this Committee's Terms of Reference.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|---------------------------------------|---|--|
| Impact on Corporate Priorities | We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. | Alison Blake Audit Manager |
| Risk Management | The report introduces no risks that require separate description in the Council's risk registers, nor materially impacts any currently described. | Alison Blake Audit Manager |
| Financial | The proposals have no direct financial implications. The work of the Audit Governance and Standards Committee contributes towards strong financial governance in the Council. | Section 151 Officer & Finance Team |
| Staffing | We will deliver the recommendations with our current staffing. | Alison Blake Audit Manager |
| Legal | There are no legal or statutory implications with this proposal. | Legal Team |
| Privacy and Data Protection | There are no privacy and data protection implications with this proposal. | Legal Team |
| Equalities | This report does not describe circumstances which require an Equality Impact Needs Assessment. | Policy & Information Manager |

| | | |
|---------------------------|---|--|
| Crime and Disorder | There are no crime and disorder implications for this report. | Alison Blake Audit Manager |
| Procurement | There are no procurement implications for this report. | Head of Service & Section 151 Officer |

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Audit, Governance & Standards Committee - Annual Report 2017/18

9. BACKGROUND PAPERS

None

Audit, Governance & Standards Committee

Annual Report 2017/18



Introduction by Chairman of Audit, Governance and Standards Committee

This report provides an overview of the Audit, Governance and Standards Committee's activity during the municipal year 2017/18.

I am pleased to report the continued good work of the Committee in providing an independent overview of the Council's governance. This role includes detailed consideration of the work of external and internal audit, plus robust scrutiny and challenge of the Council's financial performance and controls. Through our Ethical Standards role, the committee also has oversight of the approach the Council takes in investigating complaints made about Members.

During 2017/18 the Committee was pleased to note, among the highlights, further unqualified accounts and value for money opinions from our external auditors and a positive conclusion on the Council's control and governance from our internal auditors. The Committee has continued to engage with the Council's risk management process and to provide challenge when considering key internal audit findings.

Once again during 2017/18 the Committee is grateful for the contributions of its members and parish members, including engagement with respect to attending briefing sessions, as well as to those officers who have presented and provided support.



*Councillor Steve McLoughlin
Audit, Governance & Standards Committee Chairman (2017/18)*

Introduction

Maidstone Borough Council has always supported and understood the value and benefits of having an independent Audit Committee. The role of the committee was expanded in 2015 when the Council established the Audit, Governance and Standards (AGS) Committee. Its functions incorporate those undertaken by the former Audit Committee as well as some of the functions previously the responsibility of the Standards Committee.

The AGS Committee is an essential check on the corporate governance framework, providing an independent and high-level overview of internal control, governance and risk management for the Council.

The Committee monitors internal and external audit activity, reviews and comments on the effectiveness of the Council's regulatory framework and reviews and approves the Council's annual statements of accounts.

The Committee is independent from the Council's executive management and Service Committee functions and has clear reporting lines and rights of access to discharge its responsibilities in line with its Terms of Reference (Appendix I). This includes direct access to the Council's Appointed Auditor and Head of Audit Partnership without the presence of other officers where appropriate.

The Committee is not a substitute for the management function in relation to internal or external audit, risk management, governance, or any other review or assurance function. It is the Committee's role to examine these functions, and to offer views and recommendations on the way the management of these functions is conducted.

Statement of Purpose

The promotion and maintenance of high standards of Councillor and Officer conduct within the Council.

Adopting and reviewing the Council's Annual Governance Statement.

Independent assurance of the adequacy of the financial and risk management framework and the associated control environment.

Independent review 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.

Oversee the financial reporting processing.

*Maidstone Borough
Council Constitution*

Meetings & Attendance

The Audit, Governance & Standards Committee met five times in 2017/18:

- 25 June 2017
- 18 September 2017
- 20 November 2017
- 15 January 2018
- 19 March 2018

On all occasions the Committee was well attended and able to fulfil its duties.

During 2017/18 the Audit, Governance and Standards Committee was comprised of 10 members: 9 Borough Councillors and 1 Parish Councillor. The following Councillors were Members of the committee at various points during the year:

| Members | |
|------------------------------|----------------------|
| Cllr McLoughlin (Chairman) | Cllr Garland |
| Cllr English (Vice-Chairman) | Cllr Gooch |
| Cllr Adkinson | Cllr Harvey |
| Cllr Butler | Cllr Perry |
| Cllr Daley | Cllr Webb |
| Cllr Field | Parish Cllr Coulling |
| Cllr Fissenden | |

The Audit, Governance & Standards Committee is supported by senior officers of the Council who are regularly present at meetings, including:

- Director of Finance & Business Improvement (Section 151)
- Head/Deputy Head of Audit Partnership
- Head of Policy, Communications & Governance
- Legal Services

In addition, the Council's External Auditors (Grant Thornton) attended each meeting of the Audit Committee during 2017/18.

All of the Audit, Governance & Standards Committee agenda papers and minutes are available on the Council's [website](#).

Business

During the year the Audit, Governance & Standards Committee has commented, examined and reviewed the following:

| Audit Activity |
|---|
| • Internal Audit Annual Report & Opinion |
| • Interim Internal Audit & Assurance Report |
| • Internal Audit & Assurance Plan |
| • Counter Fraud & Corruption Policy |
| External Audit (Grant Thornton) |
| • Fee Letter |
| • External Audit Update |
| • Annual Audit Letter |
| • Housing Benefit Grant Claim Certification |
| • Audit Plan |
| • External Audit Appointment |
| Finance |
| • Statement of Accounts |
| • Treasury Management Annual Review |
| • Treasury Management Half Yearly review |
| • Treasury Management Strategy |
| • Budget Strategy Risk Assessment |
| Governance |
| • Complaints received under the Members' Code of Conduct |
| • Annual Governance Statement & Local Code of Corporate Governance Review |
| • Annual Governance Statement Action Plan |
| • Audit, Governance & Standards Committee Annual Report |
| • Work Programme |
| • Contract Management Arrangements |
| • Co-opted Independent Members |
| • Update on General Data Protection Regulations |
| • Appointment to the Enforcement Sub Committee |

The work of the Committee during 2017/18 has resulted in recommendations which have enhanced the operation of the Committee and wider Council functions. In particular:

- Discussion around the Annual Governance Statement ahead of its approval at Policy & Resources Committee
- Amendments to the Counter Fraud & Corruption Policy
- Oversight of the Councils contract monitoring arrangements
- Regular budget strategy risk updates reviewed and commented on by Members

The business outlined above has been fulfilled in accordance with the Committees agreed Terms of Reference (detailed in Appendix I). Furthermore the Committee has, where applicable to 2017/18, undertaken the functions outlined within the Terms.

Sources of Assurance

In drawing a conclusion for the year, the Audit, Governance and Standards Committee gained assurance from the following sources:

| The Work of Internal Audit |
|--|
| The Head of Audit Partnership issued an unqualified Head of Audit Opinion for 2016/17 which concluded that the Council was operating a sound system of internal control, governance and risk management. |
| Throughout the year the Committee has been kept up to date with delivery of the Internal Audit plan and the implementation of audit recommendations. It has also been kept aware of emerging risks and the risk management process. |
| The Internal Audit plan for 18/19 included a breakdown of internal audit assurance work for the coming year, and the Committee were given the opportunity to comment on the work of internal audit prior to endorsing the plan for delivery. |
| The Council has agreed its Counter Fraud and Corruption Policy and the processes for dealing with incidents. |
| Following the Committees agreement of the Whistleblowing Policy in September 2016, the Committee has obtained assurance on how matters raised are handled. |
| The Work of External Audit (Grant Thornton) |
| The external auditors report back to the Audit, Governance and Standards Committee providing regular updates on their programme of work. During the year, the External Auditors presented an unqualified value for money conclusion and an unqualified opinion on the financial statements. |
| The Committee has provided effective challenge to the External Auditors as appropriate and gained assurance from the reports and updates provided during the year. |
| Finance & Governance Reports |
| The Committee provided challenge prior to approving the statements of accounts and financial statements in September 2017. |
| The Committee receives updates on the Councils Treasury Management activity and have provided robust challenge and comment to the overall Strategy and performance of investments. |
| Assurance is obtained from the Annual Governance Statement which the Committee reviews and approves. The statement is produced following a review of the Council's governance arrangements and includes actions address any significant governance issues identified. The Committee receives updates on progress towards remedying these issues throughout the year. |
| Updates on the implementation of General Data Protection Regulation action plan, and progress towards achieving compliance with the new legislation. |

Dealing with Complaints about Council Members

The Localism Act 2011 obliges Councils to have both a Code of Conduct and a procedure for dealing with allegations that a member has breached that Code of Conduct. The Act further provides that the District/Borough Council for the area is responsible for dealing with complaints against all the Parish and Town Councillors for its area as well as dealing with complaints against Borough Councillors.

Full Council, at its meeting on 5 July 2012, resolved to adopt the 'Kent Procedures' for dealing with Member Complaints. Under the procedures, authority is delegated to the Monitoring Officer to make an initial assessment of the complaint (in consultation with the Independent Person appointed under the provisions of the Localism Act 2011) and, if appropriate, the Monitoring Officer will seek to resolve the complaint informally. If it is decided the complaint should be investigated, then following that investigation a Sub-Committee of the Audit, Governance and Standards Committee will determine the complaint.

The Localism Act 2011 sets out the role of the Independent Person in any procedures designed for investigating allegations that a member has breached the Code of Conduct. The Independent Person's views must be sought and taken into account prior to a decision being made following an investigation into a complaint. The Independent Person's views may also be sought at other times during the process. The appointment of the Council's Independent Person, Ms Barbara Varney, was extended in July 2017, for 3 years, by the Democracy Committee.

During the year ending 31 March 2018, 7 new Member complaints were received. 3 of the complaints related to Borough Councillors. The remaining 4 complaints related to parish councillors.

- 3 of the complaints did not proceed because they did not satisfy either the legal jurisdiction test or the local assessment criteria set out in the Kent Procedures.
- 2 concluded that there was no breach.
- 1 reached an informal resolution.
- 1 investigation was underway as at the 31st March 2018.

Member Development

As part of this annual report the Committee agrees a programme of development briefings. These are delivered prior to each Committee meeting, and the invite is extended to all Members not just those on the Committee. For 2017/18 Members continued to show an interest to continually develop their knowledge and skills and as such the following sessions were delivered over the year:

| Briefing theme & topics | Delivered in |
|---|----------------|
| Understanding local authority accounts <ul style="list-style-type: none"> ○ General understanding of accounts ○ Specific update/annual issues ○ Comparative review of LG accounts | September 2017 |
| Corporate Fraud & Corruption <ul style="list-style-type: none"> ○ Investigative practice ○ Fraud risks and the Councils response ○ Governance polices | November 2017 |
| Reviewing an audit plan <ul style="list-style-type: none"> ○ Member roles in relation to internal audit ○ Ensuring effective internal audit | January 2018 |
| Commissioning, procurement and contracting <ul style="list-style-type: none"> ○ Trends in commissioning ○ Effective procurement processes | March 2018 |

Proposed Programme 2018/19

The table below details a proposed programme of updates and briefings that could be delivered during 2018/19. Other areas could be added, including those of more specific local interest, or skills / knowledge development in line with CIPFA's recent position statement 2018 (see appendix II). Any of these development briefings can be added or adapted at the request of the Committee.

| Briefing theme & potential specific topics | Proposed timing |
|---|--|
| Assurance across partnerships <ul style="list-style-type: none"> ○ Governance challenges in partnership working ○ Review on specific partnerships | Flexible timing at any point in the 2018/19 year |
| Standards/Code of Conduct <ul style="list-style-type: none"> ○ The Kent Code ○ Hearing practices ○ Case studies | Flexible timing at any point in the 2018/19 year |
| Role of internal and external audit <ul style="list-style-type: none"> ○ Differences in internal/external audit role ○ Assuring effective external audit ○ External auditor appointment | Flexible timing at any point in the 2018/19 year |

| Briefing theme & potential specific topics | Proposed timing |
|---|---|
| Risk Management <ul style="list-style-type: none"> ○ Risk appetite ○ Specific strategic and operational risks ○ Risk management strategy ○ Local government risk outlook | Proposed to undertake this in January or March 2019. |
| Internal Audit Standards <ul style="list-style-type: none"> ○ How standards are set and monitored ○ Specific work on IA conformance | Not proposed for 2018/19; no external assessment required until 2020. |
| Assurance on value for money <ul style="list-style-type: none"> ○ How external audit assess VfM conclusion ○ Measuring value for money in local government ○ Data quality and performance measurement | Not proposed for 2018/19 |
| Internal Audit Standards <ul style="list-style-type: none"> ○ How standards are set and monitored ○ Specific work on IA conformance | Not proposed for 2018/19 |
| Treasury Management <ul style="list-style-type: none"> ○ Investment and borrowing options for local authorities ○ Prudential Code ○ Financial outlook for local authorities | Not proposed for 2018/19 |
| Reviewing the Annual Governance Statement <ul style="list-style-type: none"> ○ The AGS within the Council's governance ○ Specific topics within the AGS | Not proposed for 2018/19 |

Conclusion

The Audit, Governance & Standards Committee, in partnership with the Council's Internal and External Auditors, and with the support of Officers has provided robust and effective independent assurance to the Council on a wide range of risk, governance and internal control areas.

The Audit, Governance & Standards Committee can demonstrate that it has appropriately and effectively fulfilled its duties during 2017/18.

Terms of Reference & Responsibilities

Audit Activity

- a) To consider the Head of Internal Audit Partnership's annual report and opinion, and a summary of Internal Audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- b) To consider reports dealing with the management and performance of Internal Audit Services, including consideration and endorsement of the Strategic Internal Audit Plan and any report on agreed recommendations not implemented within a reasonable timescale; and the Internal Audit Charter.
- c) To consider the External Auditor's Annual Audit Letter, relevant reports, and any other report or recommendation to those charged with governance; and ensure that the Council has satisfactorily addressed all issues raised. To comment on the scope and depth of external audit work and to ensure it gives value for money.
- d) To review and approve the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Policy and Resources Committee or Council.
- 51 e) Consider and review the effectiveness of the Treasury Management Strategy, Investment Strategy, Medium Term Financial Strategy, Annual Report and Mid-Year review and make recommendations to the Policy and Resources Committee and Council.
- f) Recommend and monitor the effectiveness of the Council's Counter-Fraud and Corruption Strategy.

Governance

- a) To maintain a financial overview of the operation of Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.
- b) In conjunction with Policy and Resources Committee to monitor the effective development and operation of risk management and corporate governance in the Council to ensure that strategically the risk management and corporate governance arrangements protect the Council.
- c) To monitor Council policies on 'Raising Concerns at Work' (Whistleblowing) and the 'Anti-fraud and corruption' strategy.
- d) To oversee the production of the authority's Annual Governance Statement and to agree its adoption.
- e) The Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice and high standards of ethics and probity. This Committee will receive the annual review of the Local Code of Corporate Governance and may make recommendations to Policy and Resources Committee for proposed amendments, as necessary.
- f) To consider whether safeguards are in place to secure the Council's compliance with its own and other published standards and controls.

Standards

- a) The promotion and maintenance of high standards of conduct within the Council.
- b) To advise the Council on the adoption or revision of its Codes of Conduct.
- c) To monitor and advise the Council about the operation of its Codes of Conduct in the light of best practice, and changes in the law, including in relation to gifts and hospitality and the declaration of interests.
- d) Assistance to Councillors, Parish Councillors and co-opted members of the authority to observe the Code of Conduct.
- e) To ensure that all Councillors have access to training in Governance, Audit and the Councillor Code of Conduct; that this training is actively promoted; and that Councillors are aware of the standards expected under the Councils Codes and Protocols.
- f) To deal with complaints that Councillors of the Borough Council and Parish Councils may have broken the Councillor Code of Conduct.
- g) Following a formal investigation and where the Monitoring Officer's investigation concludes that there has been a breach of the Code of Conduct a hearing into the matter will be undertaken. *See the procedure at 4.2 of the Constitution for dealing with complaints that a Councillor has breached the Code of Conduct.*
- h) Advice on the effectiveness of the above procedures and any proposed changes.
- i) Grant of dispensations to Councillors with disclosable pecuniary interests and other significant interests, in accordance with the provisions of the Localism Act 2011.

Audit, Governance & Standards Committee

30 July 2018

Annual Internal Audit Report & Opinion 2017/18

| | |
|---|---|
| Final Decision-Maker | Audit, Governance & Standards Committee |
| Lead Head of Service/Lead Director | Rich Clarke: Head of Audit Partnership |
| Lead Officer and Report Author | Rich Clarke: Head of Audit Partnership |
| Classification | Public |
| Wards affected | All |

Executive Summary

This report meets the Head of Internal Audit annual reporting requirements mandated by the Public Sector Internal Audit Standards (PSIAS). The report includes the Head of Audit Partnership’s annual opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control which can be used to inform the Annual Governance Statement for 2017/18.

This report makes the following recommendations to this Committee:

1. The Committee **notes** the Head of Audit Partnership opinion. The opinion states that, in the view of internal audit, the Council’s system of internal control, corporate governance and risk management arrangements have operated effectively during 2017/18.

2. The Committee **notes** the work underlying the opinion and the Head of Audit’s assurance it was completed with sufficient independence and conformance with Public Sector Internal Audit Standards.

Timetable

| Meeting | Date |
|---|--------------|
| Audit, Governance & Standards Committee | 30 July 2018 |

Annual Internal Audit Report & Opinion 2017/18

1. INTRODUCTION AND BACKGROUND

- 1.1 Internal audit is a required service under Regulation 5 of the Accounts and Audit Regulations 2015. The principle objective of internal audit, under that Regulation is to:

... undertake [audit work] to evaluate the effectiveness of [...] risk management, control and governance processes, taking in account public sector internal auditing standards and guidance.

- 1.1 As those charged with overseeing Governance, the Terms of Reference for this Committee require it to:

...consider the Head of Internal Audit Partnership's annual report and opinion, and a summary of Internal Audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements..

- 1.2 The overall scope of the Council's audit service – which is delivered as part of a four way partnership with Swale, Ashford and Tunbridge Wells– is set out in the Audit Charter and Annual Plan. The Plan for 2017/18 was agreed by this Committee in March 2017. This Committee also received an interim update on progress to date in November 2017.
- 1.3 We have completed the work set out in the plan, subject to modifications as described in accordance with PSIAS. Where there is work outstanding at the time of writing, it is sufficiently progressed that the Head of Audit Partnership is satisfied its conclusions will not materially affect the Head of Audit Opinion. The final conclusions of any work outstanding will be reported verbally at the meeting (if available) and/or included within the first interim update of 2018/19.

2 AVAILABLE OPTIONS

- 2.1 The role of this Committee includes considering the Annual Report of internal audit as a required part of its purpose. We recommend no alternative course of action.

3 PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The Head of Audit Partnership is satisfied the Council can place assurance on the system of control in operation during 2017/18. Furthermore he is satisfied that the corporate governance framework complies in all significant respects with the best practice guidance issued by

CIPFA/SOLACE. Finally, he is satisfied that the Council’s risk management processes are effective. We ask the Committee to note these opinions.

- 3.1 Please see the appendix for the full Annual Report for 2017/18 which includes a summary of all work conducted to support the opinion and confirms the independence and effectiveness of the internal audit service.

4 RISK

- 4.1 This report is presented for information only and has no risk management implications.

5 CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 All findings and recommendations identified within reviews are consulted on with the appropriate Head of Service and action plans are agreed with management to implement recommendations. The headline messages within the report are as discussed with the s151 Officer across the year, and have been communicated to the s151 Officer to assist with his preparation of the Council’s Annual Governance Statement. The attached report is adapted for comments received.

6 NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 Not applicable.

7 CROSS-CUTTING ISSUES AND IMPLICATIONS

This report is provided for information rather than decision and consequently raises no new issues or implications.

| Issue | Implications | Sign-off |
|---------------------------------------|---|--|
| Impact on Corporate Priorities | We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council’s overall achievement of its aims by helping to ensure good governance. | Rich Clarke Head of Audit Partnership 18 July 2018 |
| Financial | The proposals set out in the recommendation are all within already approved budgetary headings and so need no new funding for implementation. | |
| Staffing | We will deliver the recommendations with our current staffing. | |

| Issue | Implications | Sign-off |
|------------------------------------|---|--|
| Legal | Accepting the recommendations will fulfil the Council's duties under the Accounts and Audit Regulations 2015. | Rich Clarke Head of Audit Partnership 18 July 20178 |
| Privacy and Data Protection | We hold and manage information in line with Council policies. | |
| Equalities | No impact | |
| Crime and Disorder | No impact | |
| Procurement | No impact | |

8 REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix 1: Annual Internal Audit Report & Opinion 2017/18

9 BACKGROUND PAPERS

Full reports which inform the audit projects summarised within this annual report are available on request.

Annual Internal Audit Report and Opinion 2017/18



July 2018

Maidstone Borough Council



MID KENT AUDIT

Introduction

1. The Institute of Internal Audit (IIA) gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. The mission and its associated [code of ethics](#) and [Standards](#) govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations state services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. Those Standards set demands for our annual reporting:

2450 Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

The communication will include:

- the scope including the time period to which the opinion pertains
- scope limitations
- consideration of all related projects including the reliance on other assurance providers
- a summary of the information that supports the opinion
- the risk or control framework or other criteria used as a basis for the overall opinion, and
- the overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Independence of internal audit

3. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work based on our collaboration agreement.
4. Within Maidstone BC during 2017/18 we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
5. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

Head of Internal Audit Opinion

Scope and time period

6. I provide this opinion to Maidstone Borough Council (the Council) to include in its Annual Governance Statement, as published alongside its financial statements for the year ended 31 March 2018.

Scope limits

7. The role of internal audit need not cover only assurance and may extend towards consultancy, advice and strategic support. We have agreed with the Audit, Governance & Standards Committee (the Committee) the overall scope of our work in our *Internal Audit Charter* and the specific scope of our work this year in our approved *Internal Audit & Assurance Plan 2017/18*.
8. However our audit plan cannot address all risks across the Council and represents our best use of inevitably limited capacity. In approving the plan, the Committee recognised this limit.
9. Beyond this general disclaimer, I have no specific limits of our scope to report to the Committee.

Consideration of work completed and reliance on other agencies

10. I have drawn my opinion from the work completed during the year. I first set out the work in the plan approved by Members in March 2017 and later developed it in line with emerging risks and priorities. I set out in this report the extent and findings from our work in greater detail.
11. In completing my work I have placed no specific reliance on external sources.
12. The rest of this report summarises the work completed in delivering the internal audit plan through 2017/18.
13. My opinion draws on the work carried out by Mid Kent Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit programme or associated assurance. Not all risks fall within our work programme. For risks not directly examined I am satisfied an assurance approach exists to provide reasonable assurance on effective management.

MID KENT AUDIT

Risk and control

14. The Council is responsible for ensuring it undertakes its business within the law and proper practices. The Council must also ensure it safeguards and properly accounts for its resources, using them economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to seek continuous improvement in exercising its roles.
15. The Council has described key parts of its internal control and risk management within the [Corporate Governance Local Code](#) and the Risk Management framework.
16. Organisations design internal controls to manage to an acceptable level rather than remove the risk of failing to achieve objectives. So, internal controls can only provide reasonable and not complete assurance of effectiveness. Designing internal controls is a continuing exercise designed to identify and set priorities around the risks to the Council achieving its objectives. The work of designing internal controls also evaluates the likelihood of those risks coming about and managing the impact should they do so.
17. In completing our work we have considered the control environment and objectives in place at the Council.

Conformance with standards

18. Mid Kent Audit has conducted its work following the Standards and good practice as represented in our internal quality assurance. This includes include working to an agreed audit manual with satisfactory supervision and review.
19. Our annual review confirms the service remains in full conformance with the Standards, as advised by our external quality assessment from the Institute of Internal Audit in 2015. We are next due an external quality assessment by 1 April 2020.
20. We describe later in this report our efforts towards continuing improvement and the results of our Quality and Improvement work.

MID KENT AUDIT

Overall conclusion

Internal Control

21. I am satisfied that during the year ended 31 March 2018 the Council managed its internal controls to offer sound assurance on control effectiveness.

Governance

22. I am satisfied that Council's corporate governance arrangements for the year ended 31 March 2018 comply in all material respects with guidance on proper practices¹.

Risk Management

23. I am satisfied the risk management arrangements at the Council for the year ended 31 March 2018 are effective and provide sound assurance.

Other Matters

24. I have no other matters to report as part of my opinion.



Rich Clarke CPFA ACFS
Head of Audit Partnership

18 July 2018

¹ "Proper practices" are defined by CIPFA/SOLACE and set out in [Delivering Good Governance in Local Government Framework](#) (2016).

MID KENT AUDIT

Internal Control

25. Internal control is how the Council ensures achievement of its objectives with effectiveness and efficiency; achieving reliable financial reporting and compliance with laws, regulations and policies. It covers financial and non-financial controls.
26. We gain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan.

Maidstone Audit Plan Work 2017/18

27. This Committee approved our *Annual Audit & Assurance Plan 2017/18* in March 2017. The plan set out an intended number of days devoted to each of various tasks. We began work on the plan during April 2018 and have now completed our work.
28. The table below shows progress in total number of days delivered against the plan.

| Category | 2017/18 Plan Days | Outturn at Jun-18 | Balance |
|------------------------------------|-------------------|-------------------|------------|
| 2017/18 Assurance Projects | 320 | 281 | -39 |
| Risk Management | 40 | 48 | +8 |
| Counter Fraud Support | 40 | 39 | -1 |
| Member Support | 20 | 20 | 0 |
| Recommendation Follow-Up | 40 | 37 | -3 |
| Audit Planning | 10 | 11 | +1 |
| Contingency and Consultancy | 50 | 65 | +15 |
| Total | 530 | 501 | -29 |
| Concluding 2016/17 projects | 0 | 67 | n/a |

29. We achieved final delivery of around 501 audit days. This is 95% of planned days and slightly ahead of the days forecast outturn noted in our interim report (483 days).
30. We detail the specifics, and results, of this progress further within this report.

MID KENT AUDIT

Results of Audit Work

31. The tables below summarise audit project findings (* = days split between partners, MBC only shown).

Completed Assurance Projects

| | Title | Plan Days | Actual Days | Report Issue | Assurance Rating | Notes |
|--|---|-----------|-------------|--------------|------------------|---|
| 2016/17 Assurance Projects Completed After Issue of 2016/17 opinion | | | | | | |
| | Payroll | *5 | *6 | Jun-17 | Strong | We summarised these reviews in our interim reports so have not repeated the information here. |
| | Crematorium | 15 | 15 | Jun-17 | Sound | |
| | ICT Controls & Access | *8 | *5 | Jun-17 | Sound | |
| | General Ledger | 15 | 17 | Jul-17 | Sound | |
| | Corporate Governance: Transparency Review | *5 | *5 | Jul-17 | N/A | |
| | Public Health | 15 | 13 | Aug-17 | Sound | |
| | Accounts Payable | 10 | 13 | Aug-17 | Sound | |
| Planned 2017/18 Assurance Projects Completed | | | | | | |
| I | Business Rates | *8 | *9 | Oct-17 | Strong | |
| II | IT Disaster Recovery | *6 | *5 | Oct-17 | Sound | |
| III | Debt Recovery Service | *5 | *6 | Oct-17 | Strong | |
| IV | Payroll | *8 | *9 | Nov-17 | Sound | |
| V | Land Charges | *5 | *9 | Dec-17 | Weak | |
| VI | Business Terrace | 15 | 15 | Dec-17 | Sound | |
| VII | Subsidiary Company Governance | 10 | 13 | Dec-17 | N/A | |
| VIII | Procurement | 15 | 20 | Jan-18 | Weak | |
| IX | Home Assistance Grants | 12 | 16 | Feb-18 | Sound | |

MID KENT AUDIT

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| | Title | Plan Days | Actual Days | Report Issue | Assurance Rating | Notes |
|---|--------------------------------|-----------|-------------|--|------------------|---------------------------------------|
| X | Accounts Receivable | 10 | 15 | Mar-18 | Weak | |
| XI | Homelessness | 15 | 16 | Mar-18 | Sound | |
| XII | Food Safety | *5 | *6 | Apr-18 | Sound | |
| XIII | Emergency Planning | 15 | 19 | Apr-18 | Sound | |
| XIV | Parking Income | *10 | *9 | Apr-18 | Sound | |
| XV | Promotion & Marketing | 12 | 14 | May-18 | Sound | |
| XVI | Insurance | 12 | 13 | May-18 | Sound | |
| XVII | Legal Services | *5 | *6 | Jun-18 | Sound | |
| XVIII | Street Scene Provision | 12 | 15 | Jul-18 | Sound | |
| XIX | Member Training | 12 | 15 | Jul-18 | Sound | |
| XX | HR Policy Compliance | *7 | 12 | Jul-18 | Sound | |
| XXI | Complaints | 12 | 18 | Jul-18 | Sound | |
| Planned 2017/18 Assurance Projects In Progress | | | | | | |
| | Animal Welfare | 12 | 8 | Draft report prepared and being discussed with officers. We will include the summary findings in our interim report later this year. | | |
| | Contract Management | 15 | 9 | Fieldwork nearing completion. We include a summary of issues emerging from the work at XXII. We will include the summary findings in our interim report. | | |
| Assurance Projects Added to the 2017/18 Plan and Completed | | | | | | |
| | Mid Kent Audit Mid Term Review | n/a | *4 | Aug-17 | N/A | In interim report, not repeated here. |

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Assurance Projects Removed from 2017/18 Plan

32. For conformance with standards and good practice, we keep our audit plan flexible to changing circumstances and risks across the authority over the year. During 2017/18, this meant adding some reviews to the schedule as noted above. We chose to postpone some reviews, usually after approaches from Council officers. The reasons vary, and we detail the specifics below. In each case, and in total, we remain satisfied we have enough assurance to offer a robust overall opinion.

Information Security

33. Our original planned scope referred to assessing compliance with the then draft *Computer Use Policy*, then expected to launch imminently. However, following further consultation on the draft policy, the final did not appear until June 2018 and so we could not undertake an audit examining its impact.
34. We considered instead undertaking a broader review of information security rather than examining a specific policy. We reviewed network security during March 2017 and delivered a positive assurance rating. During 2017/18 we entered an arrangement managed by LB Croydon (and reported to Members in our interim report) that gave us access to specialist audit support at competitive rates. In consultation with the service, we took the view the specialist work would be more helpful than a second general review in such a short gap. We have this specialist review on the 2018/19 audit plan.

Data Protection

35. We focussed our work this year on providing support through the *Information Governance Group* as the Council worked to ready itself for new Data Protection laws. We have a review that will examine compliance as part of our 2018/19 plan.

Building Control, Cemetery & Workforce Planning

36. We adjusted the plan during the year to take account of additional investigative and consultative work, as well as audit resource availability. We considered these areas to have relatively lower risk and so have postponed the work to future audit years.

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I: Business Rates – Valuations, Liability, Billing and Write Offs (October 2017)

37. Our opinion based on our audit work is that the Mid Kent Revenues and Benefits has **Strong** controls in place to ensure that Business Rates (valuation, liability, billing and write offs) are effectively administrated.
38. Our review found only minor changes to the Business Rates system since we reviewed it in June 2015. These changes have not affected the overall effective design and operation of the system, and our testing confirms that Business Rates process is working effectively.
39. From our testing, we are able to confirm that the Mid Kent Revenue and Benefits section has well established procedures in place to ensure that accurate valuation, liability and billing records are being maintained.
40. Similarly, our testing of write offs confirmed that there are established procedures for the writing off of irrecoverable debts, in accordance with each Council's Financial Procedure Rules.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| # of recs | 0 | 0 | 1 | 0 |

41. Since completing the review, the Council has acted to fulfil the recommendation in line with the agreed timetable.

II: IT Disaster Recovery (October 2017)

42. Our opinion based on our audit work is that the ICT shared service has **Sound** controls in place to manage its Disaster Recovery (DR) arrangements.
43. The service has well designed arrangements to allow effective response to a disaster with prompt service restoration. Documentation is clear with well-considered roles plus comprehensive backup arrangements, secure communication and regular testing. However, we found some minor instances of documentation falling behind developments in wider business continuity that varied between the partner authorities. The service holds significant experience and expertise including offering advice to other authorities, but we identified opportunities to better document and manage that resource.

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| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 0 | 2 | 2 | 0 |

44. Since completing the review, Mid Kent ICT has acted to fulfil recommendations in line with the agreed timetable. At year end all recommendations are complete.

III: Debt Recovery Service (October 2017)

45. Our opinion based on our audit work is that the Debt Recovery Service has **Strong** controls in place over the administration and management of enforcement cases and receipting and banking of enforcement income.
46. We found that there are sufficient procedures in place for the administration and management of enforcement cases. Our testing confirmed that enforcement action is taken in accordance with agreed procedures and fees and charges are applied in accordance with regulations. However, we identified a potential improvement in how data is transferred and stored between the partner authorities and the service.
47. Our testing established that financial controls, including receipting, banking and reconciliations, are operating effectively and as designed, and the partner authorities are accurately and promptly paid. However, we identified a potential risk in the when updating enforcement cases with payments received due to manual input.

IV: Payroll (November 2017)

48. Our opinion based on our audit work is that the Payroll service has Sound controls in place to manage its risks and support achievement of its objectives.
49. Our testing established that Maidstone and Swale Borough Council's mandatory payroll deductions are correctly calculated and paid to HMRC and KCC, with suitable checks and documentation in place to substantiate the payments made. However, at Swale, the payment is sometimes approved by an officer without delegated authority. This is the case for the main payroll, the IR35 and Elections payrolls. Income Tax, National Insurance and Pension rate parameters are correct in iTrent.
50. Discretionary deductions are supported by relevant documentation and correctly made. Payroll does not verify Student Loan payment plans.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 0 | 2 | 0 | 0 |

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51. The service has now acted to implement both recommendations, so this report is closed.

V: Local Land Charges (December 2017)

52. Our opinion based on our audit work is that the service has **Weak** controls in place to manage its risks and support achievement of its objectives.
53. There is a well-defined and effective process followed for the administration and processing of requests for Land Charges information. However, we found weaknesses in the process for receiving and recording income. In particular, weaknesses over cheque payments and self-billing accounts meant that we were unable to fully account for all of the payments that we tested. Furthermore, reconciliations are not currently performed and so variances between the Land Charges system and the Councils general ledgers are not identified and addressed. We were unable to reconcile income through our testing. While the variance in the reconciliation is not material our overall conclusion based on these findings is that the financial controls are not operating effectively.
54. Our testing of the Land Charge register identified risks with regards to completeness and accuracy. However, as the information on the register is provided by other services, a joined up approach with all services will be needed in order to improve reliance of the data.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 1 | 5 | 0 | 0 |

55. Since completing the review, the Council has acted to fulfil recommendations in line with the agreed timetable. At year end four of the six are complete, with the remaining two falling due early in 2018/19. We will revisit the action later in 2018.

VI: Business Terrace (December 2017)

56. Our opinion based on our audit work is the Business Terrace has **Sound** controls in place to manage its risks and support achievement of its objectives.
57. Our findings show the Business Terrace works well towards achieving its objectives on offering a supportive environment for start up businesses. Demand for office space is strong and occupancy is at 100%.

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58. The Business Terrace has been successful in helping start up businesses grow. This has resulted in expansion including premium office space. The service is also seeking extra space to house growing businesses.
59. However we identified some improvements necessary to back office procedures. These include ensuring full recording of bookings and documenting its income reconciliation and debt collection.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 0 | 3 | 4 | 3 |

60. Since completing the review, the Council has acted to fulfil recommendations in line with the agreed timetable. At year end two of the seven are complete, with the remaining five due early in 2018/19. We will revisit the action later in 2018.

VII: Subsidiary Company Governance (December 2017)

61. While completing this review we note the Company currently has only a limited role, with turnover barely above £100,000 a year and no direct asset ownership. Given this limited role we accepted management's view that materiality of the Company within the overall control environment did not merit an assurance rated report. Therefore we offer this report without an assurance rating.
62. However, we note management have nonetheless agreed to carry out the agreed recommendations and will do so before the Company becomes material.
63. The Council has not clearly settled its subsidiary company as a distinct entity, or clarified its role. This means the Council risks failing to realise the benefits it hopes to achieve by arranging its affairs like this. We found a lack of clarity in staff roles between the company and Council, both in appointment and compensation. There is a lack of clarity about when individuals act for the Company or the Council. Therefore we cannot easily assess if the arrangement delivers value and works effectively.
64. Lines of reporting to oversee the Company are also unclear. The company does not provide the performance information demanded by its founding agreements. However, the Council does not seek the information either. This is an example of our overall finding that the Council is yet to set up clear and independent governance allowing it to oversee the Company.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 3 | 1 | 1 | 2 |

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65. At year end three of five are complete, with the remaining two (one medium and one high priority) recommendations deferred. We will revisit these actions later in 2018.

VIII: Procurement (January 2018)

66. Our opinion based on our audit work is the Procurement controls in the Council offer only **Weak** assurance. This means that they require further support to work with consistent efficacy across the Council.
67. The Council has a solid and comprehensive set of Contract Standing Orders. The Council's procurement team stick closely to these rules. As confirmed by our testing, they conduct major buying exercises in full conformance supported by procedures and template documents.
68. However, the team's role extends only to major (£75k+) procurements with a seldom used advisory role elsewhere. This means a significant part of the Council's spend, over £6m a year, happens without reference to the central team. Our testing found widespread lack of conformance in the wider Council arising from both limited awareness and, sometimes, a conscious choice not to apply the rules. This exposes the Council to significant risk of not achieving best value and limits its ability to ensure proper conduct. The Council should look to provide training and institute compliance checks to address these risks.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 2 | 0 | 2 | 1 |

69. Since completing the review, the Council has acted to fulfil one recommendation in line with the agreed timetable. If the Council has followed the agreed timetable, all actions will have been completed by mid 2018.

IX: Home Assistance Grants (February 2018)

70. Our opinion based on our audit work is that the Housing and Inclusion Team has **Sound** controls in place to effectively administer Home Assistance Grants.
71. The Council has effective and embedded procedures for the processing of applications. The existing arrangements ensure that awards are made accurately and in accordance with the [Housing Grants, Construction and Regeneration Act 1996](#) and Council's Housing Assistance Policy 2016 – 2020.

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72. Having recently transitioned from M3 to the Uniform system to administer and record grants, our testing confirmed that the quality and utilisation of digital processes provide a good standard of record keeping.
73. Our testing confirmed that procedures are consistently operating as intended, and that controls are in place to effectively manage the associated risks. However we did identify areas for potential improvement with regards to notifications when a grant has been paid.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 0 | 0 | 2 | 0 |

74. Since completing the review, the Council has acted to fulfil recommendations in line with the agreed timetable. At year end all recommendations are complete.

X: Accounts Receivable (March 2018)

75. Our opinion based on our audit work is that the Accounts Receivable service has **Weak** controls in place to manage its debt recovery and write off processes.
76. Our review found only minor changes to the Accounts Receivable system since we reviewed it in January 2016. These changes have not affected the overall effective design and operation of the system as a whole.
77. Our detailed testing for this audit concentrated on the recovery process for unpaid debts. We found that the full extent of the recovery policy and procedures are not being adopted and followed. Reminders are being issued, however, after this stage further recovery action is not being taken. This issue was raised in a previous audit in 2015/16, and although management action was taken to help address the issue, little progress has been made to improve the recovery rate for debts.
78. We acknowledge that there has recently been a change of personnel in the Finance team which has enabled additional resources to be allocated to recovery. While this has allowed the team to begin taking further recovery action, the results of these actions on the reduction of debts is yet to be determined.
79. We found from our testing, that the writing off of those debts deemed irrecoverable, is appropriately evidenced and approved in accordance with the Council's Financial Procedure Rules.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 2 | 2 | 2 | 1 |

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80. Since completing the review, the Council has acted to fulfil recommendations ahead of the agreed timetable. At year end two high priority recommendations are complete, with the remaining four due for completion by December 2018.

XI: Homelessness (March 2018)

81. Our opinion based on our audit work is that the Housing Advice Service has **Sound** controls in place to manage its risks and support achievement of its objectives.
82. The controls over the processing and management of homeless applications are effective in both design and operation. All of the decisions tested during the review were supported by appropriate evidence to confirm the decision made.
83. We established that support is being provided to vulnerable people and decision making is compliant with the Council's Homelessness Strategy and legislation. Performance of the service is widely reported, including to officers and members. However, we were unable to verify some of the performance indicator information reported to the Corporate Leadership Team.
84. The Service is taking a proactive approach to prepare for the implementation of the Homelessness Reduction Act in April 2018. Our review of the implementation plan established actions are on track to be completed.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 0 | 0 | 2 | 2 |

85. If the Council has followed the agreed timetable, both actions will have been completed by mid 2018.

XII: Food Safety (April 2018)

86. Our opinion based on our audit work is that the Environmental Health service has **Sound** controls in place to manage its risks and support achievement of its objectives over the Food Safety function.
87. The audit confirmed the Council has a suite of effective and embedded procedures to ensure food hygiene inspections are handled in accordance with statutory requirements. These procedures are supported by templated documentation, which provides a structured and consistent approach to the work undertaken by the Food Safety team.

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88. Our testing established there is a consistent educative approach taken with regards to compliance and any identified issues are clearly explained to the food establishment operator along with any necessary corrective action. Where appropriate, these actions are followed-up accordingly.
89. Our testing identified a number of minor issues where records had not been maintained or a full rationale for decision making had not been documented. In addition, there is opportunity for the service to make clearer the sanctions for establishments that register late. These issues were not systemic, and relate mainly to the tightening up of procedures; as such they do not present a risk that would undermine the overall effectiveness of the service.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 0 | 1 | 6 | 2 |

90. Three recommendations fell due for action in early 2018/19, with the remaining recommendations falling due in mid 2018/19. We will revisit the actions later in 2018.

XIII: Emergency Planning (April 2018)

91. Our opinion based on our audit work is that the Council has **Sound** controls in place for Emergency Planning arrangements.
92. Our review concludes that the Council's Emergency Planning arrangements are compliant with the Civil Contingencies Act 2004 and that the processes in place can be used to facilitate an effective response to an emergency event. However, we have identified some areas that require improvement in order to ensure that those processes operate consistently and suitably prepare the Council in the event of a major emergency.
93. Recent handover of the Emergency Planning service provides an opportunity to more clearly define the roles and responsibilities for the service. This will enable the Council to better understand the resources needed to effectively support the Emergency Planning function, including maintaining the administrative aspects of the process. We found that many of the individual incident response plans require review and update, and while there is an annual work plan and well-led working group in place to help implement improvements many of the due dates have passed.
94. The Council is generally well-staffed for an emergency and key officers have undertaken sufficient training and are at the forefront of exercises. In the event of an emergency the Council has demonstrated that it is able to respond, but officers with

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more operational roles require more training as we identified lower levels of awareness of their roles through our testing.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 1 | 3 | 1 | 0 |

95. All the recommendations fall due for action later in 2018/19. If the Council follows the agreed timetable, all actions will be complete by September 2018.

XIV: Parking Income (April 2018)

96. Our opinion based on our audit work is that Parking Services has **Sound** controls in place to manage its risks and support achievement of its objectives as they relate to the collection, reconciliation and banking of car parking income.
97. Our testing at both Maidstone and Swale confirmed that cash due had reached the bank account and was properly recorded in financial records. We also found sound controls in place for managing cashless parking income.
98. However, procedures at Swale have some design weaknesses which could allow errors to go unrecognised. We note some controls in place at Maidstone (such as system reconciliations) that could support prompt identification of errors. At both councils, the success of controls relies heavily on availability of the Finance Officer. We recommend identifying cover to provide resilience.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 0 | 6 | 0 | 1 |

99. Three recommendations fell due for action in early 2018, with the remaining recommendations falling due by July 2018. We will revisit the actions later in 2018.

XV: Promotion & Marketing (May 2018)

100. Our opinion based on our audit work is that there are **Sound** controls in place over the Council's promotion and marketing activities.
101. We found that the processes and procedures in place are generally well designed and operating effectively. Following the centralisation of all communications activities, we believe there are clear routes available for departments to request promotion and marketing work. The jobs are being completed in line with the Council's new corporate branding guidelines, which we found to be compliant with the relevant legislation. The sign off system in place is adequate and the service is currently

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working to enhance the efficiency of the process. Some minor opportunities for improvement have been identified, particularly in regards to record keeping.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 0 | 0 | 4 | 1 |

102. All the recommendations fall due for action later in 2018/19. If the Council follows the agreed timetable, all actions will be complete by September 2018.

XVI: Insurance (May 2018)

103. Our opinion based on our audit work is that there are **Sound** controls in place over the Council's Insurance arrangements.

104. There are controls in place and operating to effectively manage the processes for tendering for a new insurance contract, handling renewals and in year additions to the policy. Equally, there are processes in place which support the Council upholding its obligations in relation to the insurance policy.

105. The claim process is defined and operates well and the financial arrangements follow the Council's financial procedure rules. Our testing identified some minor areas of improvement, specifically to ensure that claims where further information is needed are not unnecessarily delayed.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 0 | 0 | 2 | 0 |

106. One recommendation fell due for action in mid 2018, with the remaining recommendation falling due for action later in 2018/19. If the Council follows the agreed timetable, all actions will be complete by December 2018.

XVII: Legal Services (June 2018)

107. Our opinion based on our audit work is that the Legal Services has **Sound** controls in place to manage its risks and support achievement of its objectives.

108. We found generally sound processes in place for administering case files and finances within Mid Kent Legal Services. This includes an organised case management system – IKEN – as well as adherence to financial procedures to manage spending and budgets.

109. However, the service must make significant improvements in two areas; retaining signed contracts and information supporting external invoices. The service could

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locate only half of the contracts we requested in testing and fully support costings for only one of twelve invoices examined.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 2 | 2 | 3 | 0 |

110. All the recommendations fall due for action later in 2018. If the Council follows the agreed timetable, all actions will be complete by October 2018.

XVIII: Street Scene Provision (July 2018)

111. Our opinion based on our audit work is that the Waste and Street Scene service has **Sound** controls in place to manage the Council's street scene operations.

112. The work completed by the Street Scene service is pivotal to one of the Council's three strategic main priorities; providing a clean and safe environment. We found operational controls within the service to be satisfactory to support the service's efficient running. We also found a dedication to improve its work, including a current review of some processes.

113. However, in part because of the current review, we found gaps in record keeping. In particular we found it difficult to verify the service had acted in response to resident referrals in good time. Improving this record keeping will be essential for the service to show its contribution to the Council's priorities.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 1 | 1 | 2 | 0 |

114. If the Council fulfils recommendations in line with agreed timings, all actions will be in place by April 2019.

XIX: Member Training (July 2018)

115. Our opinion based on our audit work is that Democratic Services has Sound controls in place to induct and training Members. Our assessment takes into consideration actions currently underway by the service to update processes for 2018/19, and so is reflective of the fact that any new controls put in place will need time to embed.

116. We found that the service had sound arrangements in place for producing and delivering the 2017/18 Member Development Training Plan. Courses were arranged and delivered in accordance with the plan, and training events were promoted and

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communicated to all Members. Further enhancements are planned in 2018/19, through the adoption of the LGA Member Development Charter which will enable Members to identify and manage their own development needs.

117. The induction process for new members from the May 2018 election has recently been reviewed in consultation with members and officers. As part of this audit we reviewed the proposed changes and consider the planned process to be sound by design. We were however, unable to test how these arrangements will work in operation as they were implemented after we completed our review.

XX: HR Policy Compliance (July 2018)

118. Our opinion based on our audit work is the Human Resource Service has **Sound** controls in place to ensure compliance with the three Council policies examined: Home and Mobile Working, Flexible Working and Disciplinary.
119. Our testing confirmed full conformance with the Flexible Working and Disciplinary Policies. Officers within the service keep good records to support decisions taken and provide satisfactory support to managers and employees. We found some improvements needed on record keeping to show conformance with the Home & Mobile Working policy, in particular ensuring managers are aware of insurance requirements.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 0 | 2 | 0 | 0 |

XXI: Complaints (July 2018)

120. Our opinion based on our audit work is that Complaints Handling has **Sound** controls in place to manage its risks and support achievement of its objectives.
121. The Complaints Policy is accessible to the public, complaints are dealt with in a timely manner and impartially. Complaints are fully investigated, responses are carefully considered and address the concerns of complainants. Performance targets are met and regularly reported to Senior Management.
122. In order to fully comply with Local Government Ombudsman (LGO) guidance, the service needs to centrally log and report on complaint response outcomes. Furthermore, they need to ensure that service improvements prompted by complaints are implemented.

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123. Records need to be retained to demonstrate the correct application of the Unreasonable and Unreasonably Persistent contacts policy. This would ensure compliance with MBC policy and LGO guidance.

| Priority 1 (Critical) | Priority 2 (High) | Priority 3 (Med) | Priority 4 (Low) | Advisory |
|-----------------------|-------------------|------------------|------------------|----------|
| 0 | 0 | 3 | 5 | 0 |

XXII: Contract Management (Interim Findings)

124. The contract management (CM) audit is underway with some further testing outstanding. However, given standing interest in CM, we provide a summary of the preliminary findings from our work.
125. We have found a lack of clarity among officers on when a contract should be in place. The Council has made progress on incorporating CM into its procurement to ensure CM receives early consideration. However, this should be improved with further guidance.
126. Officers do not routinely define performance in a way which sets out how they will measure and monitor results. However, we found performance management working in practice with feedback to suppliers, and a good awareness of how to raise issues or problems. We found less clarity among officers on results of poor performance.
127. The Council should strengthen how it manages change in CM. This will help ensure continuity and corporate contract awareness. Contract reviews happen typically only when approaching the end of a contract. We also found a lack of clarity around when to review contracts.
128. We found some consideration of risk when entering contracts, especially where the arrangement needs Member approval. In general we found good awareness of the risks and recognition the Council cannot fully transfer them to the contractor. However, services do not consistently document risks nor complete routine reviews.
129. We will complete the remaining work over the coming month and deliver a report explaining our findings in full to officers. We will include information on that report to Members within our interim report later this year.

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Following Up Actions

130. Our approach to recommendations is that we follow up each quarter, examining issues that fell due in the previous three months. We take due dates from the action plan agreed with management when we finish our reporting. We report progress on implementation to Corporate Leadership Team (CLT) each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after action on key recommendations).
131. We summarise in the chart below the current position. The chart shows low priority recommendations (at the foot of each bar) in green, medium priority in amber and high priority (at the top of each bar) in red.



132. Overall we are content with officers' progress on acting to address issues we raise in our reviews. Although we receive periodic requests from officers to defer action, in each case we are content that delays pose no heightened risk to the Council.

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Corporate Governance

134. Corporate governance is the rules, practices and processes that direct and control the Council.
135. We gain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.
136. We also help in upholding good governance by providing advice and training to both officers and Members.

Counter Fraud & Corruption

137. We consider counter fraud and corruption risks in all of our audit engagements when considering the effectiveness of control. We also undertake distinct work to assess and support the Council's arrangements.

Investigations

138. During 2017/18 we have completed one investigation on a matter related to a potential identity theft which came to light when paying electoral support workers. We identified the matter was a genuine case of mistaken identity caused by a similarity in names and addresses and provided advice to the service.
139. We completed a further investigation on potential fraudulent use of a post office box registered to the Council. We found the use was genuine, but errors in addressing correspondence to the Council had caused unnecessary concern.
140. We also completed one further investigation following information of alleged computer misuse brought to light by information provided by Mid Kent ICT. We identified one breach at Maidstone which resulted in appropriate action against the individual. We were satisfied there were no further breaches of policy at Maidstone, but fed back to Mid Kent ICT comments on the computer use policy that arose during our investigation. These comments informed the recently published update to the Computer Use Policy.

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Whistleblowing and money laundering

141. The Council's whistleblowing policy names internal audit as one route for Members and officers to safely raise concerns on inappropriate or even criminal behaviour.
142. We have had one matter raised with us during the year. We completed an investigation and agreed action with management that settled the concern raised by the whistleblower.
143. We have also had no matters raised with us noting concerns that may indicate a breach of money laundering regulations.

National Fraud Initiative

144. We continue to coordinate the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching project and we must send in various forms of data to the Cabinet Office who manage the exercise.
145. The Cabinet Office released the 2017 matches in January 2017 as reported to this Committee in June 2017. Most matches (almost 90%) fall to the MKS Revenues & Benefits Compliance team to look into. That team report separately.
146. Of the remaining matches, the Cabinet Office marked 272 as "recommended", around 30% of the total. We have completed review of all recommended matches and noted three cases error. Two from matches involving the Housing Waiting List, one from Taxi Licensing data. Identifying these three errors has saved £6,480. We will examine a sample of the remaining matches aiming to reach an overall conclusion of the work within the two year window recommended by the Cabinet Office.

Counter Fraud Policy

147. During 2017/18 we updated the Council's Whistleblowing and Counter Fraud policies, with approval from this committee.
148. The Cabinet Office confirmed in March that it plans to launch *Counter Fraud Standards* in July 2018. Although these *Standards* will be mandatory only in central government, the Cabinet Office encourages the view that they will represent a good practice aspiration across the public sector.
149. Once the Cabinet Office publishes we will review the updated *Counter Fraud* and *Whistleblowing* Policies. We will review with a view to incorporating and reflecting the Cabinet Office standards as far as practical.

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Other Audit and Advice Work

150. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council. Examples include our contributions to the Council's Corporate and Information Governance groups and advising on possible approaches to delivering Housing Benefit certification.

151. We remain engaged and flexible in seeking to meet the assurance needs of the Council. We are happy to discuss opportunities large and small where the Council can usefully employ the experience and expertise of the audit team.

Risk Management

Risk Management Update

152. Risk management is how the Council identifies, quantifies and controls the risks it faces as it seeks to achieve its objectives.
153. We gain evidence to support the Head of Audit Opinion through our role as having lead responsibility for risk management for the Council. We set out this role, with safeguards to our independence, in our *audit charter*.
154. The Council set up its current risk management approach in July 2015. Since then, we have regularly reported key risk information to Officers and Members. Specifically, the Audit, Governance and Standards Committee will receive, to the same meeting as this report, its first Annual Risk Report which provides assurance over the effectiveness of the risk management process.
155. The Annual Risk Report also provides further details of the Councils Corporate risks and the overall risk profile. We consider both the Councils' Corporate and Operational risks when undertaking our audit planning and as part of each audit engagement.
156. We have continued to lead on the risk work for the Council. We will seek opportunities to improve the process through 2018/19, reporting progress to Members at Policy & Resources Committee and this Committee.
157. We have a separate report on risk management elsewhere on this Committee's agenda.

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Audit Quality & Improvement

Standards and ethical compliance

159. On 1 April 2017 the RIASS² published a changed set of Public Sector Internal Audit Standards (the “Standards”). These updates made more than thirty changes and improvements, building on the recently published International Professional Practices Framework.
160. All auditors working in the public sector (including, for instance, health and central government too) must work to these standards for 2017/18. One specific change is the new demand to report to Senior Management and the Board (Audit Committee) on conformance with the Code of Ethics and the Standards.
161. We included the *Code of Ethics* as an appendix to our interim report in [December 2017](#). We have included the Code within our Audit Manual and training for some years. We can report to Members we remain in conformance with the Code.
162. On broader Standards conformance we must each year assess ourselves against those standards and report the results to Members.
163. We underwent an external independent assessment from the IIA in 2014 which confirmed our full conformance with all but 6 of the standards and partial conformance to the rest. In 2015, following action to fulfil the IIA’s recommendations, we achieved full conformance to the standards – the first English local authority audit service to be so assessed by the IIA.
164. In 2018 we undertook a self-assessment against the Standards and confirm to Members we remain in full conformance. We include a summary of that assessment on the next few pages:

² Relevant Internal Audit Standards Setters: A group comprising CIPFA (Chartered Institute of Public Finance & Accountancy), the Department of Health, HM Treasury, the Northern Irish Department of Finance & Personnel and the Welsh and Scottish Governments. The RIASS are advised by the Chartered Institute of Internal Audit (IIA) and the Internal Audit Standards Advisory Board (IASAB).

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Demonstrating Integrity

| Assessment | 18/19 Developments |
|--|---|
| <ul style="list-style-type: none"> • Code of ethics in place as part of audit manual • Professional ethics training for staff • Revised advice to staff on conflict of interests <p>Fully conforms</p> | <ul style="list-style-type: none"> • Developing policy on pay and reward • Revise Charter in light of developing audit role |

Competence & Due Care

| Assessment | 18/19 Developments |
|---|--|
| <ul style="list-style-type: none"> • Audit procedures manual • Robust internal review across all audit stages • Average 13 years audit experience • 9 of 12 auditors hold or studying for professional qualification <p>Fully conforms</p> | <ul style="list-style-type: none"> • Standard, detailed work programmes in new software • Personal training & development budgets • Group professional memberships • Developing training with sector groups in London & Kent |

Objective & Independent

| Assessment | 18/19 Developments |
|---|--|
| <ul style="list-style-type: none"> • Independence declarations within reviews • Cross authority partnership strengthens objectivity • Charter clear on accepting advice roles <p>Fully conforms</p> | <ul style="list-style-type: none"> • Developing overall policy on independence and managing conflicts • Links across London, Kent and Private Sector for independent views where needed. |

Strategic alignment to Council

| Assessment | 18/19 Developments |
|---|---|
| <ul style="list-style-type: none"> • Approved audit plan based on knowledge of Council objectives • Continuing advice and consultancy role with Officers and Members • Risk management advice and insight <p>Fully conforms</p> | <ul style="list-style-type: none"> • New audit software enables greater tracking and assessment of risk and objectives • Improved alignment of risks within individual audit reviews • Improved risk reporting |

Positioning & Resourcing

| Assessment | 18/19 Developments |
|---|--|
| <ul style="list-style-type: none"> • Direct link to Senior Officers and Members • Steady overall budget position, with efficiencies • Access to reliable contractor support for resource gaps <p>Fully conforms</p> | <ul style="list-style-type: none"> • Full team complement for 2018/19. • Partnership agreement with LB Croydon. • Exploring secondment opportunities through regional groups. |

Quality & Improvement

| Assessment | 18/19 Developments |
|--|---|
| <ul style="list-style-type: none"> • Strong positive mid-term review. • Invited to train new starters at neighbouring authority. • Continued good progress toward professional qualifications. <p>Fully conforms</p> | <ul style="list-style-type: none"> • Greater standardisation more efficiently in new software. • Developing bespoke training with regional groups. • Group professional memberships. |

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Communicates Effectively

Assessment

- Clear report formats noted by review feedback.
- Audit approach set out in graphics and briefs.

Fully conforms

18/19 Developments

- New software will enable clearer reporting, on risk especially.
- Report writing and presenting training in team.

Risk Based Assurance

Assessment

- Priority-rated recommendation reporting.
- Engagement with risk registers during specific project planning.
- Focus testing on higher risk areas.

Fully conforms

18/19 Developments

- New software enables better collation, use and tracking of risk information.
- Clearer 'golden thread' trail from risks to specific audit tests.

Insightful, Proactive & Future Focus

Assessment

- Flexible, adaptive plan leaving space for advice and consultancy.
- Practical recommendations aimed at service improvement.

Fully conforms

18/19 Developments

- Greater organisation of past audit results through new software enabling possible thematic/trend reporting.

Promotes Improvements

Assessment

- Contributions and advice to senior management and members.
- Briefing and training programmes on governance.

Fully conforms

18/19 Developments

- Continued engagement with broader groups to bring forward ideas for further improvements.

Audit Management Software

165. In March 2018 we decided to move from Audit Management Software called *Teammate* – which the partnership had used for more than a decade – to a new product called *Pentana*. Aside from a significant annual saving, *Pentana* offers us significant opportunities in further developing the quality and consistency of our work and reporting. Specific opportunities we are exploring include:

- A greater range of standardised work programmes, allowing for more directed work and expanded audit universe coverage.
- A clearer link to organisational structure, allowing for easier reporting to all levels of the council.
- Greater consistency in recording audit findings, allowing for cross-authority reporting on themes or key issues.

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- Better and more organised information on risks and controls to allow clearer focus within individual projects.
- The ability to capture consistently a broader range of information and work to help support our planning and reporting.

166. As noted in the 2018/19 plan, we set aside some time to support familiarisation and training in the new software. However, for 2019/20 onwards we also expect significant efficiencies from internal process improvements.

Training and Qualifications

167. We continue to offer strong support to the audit team in continuing development and upholding professional competence. In 2017/18 this involved providing individual training budgets and supporting people to follow avenues for development suitable for their career position and ambitions.

168. A key but far from sole part of this approach is supporting professional qualifications. During 2017/18 we supported almost half the team through professional studies and remain pleased with their progress and success. We would like to highlight:

- **Russell Heppleston**, Deputy Head of Audit Partnership, achieved the full professional qualification of the *Institute of Risk Management*.
- **Jen Warrillow**, Senior Auditor, completed the first of three case studies towards becoming a Chartered Member of the Institute of Internal Audit (IIA).
- **Ben Davis**, Trainee Auditor, completed the full professional qualification of the Chartered Institute of Public Finance and Accounting (CIPFA).
- **Andy Billingham**, Auditor, and **Louise Taylor**, Trainee Auditor, both completed the first of three stages in the Certificate of Internal Audit (CIA) qualification awarded by the IIA.

169. We have also taken the lead in arranging training across regional audit groups as a way of maximising efficiency and tailoring content for local needs. During 2017/18 this included hosting a CIPFA training event attended by auditors across Kent on the basics of counter fraud investigation and legislation. During 2018/19 we will work with the London Audit Group in developing training aimed at helping auditors work towards management roles.

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Performance Indicators

170. Aside from the progress against our audit plan we also report against some specific performance measures designed to oversee the quality of service we deliver to partner authorities. We have monthly update meetings with management to discuss service performance and audit results.

171. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

| Measure | 2014/15 Results | 2015/16 Results | 2016/17 Results | 2017/18 Results |
|--|--------------------|--------------------|--------------------|--------------------|
| Cost per audit day | Met target | Met target →← | Beat target ↑ | Beat target ↑ |
| % projects completed within budgeted number of days | 47% | 60% ↑ | 71% ↑ | 78% ↑ |
| % of chargeable days | 75% | 63% ↓ | 74% ↑ | 74% →← |
| Full PSIAS conformance | 56/56 | 56/56 →← | 56/56 →← | 58/58 →← |
| Audit projects completed within agreed deadlines | 41% | 76% ↑ | 81% ↑ | 87% ↑ |
| % draft reports within ten days of fieldwork concluding | 56% | 68% ↑ | 71% ↑ | 80% ↑ |
| Satisfaction with assurance | 100% | 100% →← | 100% →← | 100% →← |
| Final reports presented within 5 days of closing meeting | 89% | 92% ↑ | 94% ↑ | 96% ↑ |
| Respondents satisfied with auditor conduct | 100% | 100% →← | 100% →← | 100% →← |
| Recommendations fulfilled as agreed | 95% | 98% ↑ | 98% →← | 97% →← |
| Exam success | 100% | 100% →← | 85% ↓ | 85% →← |
| Respondents satisfied with auditor skill | 100% | 100% →← | 100% →← | 100% →← |

172. We note the continuing improvement in performance and productivity in our project reviews, while keeping high levels of satisfaction with the service.

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173. While we seek comments from a broad range of sources, the driver for the satisfaction numbers is responses to the surveys we circulate with each final report. For 2017/18 we received 42 completed survey responses, including 14 from Maidstone (including its shared services). This gives a response rate of just under two thirds, noting that a couple of surveys received multiple responses. We continue working with audit sponsors, recognising the many draws on their time, developing ways to gain comments on our work.

Acknowledgements

174. We achieve these results through the hard work and dedication of our team and the resilience that comes from working a shared service across four authorities.

175. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through the year so far.

176. We would also like to thank Managers, Officers and Members for their continued support as we complete our audit work during the year.

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Annex 1: Assurance & Priority level definitions

Assurance Ratings 2017/18 (Unchanged from 2014/15)

| Full Definition | Short Description |
|---|--|
| <p>Strong – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any; recommendations and those will generally be priority 4.</p> | <p>Service/system is performing well</p> |
| <p>Sound – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p> | <p>Service/system is operating effectively</p> |
| <p>Weak – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p> | <p>Service/system requires support to consistently operate effectively</p> |
| <p>Poor – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p> | <p>Service/system is not operating effectively</p> |

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Recommendation Ratings 2017/18 (unchanged from 2014/15)

Priority 1 (Critical) – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

Priority 2 (High) – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council’s aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

Priority 4 (Low) – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

Advisory – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.

ⁱ The front cover image is *A Kent Landscape* by David Shepherd (1931-2017). Reproduced with kind permission of Maidstone Museum & Bentsliff Art Gallery

Agenda Item 17

Audit, Governance & Standards

30 July 2018

Annual Risk Management Report

| | |
|---|---|
| Final Decision-Maker | Audit, Governance & Standards Committee |
| Lead Head of Service/Lead Director | Russell Heppleston – Deputy Head of Audit Partnership |
| Lead Officer and Report Author | Alison Blake – Audit Manager |
| Classification | Public |
| Wards affected | N/A |

Executive Summary

The report provides the Audit, Governance & Standards Committee with details of how Risk Management processes are working across the Council. This allows the Committee to gain assurance that effective processes are in place, which is a requirement of the Committee's Terms of Reference.

This report makes the following recommendations to this Committee:

1. That the Risk Management Annual Report is **discussed** and **noted**.

Timetable

| Meeting | Date |
|---|--------------|
| Audit, Governance & Standards Committee | 30 July 2018 |

Annual Risk Management Report

1. INTRODUCTION AND BACKGROUND

- 1.1 Risk management is the process undertaken to identify, evaluate and manage risks. In early 2016 the Council implemented a revised risk management framework designed to improve the risk management process. This included reporting and monitoring mechanisms for key risk information to be communicated to Senior Officer and Member level.
 - 1.2 The Audit, Governance & Standards Committee has a responsibility to seek assurance on the effectiveness of the Council's internal control, governance, and risk management processes. Principally this assurance has been provided through the Head of Internal Audits annual and interim reports.
 - 1.3 However, now that the Council has fully implemented risk management arrangements, a separate risk management report has been compiled in order to give added assurance to the Committee.
-

2. AVAILABLE OPTIONS

- 2.1 In order to ensure that risk information is reported, that risks are monitored and that action is taken to manage risks to an acceptable level an effective risk management process needs to be in place. Oversight of this process is provided by the Audit, Governance and Standards Committee. This is a role that the Committee has fulfilled over many years, and is set out in the Terms of Reference as part of the Constitution.
 - 2.2 This is the first sole risk management update in this format. The Committee could therefore decide not to receive an update in this way, and revert back to placing reliance on the Head of Audit opinion and interim reports.
-

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 This report is largely for noting and for discussion during the meeting. However, the purpose of the report is to give the Committee assurance over the effectiveness of the risk management process. The preferred option would be for the committee to endorse this report as a successful vehicle for providing that assurance and to recommend for a similar report to be provided each year.
-

4. RISK

- 4.1 This report is presented for information only and in itself has no risk management implications. The work that it describes helps to contribute towards effective risk management.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 This is the first time that we have reported a risk management update in this format to the Committee. However, updates are regularly reported to Policy and Resources.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 Unless requested otherwise, we will continue to report annually on the Council's Risk Management processes.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|---------------------------------------|---|--|
| Impact on Corporate Priorities | Risk management is a key component in the Council's governance. Good governance underpins everything that the Council does. | Alison Blake Audit Manager |
| Risk Management | Risk management is the focus of this paper. | Alison Blake Audit Manager |
| Financial | Risk management support is provided through the Mid Kent Audit partnership within existing budgets. This decision therefore has no direct financial implications. In general, effective risk management contributes towards strong financial governance and controls in the Council. | Section 151 Officer & Finance Team |
| Staffing | There are no staffing implications to this decision. | Alison Blake Audit Manager |
| Legal | There are no legal or statutory implications with this proposal. | Legal Team |
| Privacy and Data Protection | There are no privacy and data protection implications with this proposal. | Legal Team |
| Equalities | This report does not describe | Policy & |

| | | |
|---------------------------|--|--|
| | circumstances which require an Equality Impact Needs Assessment. | Information Manager |
| Crime and Disorder | There are no crime and disorder implications for this report. | Alison Blake Audit Manager |
| Procurement | There are no procurement implications for this report. | Head of Service & Section 151 Officer |

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix 1: Annual Risk Management Report
-

9. BACKGROUND PAPERS

The risk management framework (detailed guidance) was reported to Policy and Resources Committee in February 2016 and is publically available on the Council's [website](#).

The last Risk Update report taken to Policy and Resources Committee in April 2018 is publically available on the Council's [website](#).

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Annual Risk Management Report

Audit, Governance & Standards Committee
July 2018



Introduction

Risk management is how the Council identifies, quantifies and manages the risks it faces as it seeks to achieve its objectives. It is fundamental to the Council's governance, and contributes greatly to the successful delivery of services and the key priorities.

The purpose of this report is to provide assurance to Members that the Council has in place effective risk management arrangements, and that risks identified through this process are managed, and monitored appropriately. This enables the Audit, Governance & Standards (AGS) Committee to fulfil the responsibilities as set out in the Terms of Reference:

"In conjunction with Policy and Resources Committee to monitor the effective development and operation of risk management and corporate governance in the Council to ensure that strategically the risk management and corporate governance arrangements protect the Council."

Roles & Responsibilities

We (Mid Kent Audit) have lead responsibility for supporting risk management processes across the Council. Our role includes regular reporting to Officers and Members, through the Corporate Leadership Team (CLT), Policy & Resources Committee and the AGS Committee, providing workshops and training, and helping to ensure risks are being effectively managed.

Having valuable and up to date risk information enables both Executive and oversight functions to happen effectively. The Policy & Resources Committee has overall responsibility for risk management and will review the substance of individual risks to ensure that risk issues are appropriately monitored and addressed.

As those charged with governance and oversight the AGS Committee should seek assurance that the Council is operating an effective risk management process. Previously, we have provided assurance on the effectiveness of the Council's risk management arrangements as part of the Head of Internal Audit annual and interim reports. However, as the risk management arrangements have matured and embedded, a standalone risk report is a better and more effective way to provide this assurance.

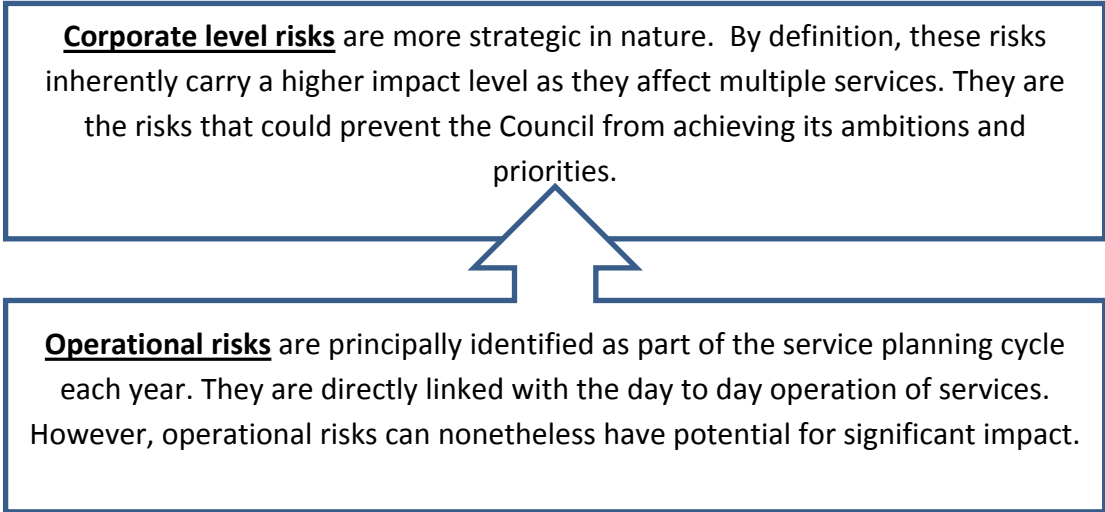
Risk Management Process

The risk management framework is the guide that sets out how the Council identifies, manages and monitors risks. This is supported by the risk appetite statement and guidance, which articulates the Council’s appetite for and tolerance of risk.

In summary, the risk management process for the Council can be broken down into the following key components. Further detail on these components is provided in Appendix 1A.



All risks are recorded on the comprehensive risk register, and it is this register that is used to generate risk information across the Council. In the main risks are identified at two levels:



You will see that there is a direct link between these two levels of risks. This is because where an individual or group of operational risks start to have a significant impact on delivery of strategic objectives consideration is given to escalating the risk to a corporate level.

Risks are assessed on **impact** and **likelihood** (definitions attached in Appendix 1B). The same definitions and scales are used for all risk assessments in order to achieve consistency in approach, and allow for comparisons over the period.

- **Impact:** This is a consideration of how severely the Council would be affected if the risk was to materialise.
- **Likelihood:** This is a consideration of how likely it is that the risk will occur. In other words, the probability that it will materialise.

In order to understand the scale of risks the following guidance is available to risk owners when assessing their risks:

| Risk Rating | |
|------------------------------------|--|
| 20-25 | Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks. The Council is not willing to take risks at this level and action should be taken immediately to manage the risk. |
| 12-16 | These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible. |
| 5-10 | These risks sit on the borders of the Council's risk appetite and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases then risk owners should seek to manage the increase. |
| 3-4 | These are low level risks that could impede or hinder achievement of objectives. Due to the relative low level it is unlikely that additional controls will be identified to respond to the risk. |
| 1-2 | Minor level risks with little consequence but not to be overlooked completely. They are enough of a risk to have been assessed through the process, but unlikely to prevent the achievement of objectives. |
| <i>Impact: 5 Likelihood: 1</i> | Rare events that have a catastrophic impact form part of the Council's Business Continuity Planning response. |

Corporate Risks

In July 2017 we ran a workshop with Members and officers to refresh the Council's corporate risks. This sought to identify any new or emerging risks and any risks which were no longer relevant due to successful management or the passage of time.

CLT are responsible for the management of the corporate risks and review them quarterly. Furthermore any risk which is rated as **BLACK** is monitored monthly to review progress and provide guidance, support and focus where needed. The corporate risk register was reported to the Policy & Resources Committee in October 2017 and April 2018.

Operational Risks

Operational risk registers are in place for each service and are fully reviewed and updated annually, with the most recent exercise being in May and June 2018. Managers and Heads of Service are responsible for managing operational risks. In accordance with the Council's risk appetite, CLT receive quarterly updates on all inherent **RED** and **BLACK** risks and, as above, review **BLACK** risks monthly. The operational risk profiles are reported to Policy & Resources as part of the regular update and monitoring reports

Risk Profile

The matrices below illustrate how the risk profile (the actual number of risks on the register) of the Council has changed throughout the year. This is based on the inherent risk, i.e. the risk impact and likelihood considering any existing controls in place to manage the risk, but before any further planned controls are introduced.

The change in the overall risk profile of the Council demonstrates how action is taken to manage risks, to ensure the completeness of the risk register and to capture emerging risks.

April 2017

| | | | | | | |
|------------|---|---|----|----|----|-----|
| Likelihood | 5 | | | 4 | | 1 |
| | 4 | | 1 | 6 | 4 | 1 |
| | 3 | | 10 | 32 | 14 | |
| | 2 | 2 | 26 | 35 | 22 | 3 |
| | 1 | | 3 | 5 | 13 | 3 |
| | | 1 | 2 | 3 | 4 | 5 |
| Impact | | | | | | 185 |

October 2017

| | | | | | | |
|------------|---|---|----|----|----|-----|
| Likelihood | 5 | | 2 | 4 | 1 | |
| | 4 | | 2 | 6 | 8 | |
| | 3 | | 12 | 41 | 20 | 3 |
| | 2 | | 28 | 43 | 26 | 9 |
| | 1 | | 9 | 12 | 16 | 4 |
| | | 1 | 2 | 3 | 4 | 5 |
| Impact | | | | | | 246 |

April 2018

| | | | | | | |
|------------|---|---|----|----|----|-----|
| Likelihood | 5 | | 2 | 2 | 1 | |
| | 4 | 1 | 2 | 1 | 10 | |
| | 3 | | 10 | 39 | 13 | 3 |
| | 2 | | 25 | 40 | 22 | 6 |
| | 1 | | 7 | 13 | 16 | 4 |
| | | 1 | 2 | 3 | 4 | 5 |
| Impact | | | | | | 217 |

December 2017

| | | | | | | |
|------------|---|---|----|----|----|-----|
| Likelihood | 5 | | 2 | 2 | 3 | |
| | 4 | 1 | 2 | 2 | 13 | 1 |
| | 3 | | 12 | 48 | 14 | 4 |
| | 2 | | 33 | 43 | 28 | 8 |
| | 1 | | 9 | 13 | 17 | 4 |
| | | 1 | 2 | 3 | 4 | 5 |
| Impact | | | | | | 259 |

The following table shows the Council’s current **corporate risks** (which form part of the matrices above) and details the risk score as at April 2018 and how these scores changed over the course of the year:

| Risk Title | | Risk Scores | | Change |
|------------|---|-------------|--------|--------|
| | | Oct-17 | Apr-18 | |
| a | Breakdown of Governance Controls | 8 | 8 | ↔ |
| b | Legal / Compliance Breaches | 20 | 12 | ↓ |
| c | Workforce Capacity & Skills | 4 | 4 | ↔ |
| d | Project Failure | 20 | 16 | ↓ |
| e | ICT Systems Failure / Security | 16 | 16 | ↔ |
| f | Poor Partner Relationships | 12 | 12 | ↔ |
| g | Housing Pressures Continue to Increase | 20 | 20 | ↔ |
| h | Delivery of the Local Plan Review by April 2022 | 16 | 9 | ↓ |
| i | Financial Restrictions | 16 | 16 | ↔ |
| j | General Data Protection Regulations (GDPR) | N/A | 12 | + |
| k | Major contraction in retail and leisure sectors | N/A | 12 | + |

Key
 ↔ No change in risk score ↓ Reduction in risk score + Risk added

The detail of these risks has been reviewed and discussed at the Policy & Resources Committee. However, this illustrates that action is being taken to manage the risks and that processes are in place to ensure new emerging issues are captured or significant operational risks are appropriately escalated.

Next Steps

There have been significant improvements to how the Council manages risks over the last couple of years, moving the Council to a position where risk management is adding real value and insight. In order to ensure that risk management remains valuable, however, it must be updated and maintained. As such moving forward into 2018/19, the following areas will be our focus for development and enhancement:

1. **To undertake the first full review of the framework:** The framework has been operating for 3 years, and so it is the right time to review and where necessary update the framework to ensure that it remain fit for purpose;
2. **Develop a training programme:** We have continued to facilitate workshops, and deliver risk sessions as and when requested. However, developing the overall knowledge and expertise for risk management across the Council requires a wider approach. We will be looking to develop a training session for managers and officers on the principles of risk management, and to tailor that with the framework and procedures;
3. **Enhance risk information and insights:** We will be undertaking a review of key controls and also drawing together thematic information on key risk areas – this will mean we can provide a richer level of risk information and start to identify similarities / root cause issues across the Council.

We have continued to receive a positive level of engagement and support from Senior Officers and Managers in the Council which has enabled the risk management process to develop and embed. So, we'd like to take this opportunity to thank officers for their continued work and support.

Maidstone Risk Management Process: One Page Summary

| Step 1 – Identify Risks | Step 2 – Evaluate Risks | Step 3 – Treat Risks | Step 4 – Review Risks | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|----------------------|-----------------------|---|---|---|--|--|---|--|--|--|--|--|---|--|--|--|--|--|---|--|--|--|--|--|---|--|--|--|--|--|--|--|---|---|---|---|---|--|--|--------|--|--|--|--|--|---|
| <p>Best done in groups, by those responsible for delivering objectives, at all levels</p> <p>RISK is the chance of something happening that will impact on objectives</p> <p>Consider both THREATS and OPPORTUNITIES</p> <p>When to consider:</p> <ul style="list-style-type: none"> • Setting business aims and objectives • Service planning • Target setting • Partnerships & projects • Options appraisals <p>Think both what could go wrong and what more could we achieve?</p> | <p>Combination of the impact and likelihood of an event and its consequences (the inherent risk)</p> <div style="text-align: center;"> <table border="1"> <tr> <td rowspan="5" style="writing-mode: vertical-rl; transform: rotate(180deg);">Likelihood</td> <td>5</td> <td style="background-color: #ffc000;"></td> <td style="background-color: #ffc000;"></td> <td style="background-color: #ff0000;"></td> <td style="background-color: #000000;"></td> <td style="background-color: #000000;"></td> </tr> <tr> <td>4</td> <td style="background-color: #90ee90;"></td> <td style="background-color: #ffc000;"></td> <td style="background-color: #ff0000;"></td> <td style="background-color: #ff0000;"></td> <td style="background-color: #000000;"></td> </tr> <tr> <td>3</td> <td style="background-color: #90ee90;"></td> <td style="background-color: #ffc000;"></td> <td style="background-color: #ffc000;"></td> <td style="background-color: #ff0000;"></td> <td style="background-color: #ff0000;"></td> </tr> <tr> <td>2</td> <td style="background-color: #00bfff;"></td> <td style="background-color: #90ee90;"></td> <td style="background-color: #ffc000;"></td> <td style="background-color: #ffc000;"></td> <td style="background-color: #ffc000;"></td> </tr> <tr> <td>1</td> <td style="background-color: #00bfff;"></td> <td style="background-color: #00bfff;"></td> <td style="background-color: #90ee90;"></td> <td style="background-color: #90ee90;"></td> <td style="background-color: #ffc000;"></td> </tr> <tr> <td></td> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td></td> <td colspan="5" style="text-align: center;">Impact</td> </tr> </table> </div> <p>Black – Top risk, immediate action and reporting to directors Red – High risk, immediate action Amber – Medium risk, review current controls Green – Low risk, limited action, include in plans Blue – Minimal risk, no action but review</p> | Likelihood | 5 | | | | | | 4 | | | | | | 3 | | | | | | 2 | | | | | | 1 | | | | | | | | 1 | 2 | 3 | 4 | 5 | | | Impact | | | | | <p>Concentrate on top risks, 10 to 12 in number</p> <ul style="list-style-type: none"> • Can we reduce likelihood? • Can we reduce impact? <p>Risk Response – 4 Ts</p> <ul style="list-style-type: none"> • Treat (i.e. apply controls) • Tolerate (i.e. accept risk) • Transfer (i.e. insurance) • Terminate (i.e. stop activity) <p>After your risk response; where does it score now? (the mitigated risk)</p> <p>Devise contingencies and action plans for 'Red' and 'Black' risks – seek to reduce mitigated risk back to 'Amber' or below</p> | <p>Risk Registers</p> <ul style="list-style-type: none"> • Contain all identified risks, Management Action Plans for top risks • Prepare and monitor as regular agenda item • Indicate risk response and risk owner <p>Council risk monitoring</p> <ul style="list-style-type: none"> • Risk registers passed to internal audit • Action led periodic review to ensure registers kept current <p>Council's Top Risks</p> <ul style="list-style-type: none"> • Top ten mitigated risks and all inherent 'Black' risks monitored as regular item at Leadership Team • Six monthly monitoring at Policy & Resources Committee • Annual monitoring of process at Audit, Governance & Standards Committee |
| Likelihood | 5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 1 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 1 | 2 | 3 | 4 | 5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Impact | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Impact & Likelihood Scales

Risk Impact

| Level | Service risk | Reputation Risk | H&S | Legal Risk | Financial Risk | En'ment Risk |
|-------------------|---|---|--|---|---|---|
| Catas-trophic (5) | Ongoing failure to provide an adequate service | Perceived as failing authority requiring intervention | Responsible for death | Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment or significant fines | Uncontrollable financial loss or overspend over £500k | Permanent, major environmental or public health damage |
| Major (4) | Failure to deliver Council priorities Poor service. Disrupted 5 days+ | Significant adverse national publicity | Fails to prevent death, causes extensive perm injuries or LT sick | | Financial loss or overspend greater than £250k | Long term major public health or environmental incident (1yr+) |
| Moderate (3) | Unsatisfactory performance Service disrupted/ stopped 3-5 days | Adverse national publicity or significant adverse local publicity | Fails to prevent extensive, permanent injuries or LT sickness | Litigation expected, but defensible Breaches of law punishable by fines | Financial loss or overspend greater than £50k | Medium term major public health or environmental incident (up to 1yr) |
| Minor (2) | Marginal reduction in performance Service disrupted/ stopped 1-2 days | Minor adverse local publicity | Medical treatment required, potential long term injury or sickness | Complaint likely, litigation possible Breaches of regs or standards | Financial loss or overspend greater than £10k | Short term public health or environmental incident (weeks) |
| Minimal (1) | No significant service impact Service disruption up to 1 day | Unlikely to cause adverse publicity | First aid level injuries | Unlikely to cause complaint Breaches of local procedures | Financial loss or overspend under £10k | Environmental incident with no lasting detrimental effect |

Risk Likelihood

| Type | Probability | Detail description |
|--------------------|-------------|---|
| Almost certain (5) | 90%+ | Without action is likely to occur; frequent similar occurrences in local government/Council history |
| Probable (4) | 60%-90% | Strong possibility; similar occurrences known often in local government/Council history |
| Possible (3) | 40%-60% | Might occur; similar occurrences experienced in local government/Council history |
| Unlikely (2) | 10%-40% | Not expected; rare but not unheard of occurrence in local government/Council history |
| Rare (1) | 0%-10% | Very unlikely to occur; no recent similar instances in local government/Council history |

Audit, Governance and Standards Committee

30 July 2018

Annual Accounts 2017/18

| | |
|---|--|
| Final Decision-Maker | Audit, Governance and Standards Committee |
| Lead Head of Service/Lead Director | Mark Green, Director of Finance and Business Improvement |
| Lead Officer and Report Author | Ellie Dunnet, Head of Finance |
| Classification | Public |
| Wards affected | All |

Executive Summary

This report sets out the findings of the external auditor’s work on the 2017/18 financial statements audit and value for money conclusion, and requests that the Committee approves the 2017/18 financial statements.

We understand that the external auditor is intending to issue an unqualified audit opinion and value for money conclusion. A representative from the external audit team will be in attendance at the meeting to present the audit findings and respond to any questions the Committee may have.

This report makes the following recommendations to this Committee:

1. That the external auditor’s Audit Findings Report, attached at **Appendix 1** is noted.
2. That the audited statement of accounts attached at **Appendix 2** is approved.
3. That the Letter of Representation attached at **Appendix 4** is approved.

Timetable

| Meeting | Date |
|---|--------------|
| Audit, Governance and Standards Committee | 30 July 2018 |

Annual Accounts 2017/18

1. INTRODUCTION AND BACKGROUND

1.1 The Council is required to have its audited Statement of Accounts approved by the Audit, Governance and Standards Committee by 31 July in accordance with the Accounts & Audit Regulations.

1.2 The Statement of Accounts consists of:

Narrative Report – this summarises the Council’s performance over the financial year 2017/18 and highlights the most significant elements of the financial statements.

Comprehensive Income and Expenditure Statement (CIES) – shows the accounting position of the council, and whether operations have resulted in a net surplus or deficit. The accounting position includes cash payments made to employees and for services, as well as non-cash expenditure such as depreciation and accruals. It also shows all sources of income received and accrued in the year. Accrued expenditure represents the value of goods or services received by the authority by 31 March which have not been paid. Similarly, accrued income represents income due, but not yet received.

Movement in Reserves Statement – this is a financial statement which details the balances the council held in reserves at 31 March 2018, analysed into usable reserves (such as the general fund, earmarked balances and capital receipts reserve) and unusable reserves (such as the pensions reserve, revaluation reserve and capital adjustment account).

Balance Sheet – this can be seen as a ‘snapshot’ of the authority’s financial position at a specific point in time, showing what it owns and owes at 31 March 2018.

Cash Flow Statement – sets out the authority's cash receipts and payments during the year, and analyses them into operating, investing and financing activities.

Accounting Policies and Supporting Notes – additional information provided to add context to the numbers presented in the main financial statements, and details judgements made by management in preparing this information

Collection Fund Statement – this sets out income and expenditure in relation to Council Tax and Business Rates, and represents the position of the Council’s role as a billing authority in collection revenue on behalf of other bodies.

1.3 The council’s financial statements must comply with CIPFA’s Code of Practice on Local Authority Accounting, which is based on International Financial Reporting Standards (IFRS). Both frameworks require a number of complex and detailed disclosures which accompany the main financial statements.

1.4 The draft accounts were produced by the deadline of 31 May in accordance with the revised timetable for this process which came into force this year. External audit work commenced on 20 June.

- 1.5 The audited version of the Statement proposed for approval at this meeting is attached at Appendix 2.
- 1.6 The accounts show that the balance on the general fund and earmarked reserves has decreased by £5.4m to £11.92m at the end of 2017/18. The decrease relates to use of New Homes Bonus previously set aside for capital expenditure to fund large acquisitions during 2017/18.
- 1.7 Other headline messages from the Statement of Accounts can be summarised as follows:
- The revenue outturn for the year was an underspend of £0.2m compared with the budget.
 - The value of long term assets has increased by £6.6m. This reflects a number of significant property acquisitions made during 2017/18, including 15 further temporary accommodation units, and two groups of commercial / industrial units.
 - Movements in the short term debtor and creditor balances reflect Collection Fund balances, and money which the Council is holding on behalf of other bodies.
 - A restatement of 2016/17 figures has been made following the identification of an error in the liability disclosed in relation to the leisure centre contract.
 - Long term liabilities have decreased by £4.2m, which predominantly results from the decrease in the pension liability following the annual assessment of the fund by actuaries acting on behalf of Kent County Council. There is a corresponding increase in the value of unusable reserves. While this has a substantial impact on the net worth of the council as recorded in the balance sheet, statutory arrangements in place to fund the deficit mean that the financial position of the council remains healthy. The deficit is currently being addressed through increased contributions to the fund over the working life of employees, as assessed by the scheme actuary.
- 1.8 The Statement of Accounts attached at Appendix 2 reflect changes that were identified during the course of the audit, and also incorporates suggestions made by members during the briefing session held in June.
- 1.9 During the session in June, members requested some clarification of the relationship between the financial performance information presented within the Narrative Report and the rest of the financial statements. In response to this recommendation, some additional wording has been added to the report in order to signpost this to the reader more clearly. Appendix 3 also sets this out in greater detail.
- 1.10 A small number of suggestions to improve the presentation and clarity of the accounts were made by the external auditor and have been taken on board by officers. Additionally, a correction was made to supporting note 21 – Financial Instruments as the balance on the Council’s current account

at 31st March 2018 had not been disclosed as a financial instrument. This change did not affect the main financial statements or the general fund balance.

- 1.11 External audit work is now substantially complete, and findings will be summarised within the Audit Findings Report. Please note that this report will follow publication of the agenda, but will be available for consideration at the meeting.

Letter of Representation

- 1.12 The Letter of Representation attached at Appendix 4 is written from the Council to the external auditor and will be signed by the Director of Finance and Business Improvement. [To follow]
- 1.13 This is provided for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.
- 1.14 The letter confirms that the Council has fulfilled its responsibilities and provided the external auditor with access to all information of relevance to the financial statements audit including records, documentation and other matters.
- 1.15 The letter also confirms that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. The appropriateness of this statement is evidenced by the fact that all services have full revenue budget provision for 2018/19 onwards and the capital programme, asset management plan and medium term financial strategy for 2018/19 onwards consider only service efficiencies and growth in corporate or service objectives.

2. AVAILABLE OPTIONS

- 2.1 The recommendation being made to the Committee is to approve the Statement of Accounts for 2017/18, taking into consideration the work of the external auditor.
- 2.2 If the Committee chose not to approve the Statement of Accounts, this would result in the Council failing to meet its statutory responsibilities under the Accounts and Audit Regulations.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 The formal approval of the Statement of Accounts is a statutory requirement. The draft opinion of the external auditor is provided within Appendix 2 and concludes that the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

3.2 On this basis, it is considered appropriate for the Committee to approve the audit Statement of Accounts for 2017/18.

4. RISK

4.1 Failure to meet the statutory deadline for production and audit of the annual accounts would result in this being highlighted in Public Sector Audit Appointments Limited's report on the results of auditors' work. The impact of this risk materialising would have largely reputational repercussions for the Council, and would limit the Council's capacity to demonstrate accountability and value for money in its use of public funds. This risk has been considered with reference to the Council's risk management framework, and is considered to be within acceptable levels.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 Members of the public have legal rights to inspect, ask questions about and challenge items in the Council's accounts. Details of this have been published on the Council's website and the statutory period ended on 23rd July. To date, no enquiries have been received in relation to this.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 The external auditor is required to issue the audit opinion by 31st July.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|---------------------------------------|---|-----------------|
| Impact on Corporate Priorities | We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall | Head of Finance |

| | | |
|------------------------------------|--|-----------------|
| | achievement of its aims in demonstrating accountability and value for money. | |
| Risk Management | This is detailed within section 4. | Head of Finance |
| Financial | The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2018, and details the council's assets, liabilities and reserves at this date. | Head of Finance |
| Staffing | No implications identified. | Head of Finance |
| Legal | No implications identified. | Head of Finance |
| Privacy and Data Protection | No implications identified. | Head of Finance |
| Equalities | No implications identified. | Head of Finance |
| Crime and Disorder | No implications identified. | Head of Finance |
| Procurement | No implications identified. | Head of Finance |

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix 1: External Auditor's Audit Findings Report (TO FOLLOW)
- Appendix 2: Audited Statement of Accounts 2017/18
- Appendix 3: Narrative Report Excerpt – Financial Performance
- Appendix 4: Letter of Representation (TO FOLLOW)

9. BACKGROUND PAPERS

None

STATEMENT OF ACCOUNTS

for the year ending
31st March 2018

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NARRATIVE

Report 2018





About Maidstone

Maidstone is the largest borough council district by population in Kent, with an estimated 165,700 residents in mid-2016. Around 70% live in the town of Maidstone, which is the county town of Kent. In the surrounding rural area there are local service centres such as Staplehurst, Marden, Headcorn, Lenham and Harrietsham and many smaller villages.

Maidstone is located in the heart of the county of Kent, between the North Downs and the Weald. The M20 from London to the Kent coast at Folkestone runs through the borough. The area has some spectacular landscapes and has a rich historical heritage, with over 2,000 listed buildings. The Medway, the longest river in Kent, flows northwards through Maidstone on its way from the Weald to the Thames Estuary at Rochester.

Maidstone has a diverse economy, with nearly 7,000 businesses across a broad range of sectors including construction, professional and business services, and engineering. The Kent Institute of Medicine and Surgery (KIMS) is the heart of the expanding Kent Medical Campus at junction 7 of the M20, which forms part of the North Kent Enterprise Zone. The diversity of the borough's economy, its good transport links, and access to skills provides great scope for further growth.

Maidstone's Strategic Plan

The Council has a five year Strategic Plan covering the period 2015 to 2020, which is updated on an annual basis. The Strategic Plan informs all the Council's other plans and strategies, including in particular the Local Plan, which sets out the vision and framework for future housing, infrastructure and commercial development in the area.

The current Strategic Plan identifies two overriding priorities – keeping Maidstone Borough an attractive place for all and securing a successful economy for the Borough. Within these overall priorities, three specific areas of focus were identified for 2017/18:

- **A home for everyone**
- **A clean and safe environment**
- **Regenerating the town centre**

This report sets out key achievements in these areas and progress against key performance indicators.

Key achievements



A Home for everyone

- **Temporary accommodation**
In order to provide good quality, affordable temporary accommodation for homeless people, the Council has bought 15 further units, making a total of 50. This has meant that the majority of households in temporary accommodation are in Council-owned property, rather than nightly lets.

- **New housing developments**

The Council will start work in September 2018 on two new housing developments in Maidstone town centre. When complete in Summer 2020, the developments will provide 94 new homes, comprising a mix of affordable housing, housing for market rent and housing for sale, and will help to regenerate the town centre.

- **Adoption of Local Plan**

The Council adopted a new Local Plan in October 2017, covering the period 2011-2031. The plan sets out a clear framework for future development, including 17,660 new homes in the borough, and provides much greater certainty about the location and type of new development.



A clean, green and safe environment

- **Investment in Parks and Open Spaces**

Following a complete review of all play areas in the borough, 30 play areas have been replaced or improved. We are making major improvements at Mote Park, including the opening of an Adventure Zone and a new Visitor Centre.

- **Flood Resilience Measures**

The Council is part of the Medway Flood Partnership, which aims to reduce the risk of flooding in the Medway catchment. Amongst the Partnership's initiatives, it has started to install property flood resilience measures in homes at the greatest risk of flooding around the confluence of the Medway, Beult and Teise rivers.

- **Reducing flytipping**

The Council has made great progress in reducing flytipping. It has pursued enforcement action vigorously, with 52% of fly-tips where there is evidence available leading to legal action. 88% of flytips are cleared within two working days.



Regenerating the Town Centre

- **Public realm improvements**

Work has started on upgrading pavements and walkways in Week Street and Gabriels Hill. The changes complement a similar upgrade of the High Street and King Street, carried out in 2013. They will provide a level surface throughout, giving a more pedestrian feel, and will include features that reference Maidstone's history.

- **Lenworth House**

This building, a long-standing eyesore in a prominent position in the Town Centre, has been acquired by the Council and is being redeveloped to provide 14 new homes.



Securing a Successful Economy

- **Commercial Property Investment**

In order to generate a financial return and to support the local economy, the Council has acquired two groups of commercial / industrial units in the Borough, comprising 19 units in total.

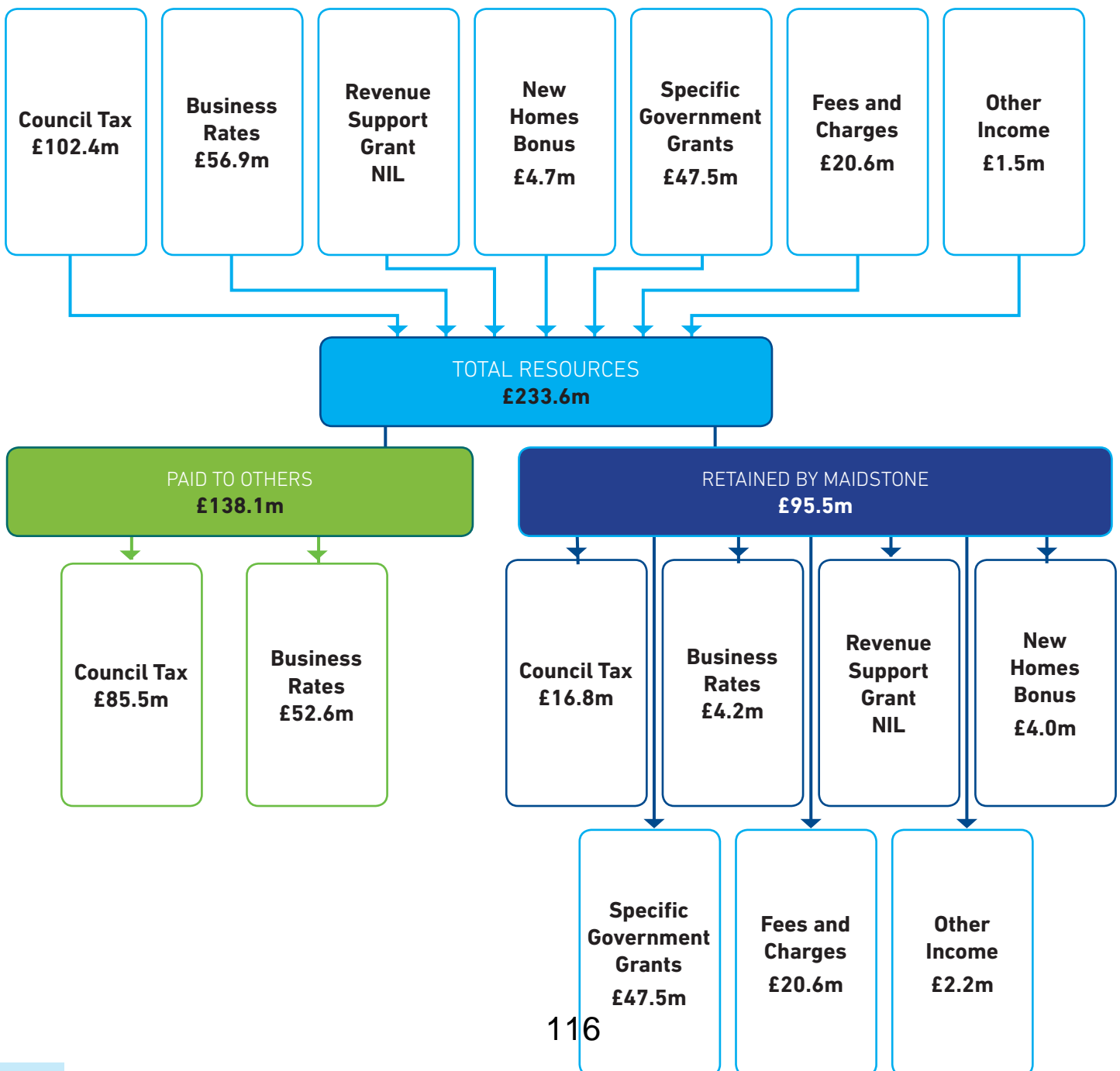
- **100% Business Rates Retention Pilot**

Along with the 14 other principal local authorities in Kent and Medway, the Council bid successfully to the government to pilot 100% Business Rates Retention in 2018/19, and is acting as Lead Authority for the Pilot. The Pilot will help the government design a new local government finance system and provides participating authorities with additional business rates income to help achieve financial sustainability and to promote housing and commercial growth.



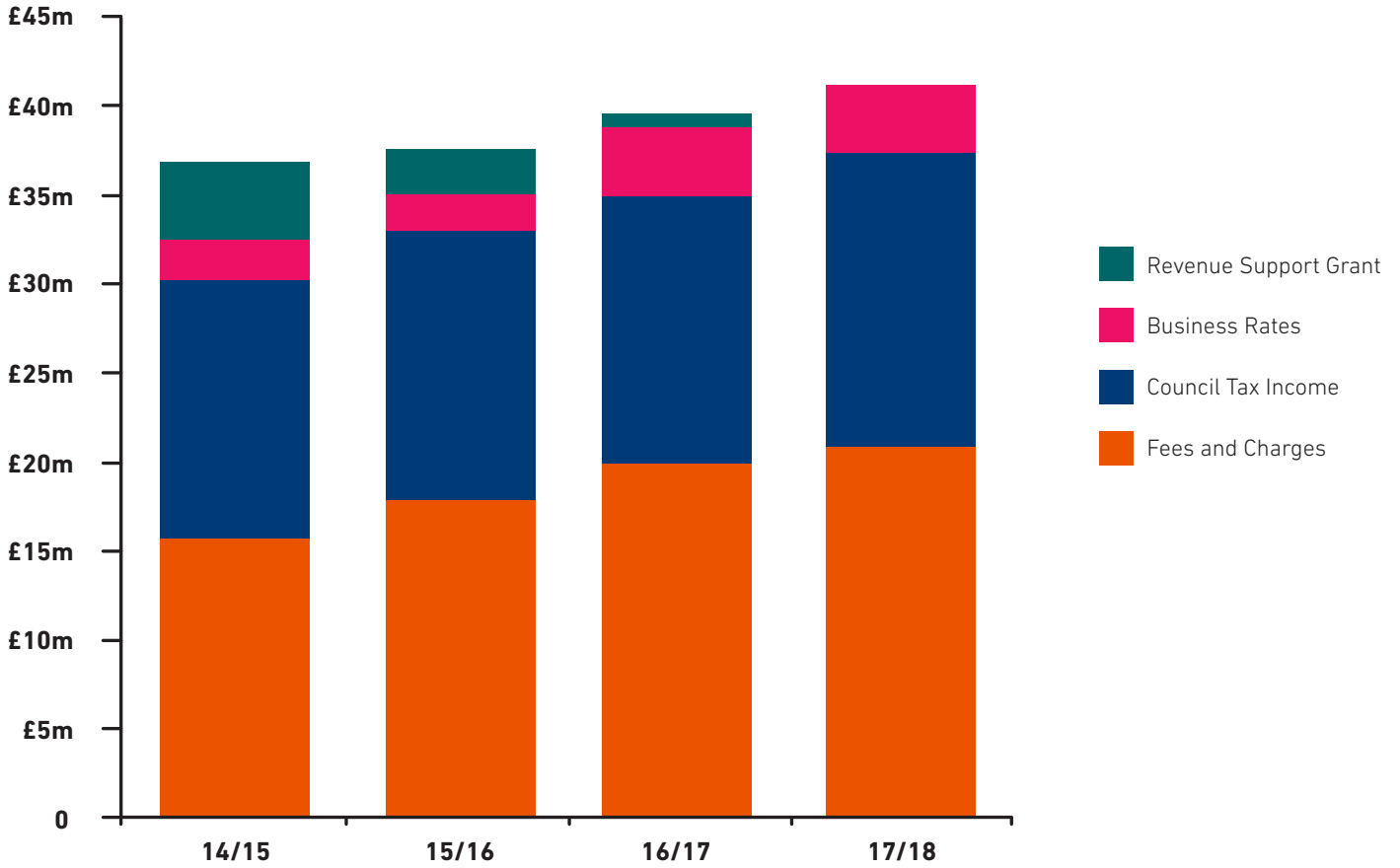
Financial Performance

Maidstone Council's financial turnover, including Council Tax and Business Rates collected on behalf of other local authorities and government, amounted to £234 million in 2017/18 (£233 million in 2016/17). The table below shows the flows of income and expenditure.



Income

The Council no longer receives Revenue Support Grant from central government. When setting the budget for its services, it depends entirely on income generated locally in Maidstone, comprising Council Tax, our share of Business Rates, and Fees and Charges. The Council does receive some specific grants, such as housing benefit subsidy, but does not have any discretion over how this money is spent.



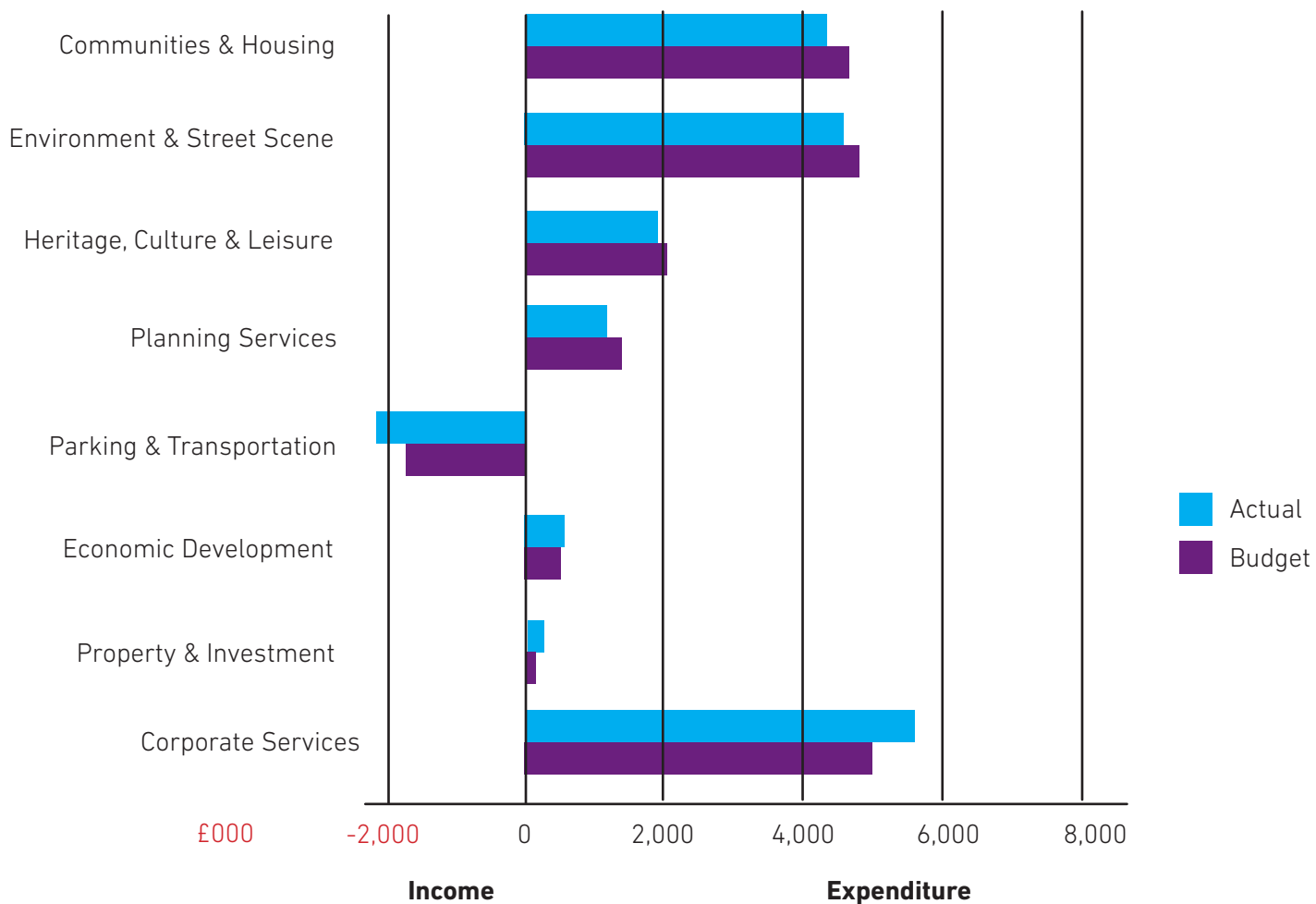
These sources of income are shown in note 11 to the Statement of Accounts, **Taxation & Non-Specific Grant Income**, and in the income totals for the relevant Committee in the **Comprehensive Income and Expenditure Statement**.



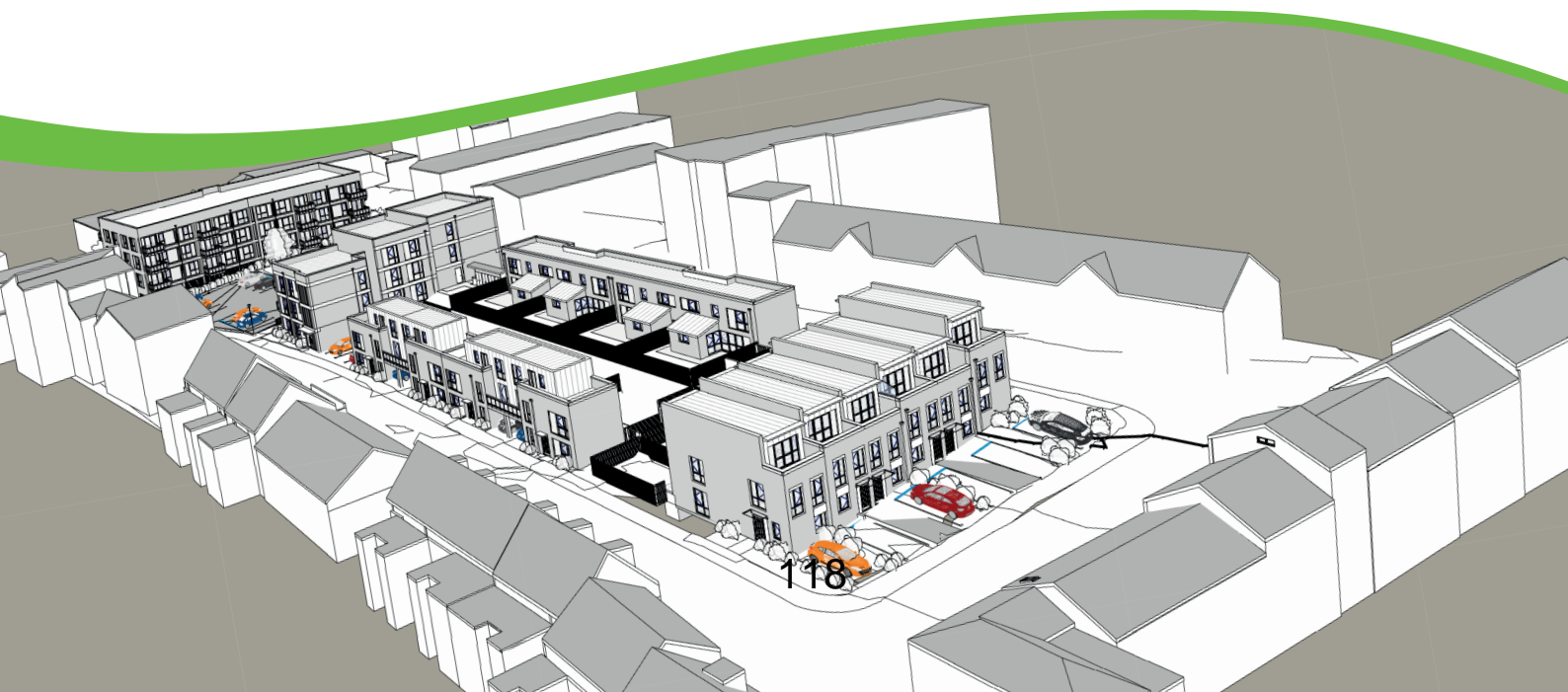
Expenditure

The Council spends money to meet its statutory obligations - delivering services like refuse collection, and making transfer payments such as housing benefit – and to meet our strategic priorities.

Delivering expenditure in line with budget is an important performance indicator. This objective was achieved in 2017/18. The outturn for the year was an overall underspend compared with the budget of £0.2 million.



The Council's income and expenditure is shown in the **Comprehensive Income & Expenditure Statement** in the Statement of Accounts.





Balance Sheet

The Balance Sheet shows the value of the Council's assets less its liabilities at the end of the year. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The Council's net assets increased from £18.7 million to £27.3 million, mainly because of property revaluations and revised assumptions by our actuaries about the amount we need to set aside to pay current and former employees' pensions.

| 2016/17 £000 | | 2017/18 £000 |
|-----------------|-----------------------------|-----------------|
| 64,222 | Property, Plant & Equipment | 67,145 |
| 10,384 | Heritage Assets | 10,393 |
| 16,346 | Investment Properties | 19,976 |
| 463 | Other Long Term Assets | 517 |
| 31,502 | Money owed to the Council | 31,645 |
| (15,823) | Money owed by the Council | (20,089) |
| (88,346) | Long Term Liabilities | (82,207) |
| 18,748 | Net Assets | 27,380 |
| 17,846 | Usable Reserves | 12,446 |
| 902 | Unusable Reserves | 14,934 |
| 18,748 | Total Reserves | 27,380 |

Property, Plant and Equipment are assets held by the Council to deliver services or for administrative purposes. The increase reflects capital expenditure during the year. Further details of capital expenditure are shown overleaf.

Money owed to the Council includes amounts receivable from debtors and cash balances, being cash in hand, bank deposits and investments that are readily convertible to cash. **The Cash Flow Statement** provides an analysis of the movement in cash during the course of the year.

Balance Sheet (continued)

Money owed by the Council includes amounts payable to creditors, provisions for business rates appeals and grants received in advance. The Council currently has no long term borrowing.

Long term liabilities represents amounts owed by the Council but not due for payment within the next twelve months. This includes the pension fund liability, future payments due on the leisure centre contract and provisions made for business rates appeals.

Usable reserves include money set aside for specific purposes and sufficient contingency to cover unforeseen events. In particular, the Council has decided that the New Homes Bonus that it receives will be set aside for capital investment to improve and enhance the borough. £9.8 million of New Homes Bonus has been used in this way during the year (16/17 - £9.2 million).

Unusable Reserves derive from accounting adjustments and cannot be spent. The increase in this balance represents the statutory accounting treatment for movements in asset values, the pension liability and the Collection Fund deficit.

Changes in Reserves are shown in the **Movement in Reserves Statement** in the Statement of Accounts.

Capital Expenditure

During the year, £11.9 million was spent on delivering the projects identified within the Council's capital programme. These projects included:

- Purchase of 15 houses and apartments for use as temporary accommodation for homeless people
- Preparatory expenditure on new housing developments at Brunswick Street and Union Street
- Replacement and improvement of play areas across the borough
- First phase of a project to create an Adventure Zone at Mote Park
- Acquisition of 19 commercial / industrial units in the borough to hold as investment property

The Council has an ambitious capital programme for the coming five years, totalling £77 million. The two largest elements in the capital programme are the Council's housing and regeneration strategy and its commercial property investment strategy. The programme will be funded both through New Homes Bonus receipts and other internal resources, and through external borrowing, in line with the regulatory requirement that such borrowing be affordable, prudent and sustainable.

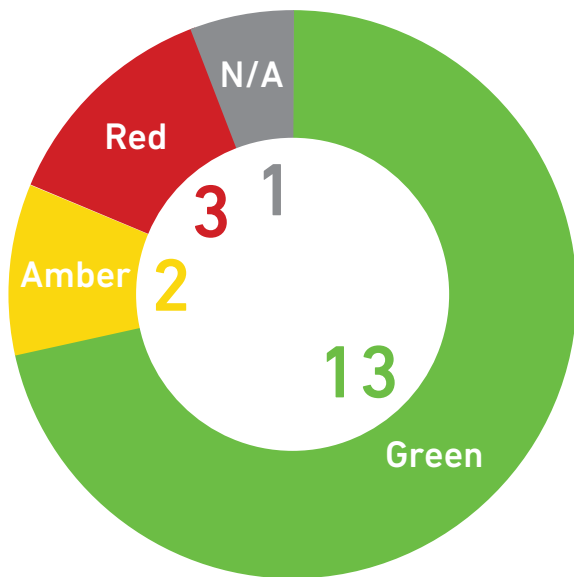
| | Actual | Five year plan | | | | | Total |
|--------------------------------------|--------|----------------|--------|-------|-------|-------|--------|
| | 17/18 | 18/19 | 19/20 | 20/21 | 21/22 | 22/23 | |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Housing Development and Regeneration | 1,443 | 9,301 | 14,631 | 3,786 | 3,350 | 3,350 | 34,418 |
| Temporary Accommodation | 3,732 | 4,683 | 600 | 600 | 600 | 600 | 7,083 |
| Disabled Facilities Grants | 536 | 1,348 | 800 | 800 | 800 | 800 | 4,548 |
| Flood Action Plan | 5 | 500 | 500 | 63 | 0 | 0 | 1,063 |
| Mote Park Dam works | 0 | 1,300 | 600 | 0 | 0 | 0 | 1,900 |
| Mote Park Visitor Centre | 53 | 583 | 1,073 | 0 | 0 | 0 | 1,656 |
| Mote Park Adventure Zone | 483 | 1,098 | 375 | 0 | 0 | 0 | 1,473 |
| Improvements to Play Areas | 651 | 589 | 0 | 0 | 0 | 0 | 589 |
| Property Investment Strategy | 3,646 | 2,354 | 2,500 | 2,500 | 2,500 | 2,500 | 12,354 |
| Infrastructure delivery | 0 | 600 | 600 | 600 | 600 | 600 | 3,000 |
| Town Centre Regeneration | 154 | 2,830 | 0 | 0 | 0 | 0 | 2,830 |
| Corporate Property improvements | 83 | 874 | 175 | 175 | 175 | 175 | 1,574 |
| Section 106 contributions | 20 | 160 | 209 | 238 | 103 | 782 | 1,492 |
| Other | 1,080 | 2,492 | 329 | 362 | 0 | 0 | 3,183 |
| | 11,886 | 28,712 | 22,392 | 9,124 | 8,128 | 8,807 | 77,163 |



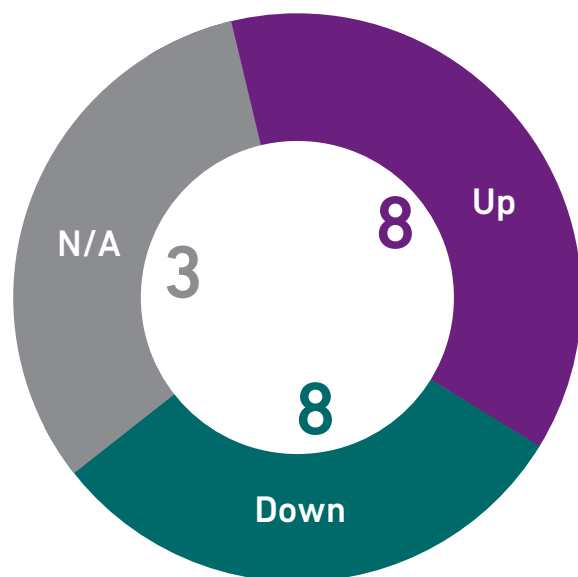
Key Performance Indicators

Key Performance Indicators are set for each Council priority in consultation with the relevant Service Committee. Performance against the indicator is judged in two ways: firstly on whether an indicator has achieved the target set; and secondly on whether performance has improved, been sustained or declined, compared to the same period in the previous year.

KPI STATUS



DIRECTION



PRIORITY 1: Keeping Maidstone Borough an attractive place for all

1 Providing a clean and safe environment

| Performance Indicator | Service | Value | Target | Status | Last Year |
|---|-------------------|--------|--------|--------|-----------|
| Number of litter reports attended to | Waste & Recycling | 522 | | | N/A |
| The percentage of land and highways with acceptable levels of litter | Street Cleansing | 99.16% | 93.50% | | |
| The percentage of land and highways with acceptable levels of detritus | Street Cleansing | 95.50% | 84.00% | | |
| Percentage of fly tips resulting in enforcement action | Depot Services | 52.3% | 20.0% | | N/A |
| Percentage of fly-tips cleared or assessed within 2 working days | Depot Services | 88.08% | 88% | | |
| Percentage of household waste sent for reuse, recycling and composting (NI 192) | Waste & Recycling | 52.28% | 52.5% | | |

2 Encouraging good health and wellbeing

| Performance Indicator | Service | Value | Target | Status | Last Year |
|---|------------------|-------|--------|--------|-----------|
| Percentage spend and allocation of Disabled Facilities Grant Budget (YTD) | Housing & Health | 100% | 100% | | |
| Number of completed home hazard grants | Housing & Health | 2 | | | N/A |
| Number of completed housing assistances | Housing & Health | 62 | | | N/A |

PRIORITY 2: Securing a successful economy for the Borough

3 A home for everyone

| Performance Indicator | Service | Value | Target | Status | Last Year |
|--|------------------------|--------|--------|--------|-----------|
| Processing of planning applications: Major applications (NI 157a) | Development Management | 87.96% | 85% | | |
| Processing of planning applications: Minor applications (NI 157b) | Development Management | 75.97% | 85% | | |
| Processing of planning applications: Other applications (NI 157c) | Development Management | 91.20% | 85% | | |
| Number of affordable homes delivered (gross) | Housing & Enabling | 226 | 200 | | |
| Number of households prevented from becoming homeless through the intervention of housing advice | Housing & Inclusion | 474 | 300 | | |
| Number of households living in temporary accommodation last night of the month (NI 156 & SDL 009-00) | Housing & Inclusion | 99 | | | |
| Number of households housed through housing register | Housing & Enabling | 619 | 600 | | |
| Net additional homes provided (NI 154) | Planning Policy | 1,286 | 880 | | |

Data only indicator - reported for information but no target set



PRIORITIES 1 AND 2:

4 Ensuring there are good leisure and cultural attractions

| Performance Indicator | Service | Value | Target | Status | Last Year |
|---|-----------------------------|--------|--------|--------|-----------|
| Percentage of all available tickets sold at the Hazlitt | Maidstone Culture & Leisure | 67.72% | 50% | | |
| Number of students benefiting from the Museum's educational service | Museum | 8,214 | 8,340 | | |
| Footfall at the Museum and Visitor Information Centre | Museum | 52,613 | 68,000 | | |
| Contacts to the Visitor Information Centre | Museum | 3067 | 6000 | | N/A |

5 Regenerating the Town centre

| Performance Indicator | Service | Value | Target | Status | Last Year |
|--|-------------------------------------|------------|------------|--------|-----------|
| Percentage of vacant retail units in town centre | Regeneration & Economic Development | N/A* | 11% | N/A | N/A |
| Footfall on High Street | Regeneration & Economic Development | 12,378,195 | 10,600,000 | | |
| Business Rates income from the Town Centre | Regeneration & Economic Development | 24,820,696 | | | N/A |

*Data for 2017/18 was not available at the time of publication

FUTURE PLANS

Given the importance of developing an appropriate vision for the future, work has started on development of a new Strategic Plan to replace the existing 2015-20 Plan. The Council is accordingly engaging with elected members, parish councils, residents, businesses and the voluntary sector to ensure that the Plan realises the aspirations of the whole community.

The Medium Term Financial Strategy (MTFS) sets out in financial terms how the Strategic Plan will be delivered. The current MTFS, which covers the years 2018/19 to 2022/23, will be updated in line with the new Strategic Plan.

The MTFS shows that the Council can deliver its plans within budget over the next two years. A key assumption is the relative certainty provided by the government's four year financial settlement for local authorities covering the period to 2019/20.

However, considerable uncertainty remains about the position for local authorities from 2020/21. Although Maidstone Borough Council no longer receives direct grant funding from central government, the framework for setting Council Tax, and the distribution of business rates collected locally between central government, precepting authorities and the Council itself is subject to change after 2020/21. The details will be critical in determining the level of resources available to the Council.

Given the uncertainty, the Council has planned for a range of feasible scenarios, characterised as favourable, neutral and adverse. In all scenarios, the Council will seek to continue making efficiency savings and generating additional income in order to optimise its financial position. Key elements in the MTFS include the Capital Programme, which is seen both as a means of delivering the Council's priorities, and as an opportunity to generate additional income locally within the framework of the prudential borrowing regime.

The Council is also part of Mid Kent Services (MKS), which provides shared services including Internal Audit, Revenues & Benefits, ICT Services, Human Resources & Payroll, Debt Collection and Legal Services. This offers greater service capacity and resilience and a broader base for overhead recovery.





RISK MANAGEMENT

The Council manages risk through a comprehensive risk management framework. This involves identification of risk at corporate and service levels, ownership of individual risks by named officers, development of controls to mitigate risks, and regular reporting. Quarterly reports are presented to the Corporate Leadership Team and bi-annual reports to Policy and Resources Committee. Members take an active interest in the risk management process and engage fully in discussion about individual risks.

The following table sets out what we have assessed as being the key corporate risks together with how the risk has changed between October 2017 and April 2018.

| Risk Title & Movement | | |
|-----------------------|---|--|
| a | Breakdown of Governance Controls | |
| b | Legal / Compliance Breaches | |
| c | Workforce Capacity & Skills | |
| d | Project Failure | |
| e | ICT Systems Failure / Security | |
| f | Poor Partner Relationships | |
| g | Housing Pressures Continue to Increase | |
| h | Delivery of the Local Plan Review by April 2022 | |
| i | Financial Restrictions | |
| j | General Data Protection Regulations (GDPR) | |
| k | Major Contraction in Retail & Leisure Sectors | |

Key

No change in risk score Reduction in risk score Risk added

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In the Council, that officer is the Director of Finance & Business Improvement.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Director of Finance & Business Improvement's Responsibilities

The Director of Finance & Business Improvement is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance & Business Improvement has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code.

The Director of Finance & Business Improvement has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31st March 2018.

Signed:



Mark Green, Director of Finance & Business Improvement

Date: 31st May 2018

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

For the years ending 31st March 2017 & 2018

| 2016/17 | | | | 2017/18 | | |
|---------------------------|----------------------|-------------------------|---|---------------------------|----------------------|-------------------------|
| Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | Committee | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
| 59,492 | (52,422) | 7,070 | Policy & Resources | 59,368 | (52,702) | 6,666 |
| 13,672 | (4,279) | 9,394 | Communities, Housing & Environment | 14,207 | (3,966) | 10,241 |
| 9,428 | (4,362) | 5,066 | Heritage, Culture & Leisure | 9,796 | (4,319) | 5,477 |
| 8,047 | (6,772) | 1,275 | Strategic Planning, Sustainability & Transportation | 8,286 | (7,178) | 1,108 |
| 90,639 | (67,834) | 22,805 | Cost Of Services | 91,657 | (68,165) | 23,492 |
| | | 586 | Other Operating Expenditure (Note 9) | 1,775 | (839) | 936 |
| | | 1,797 | Financing and Investment Income and Expenditure (Note 10) | 2,314 | (705) | 1,609 |
| | | (25,863) | Taxation and Non-Specific Grant Income and Expenditure (Note 11) | | 25,752 | (25,752) |
| | | (675) | (Surplus) or Deficit on Provision of Services | | | 285 |
| | | | Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services | | | |
| | | (634) | (Surplus) or deficit on revaluation of property, plant & equipment assets | | | (1,350) |
| | | 14,603 | Remeasurement of the Net Defined Benefit Liability | | | (7,567) |
| | | 13,969 | Other Comprehensive Income and Expenditure | | | (8,917) |
| | | 13,294 | Total Comprehensive Income and Expenditure | | | (8,632) |

MOVEMENT IN RESERVES STATEMENT

For the years ending 31st March 2017 & 2018

| Current Year | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Reserves £000 |
|--|------------------------------|----------------------------------|----------------------------------|-------------------------------|---------------------------|------------------------|
| Balance at 31st March 2017 (Original) | 17,343 | 437 | 66 | 17,846 | 4,236 | 22,082 |
| Balance at 1st April 2017 (Restated) | 17,343 | 437 | 66 | 17,846 | 902 | 18,748 |
| Movement in Reserves during 2017/18 | | | | | | |
| Total Comprehensive Income and Expenditure | (285) | 0 | 0 | (285) | 8,917 | 8,632 |
| Adjustments between accounting basis & funding basis under regulation (Note 6) | (5,138) | 86 | (63) | (5,115) | 5,115 | (0) |
| Increase or Decrease in 2017/18 | (5,423) | 86 | (63) | (5,400) | 14,032 | 8,632 |
| Balance at 31st March 2018 | 11,920 | 523 | 3 | 12,446 | 14,934 | 27,380 |

| Comparative Year | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves (Restated) £000 | Total Reserves £000 |
|--|------------------------------|----------------------------------|----------------------------------|-------------------------------|--------------------------------------|------------------------|
| Balance at 31st March 2016 (Restated) | 18,852 | 321 | 130 | 19,303 | 12,740 | 32,042 |
| Movement in Reserves during 2016/17 | | | | | | |
| Total Comprehensive Income and Expenditure | 675 | 0 | 0 | 675 | (13,969) | (13,294) |
| Adjustments between accounting basis & funding basis under regulation (Note 6) | (2,184) | 116 | (64) | (2,132) | 2,132 | (0) |
| Increase or Decrease in 2016/17 | (1,509) | 116 | (64) | (1,457) | (11,837) | (13,294) |
| Balance at 31st March 2017 | 17,343 | 437 | 66 | 17,846 | 902 | 18,748 |

Opening balances reflect an adjustment to the deferred liability relating to Maidstone Leisure Centre following identification of a prior period error. Full details are disclosed within note 28.

BALANCE SHEET

As at 31st March 2017 & 2018

| 31st March 2017 (Original £000) | 1st April 2017 (Restated) £000 | | Notes | 31st March 2018 £000 |
|--|---|---|-----------|----------------------------|
| 64,222 | 64,222 | Property, Plant & Equipment | 18 | 67,145 |
| 16,346 | 16,346 | Investment Property | 19 | 19,976 |
| 10,384 | 10,384 | Heritage Assets | 20 | 10,393 |
| 444 | 444 | Intangible Assets | | 477 |
| 19 | 19 | Long Term Debtors | | 40 |
| 91,415 | 91,415 | Long Term Assets | | 98,031 |
| 4,000 | 4,000 | Short Term Investments | 21 | 7,000 |
| 100 | 100 | Inventories | | 110 |
| 15,791 | 15,791 | Short Term Debtors | 23 | 14,291 |
| 11,611 | 11,611 | Cash & Cash Equivalents | 24 | 10,244 |
| 31,502 | 31,502 | Current Assets | | 31,645 |
| 11,576 | 11,576 | Short Term Creditors | 25 | 14,233 |
| 1,960 | 1,960 | Provision for Business Rate Appeals | 26 | 959 |
| 0 | 0 | Other Provisions | | 296 |
| 655 | 655 | Deferred Liability | 28 | 521 |
| 3,592 | 3,592 | Capital Grants Receipts in Advance | 16 | 4,080 |
| 17,783 | 17,783 | Current Liabilities | | 20,089 |
| 1,086 | 1,086 | Provision for Business Rate Appeals | 26 | 1,348 |
| 189 | 189 | Other Provisions | | 184 |
| 243 | 3,577 | Deferred Liability | 28 | 3,057 |
| 81,534 | 81,534 | Other Long Term Liabilities | 32 | 77,618 |
| 83,052 | 86,386 | Long Term Liabilities | | 82,207 |
| 22,082 | 18,748 | Net Assets | | 27,380 |
| 17,846 | 17,846 | Usable Reserves | | 12,446 |
| 4,236 | 902 | Unusable Reserves | 30 | 14,934 |
| 22,082 | 18,748 | Total Reserves | | 27,380 |

Opening balances reflect an adjustment to the deferred liability relating to Maidstone Leisure Centre following identification of a prior period error. Full details are disclosed within note 28.

CASH FLOW STATEMENT

| 2016/17 £000 | | Notes | 2017/18 £000 |
|-----------------|---|-------|-----------------|
| (675) | Net (surplus) or deficit on the provision of services | | 285 |
| (8,170) | Adjustments to net surplus or deficit on the provision of services for non-cash movements | 35 | (8,846) |
| 2,855 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing & financing activities | 36 | 2,433 |
| (5,990) | Net cash flows from Operating activities | | (6,128) |
| (4,145) | Investing Activities | 37 | 11,104 |
| 2,674 | Financing Activities | 38 | (3,609) |
| (7,461) | Net increase or decrease in cash & cash equivalents | | 1,367 |
| (4,150) | Cash & cash equivalents at the beginning of the reporting period | | (11,611) |
| (11,611) | Cash & cash equivalents at the end of the reporting period | | (10,244) |

1 – EXPENDITURE & FUNDING ANALYSIS

For the years ending 31st March 2017 & 2018

| 2016/17 | | | 2017/18 | | | |
|--|--|---|--|--|--|---|
| Net Expenditure Chargeable to the General Fund £000 | Adjustments between the Funding and Accounting Basis £000 | Net Expenditure in the Comprehensive Income & Expenditure Statement £000 | Committee | Net Expenditure Chargeable to the General Fund £000 | Adjustments between the Funding and Accounting Basis £000 | Net Expenditure in the Comprehensive Income & Expenditure Statement £000 |
| 5,485 | 1,585 | 7,070 | Policy & Resources | 5,133 | 1,533 | 6,666 |
| 8,839 | 555 | 9,394 | Communities, Housing & Environment | 7,588 | 2,653 | 10,241 |
| 626 | 4,440 | 5,066 | Heritage, Culture & Leisure | 1,777 | 3,700 | 5,477 |
| (171) | 1,446 | 1,275 | Strategic Planning, Sustainability & Transportation | (1,091) | 2,199 | 1,108 |
| 14,779 | 8,026 | 22,805 | Net Cost Of Services | 13,407 | 10,085 | 23,492 |
| (13,270) | (10,210) | (23,480) | Other Income & Expenditure | (7,984) | (15,223) | (23,207) |
| 1,509 | (2,184) | (675) | (Surplus) or Deficit | 5,423 | (5,138) | 285 |
| | | 18,852 | Opening General Fund Balance | | | 17,343 |
| | | (1,509) | Less/Plus Surplus or (Deficit) on General Fund Balance in Year | | | (5,423) |
| | | 17,343 | Closing General Fund Balance at 31st March | | | 11,920 |

NOTE TO THE EXPENDITURE & FUNDING ANALYSIS

| Adjustments between Funding & Accounting Basis 2017/18 | | | | |
|--|---|---|------------------------------|-------------------|
| Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts | Adjustments for Capital Purposes (Note i) | Net Change for Pensions Adjustments (Note ii) | Other Differences (Note iii) | Total Adjustments |
| Heritage, Culture & Leisure | | | 1,327 | 1,327 |
| Strategic Planning, Sustainability & Transportation | | | 1,945 | 1,945 |
| Communities, Housing & Environment | | | 1,217 | 1,217 |
| Policy & Resources | 8,789 | (3,651) | (4,489) | 649 |
| Net Cost of Services | 8,789 | (3,651) | 0 | 5,138 |
| Other income and expenditure from the Expenditure & Funding Analysis | | | | 0 |
| Difference between General Fund surplus or deficit and Comprehensive Income & Expenditure Statement Surplus or Deficit on the Provision of Services | 8,789 | (3,651) | 0 | 5,138 |

Note i – Adjustments for Capital Purposes

- This column adjusts Policy & Resources Committee for the statutory adjustments put through in respect of depreciation, amortisation of intangible assets, revenue funding from capital under statute, and other capital charges.

Note ii – Net Charge for Pensions Adjustments

- This column adjusts Policy & Resources Committee for the statutory adjustments put through in respect of IAS 19 Employee Benefits pension related income and expenditure.

Note iii – Other Differences

- This column adjusts the service committees for various recharges such as accommodation, telephones, staff recharges and IT recharges as when they are reported they only include direct costs.

EXPENDITURE AND INCOME ANALYSED BY NATURE

| | 2016/17 £000 | 2017/18 £000 |
|--|------------------|------------------|
| Expenditure | | |
| Employee Benefit Expenses | 19,580 | 20,836 |
| Other Services Expenses | 94,034 | 90,477 |
| Support Service Recharges | 21,484 | 22,995 |
| Depreciation, Amortisation, Impairment | 6,554 | 7,301 |
| Interest Payments | 151 | 125 |
| Precepts & Levies | 1,499 | 1,666 |
| Gain on the Disposal of Assets | (1,210) | (1,389) |
| Total Expenditure | 142,092 | 142,011 |
| Income | | |
| Fees, Charges & Other Service Income | (18,448) | (19,915) |
| Interest & Investment Income | (186) | (120) |
| Income from Council Tax & NDR | (40,259) | (38,741) |
| Government Grants & Contributions | (53,326) | (52,660) |
| Internal Recharges | (30,548) | (30,290) |
| Total Income | (142,767) | (141,726) |
| Surplus or (Deficit) on the Provision of Services | (675) | 285 |

2 - ACCOUNTING POLICIES

a) GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31st March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts & Audit Regulations (England) 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the UK 2016/17 and the Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS).

The following accounting concepts have been given precedence in the preparation of the accounts:

- Going concern
- Primacy of legislative requirements

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

b) ACCRUALS OF INCOME & EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Income from Council Tax and Non-Domestic (Business) Rates:

Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions. Revenue is recognised when it is probable that the economic benefits of the transaction will flow to the Council and the amount of revenue can be measured reliably.

The council tax and business rate income included in the CIES is the accrued income for the year, which consists of:

- The Council's council tax precept and business rate share from the Collection Fund i.e. the amount billed for the year; and
- The Council's share of the actual council tax and business rate surplus or deficit on the Collection Fund at the end of the current year, adjusted for the Council's share of the surplus or deficit on the fund at the preceding year end that has not been distributed or recovered in the current year.

The latter is not required by regulation to be credited to the General Fund and so is taken to the Collection Fund Adjustment Account and included as a reconciling item in the MIRS on the General Fund balance.

The Council as billing authority recognises a creditor in its balance sheet for cash collected from taxpayers and businesses on behalf of major preceptors but not yet paid to them, or a debtor for cash paid to major preceptors.

- Accruals are recognised where the value exceeds £5,000.

c) Overheads & Support Services

The costs of support services and overheads are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2017/18. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion with the benefits used, with the exception of:

- costs relating to the Council's status as a multi-functional democratic organisation.
- the cost of discretionary benefits awarded to employees retiring early and impairment losses on assets held for sale.

These two cost categories are defined in the Service Expenditure Reporting Code of Practice 2017/18 and accounted for within the Policy & Resources Committee line on the Comprehensive Income & Expenditure Statement.

d) PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES & ERRORS

Prior period adjustments may arise as result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current or financial years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

e) Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue & Customs. VAT receivable is excluded from income.

Further accounting policies can be found throughout these accounts with the notes to which they relate.

3 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication of the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- A comprehensive review of all property leases has been undertaken to determine whether they should be classified as an operating lease (which are off-Balance Sheet), or a finance lease (which is on-Balance Sheet). The result of this review was that the Council currently has no property leases which need to be classified as finance leases.
- A review of service contracts has been undertaken in accordance with the requirements of IFRIC 4 to determine whether any of the contractual arrangements contain the substance of a finance lease. It was determined that the Park & Ride contract was classified as containing finance leases for the vehicles involved in the delivery of the service, and these have been included with Property, Plant & Equipment on the Balance Sheet.
- A review of the contract for waste collection has determined that the contractual arrangements do not meet the requirements of IFRIC 4.
- It has been determined that an arrangement between the Council and the managing contractor of the Leisure

Centre is classified as a service concession arrangement. Under the terms of the arrangement the Council makes regular payments over a 15 year period to cover the costs of major refurbishment works which have been undertaken by the contractor.

- A judgement has been made as to which of the council's assets fall under the category of Heritage Assets, and the appropriate basis for valuation and disclosure. The outcome of this judgement is reflected in the Heritage Assets note.
- A review of operational assets not revalued this year has been undertaken to determine whether or not there could have been a material movement in the asset values. Using guidance from the external valuer, it has been concluded that the assets are materially fairly stated.
- As a wholly owned subsidiary of the council, Maidstone Property Holdings Limited falls within the group boundary on the grounds of control and significant influence in line with the Code. However the Council's interests in aggregate are not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. For this reason, group accounts are not deemed necessary within these statements.
- The Council has determined that it does not need to prepare group accounts to include Cobtree Manor Estate Trust, on the grounds that the Council neither controls, jointly controls, nor has significant influence over the Trust. Councillors who sit on the Cobtree Manor Estate Charity Committee act on behalf of the Trust in their decision making, rather than in the interests of Maidstone Borough Council. The objectives of the Trust derive from a separate trust, the Cobtree Charity Trust, and cannot be influenced by the Council's objectives. The Council does not control the Trust in its capacity as an investor, it is not exposed to variable returns from its involvement with the Trust, and the Trust does not provide any services which the council would otherwise be obliged to provide. The council provides services to the Trust in terms of the day to day administration of its affairs and grounds maintenance of Cobtree Manor Park. The Council recharges the cost of providing these services to Cobtree Manor Park, but does not seek to generate a surplus from the arrangement.

4 - ASSUMPTIONS MADE ABOUT THE FUTURE & OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

The items in the Council's financial statements at 31st March 2018 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

| Balance | Source of Uncertainty | Effect if actual results differ from assumptions |
|--|---|--|
| Asset valuations & depreciation | <p>Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets and investment properties.</p> <p>The Council's external valuers provided valuations for the Council's entire investment portfolio and a proportion of its operational portfolio. The remaining balance of operational properties was also reviewed to ensure values were reflective of current appropriate values.</p> <p>Assets are depreciated over useful lives which are based on the level of repairs and maintenance that will be incurred in relation to individual assets. If current spending on repairs and maintenance were to be reduced, this could affect a change to useful lives assigned to the assets.</p> | <p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement (CIES). If the value of the Council's property portfolio were to reduce by 10%, this would result in a change of approximately £4.3m.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> <p>Depreciation charges for operational buildings will change in direct relation to changes in estimated fair value. Furthermore, if the useful life of assets is reduced the annual depreciation charge increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.4m for every year that useful lives had to be reduced.</p> |
| Pensions Liability | <p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.</p> <p>A firm of consulting actuaries (Barnett Waddingham) is engaged to provide the Council with expert advice about the assumptions to be applied.</p> | <p>The effect on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £3.236m. However, the assumptions interact in complex ways. A one year increase in the mortality age rating assumption would result in an increase to the pension liability of £7.061m.</p> |
| Arrears | <p>At 31st March 2018 the Council had a balance of sundry debtors for £12.761m. A review of significant balances suggested that a provision of doubtful debts for £3.083m was appropriate. There is uncertainty as to whether or not such an allowance is sufficient.</p> | <p>If collection rates were to deteriorate, a 50% increase in the level of impairment required for doubtful debts would require an additional £1.5m to be set aside as an allowance.</p> |

| Balance | Source of Uncertainty | Effect if actual results differ from assumptions |
|-----------------------------------|---|---|
| Non-Domestic Rates Appeals | <p>The Collection Fund is liable for potential losses arising from appeals against the rateable value of business premises. A provision of £5.765m has therefore been created to recognise current and backdated appeals. The council's share of the provision of £2.306m is reflected on the balance sheet. This is deemed to be appropriate as it is based on a detailed analysis of information provided by the VOA.</p> <p>There is uncertainty regarding the value of potential losses against the 2017 valuation list. A provision of 2.1p per pound of rateable value is reflected in the above total.</p> | <p>If the yield losses from successful appeals were to increase by 10%, an additional provision of £0.577m would be required overall, and the council's share of the provision would increase by £0.203m.</p> |

5 - ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

International Accounting Standard 8 requires the Council to disclose the expected impact of new standards that have been issued, but not yet adopted.

Accounting Standards that have been issued, but not yet adopted include:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 – Leases
- IAS 7 Statement of Cash Flows (Disclosure Initiative)

There are no new standards that have been issued but not yet adopted which, when adopted, are expected to have a material impact on the Council's financial statements.

6 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS & FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which it can take place.

| 2017/18 | Usable Reserves | | |
|--|------------------------------|----------------------------------|----------------------------------|
| | General Fund balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 |
| Adjustments to the Revenue Resources | | | |
| Amounts by which income and expenditure included in the Comprehensive Income & Expenditure Statement are different from the year calculated in accordance with statutory requirements: | | | |
| Pensions Costs (transferred to (or from) the Pensions Reserve) | 3,651 | | |
| Council Tax and NDR (transfers to or from the Collection Fund Adjustment Account) | (2,871) | | |
| Holiday Pay (transferred to the Accumulated Absences Account) | (5) | | |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | 7,448 | | |
| Total Adjustments to Revenue Resources | 8,223 | 0 | 0 |
| Adjustments between Revenue and Capital Resources | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (892) | 897 | |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | (654) | | |
| Capital expenditure finance from revenue balances (transfer to the Capital Adjustment Account) | (10,274) | | |
| Total Adjustments between Revenue and Capital Resources | (11,820) | 897 | 0 |
| Adjustments to Capital Resources | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | | (811) | |
| Application of capital grants to finance capital expenditure | (1,541) | | (63) |
| Total Adjustments to Capital Resources | (1,541) | (811) | (63) |
| Total Adjustments | (5,138) | 86 | (63) |

| 2016/17 Comparative Figures | Usable Reserves | | |
|--|--|--|--|
| | General Fund balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 |
| Adjustments to the Revenue Resources | | | |
| Amounts by which income and expenditure included in the Comprehensive Income & Expenditure Statement are different from the year calculated in accordance with statutory requirements: | | | |
| Pensions Costs (transferred to (or from) the Pensions Reserve) | 2,290 | | |
| Council Tax and NDR (transfers to or from the Collection Fund Adjustment Account) | 1,955 | | |
| Holiday Pay (transferred to the Accumulated Absences Account) | 13 | | |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account) | 6,546 | | |
| Total Adjustments to Revenue Resources | 10,804 | 0 | 0 |
| Adjustments between Revenue and Capital Resources | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | (1,022) | 1,075 | |
| Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account) | (629) | | |
| Capital expenditure finance from revenue balances (transfer to the Capital Adjustment Account) | (9,624) | | |
| Total Adjustments between Revenue and Capital Resources | (11,275) | 1,075 | 0 |
| Adjustments to Capital Resources | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | | (959) | |
| Application of capital grants to finance capital expenditure | (1,717) | | (64) |
| Cash payments in relation to deferred capital receipts | 5 | | |
| Total Adjustments to Capital Resources | (1,713) | (959) | (64) |
| Total Adjustments | (2,184) | 116 | (64) |

Accounting Policy – Charges to Revenue for Non-Current Assets

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

- Depreciation attributable to the assets used by the relevant service
- Revaluation & impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible non-current assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation.

7 – EARMARKED RESERVES

Within the General Fund balance of £11.920m at the end of the year the Council maintains a number of Earmarked Reserves for specific purposes as follows:

| | 31st March 2017 £000 | Contributions to/from Balances £000 | 31st March 2018 £000 |
|-------------------------------------|----------------------------|--|----------------------------|
| New Homes Bonus funding for Capital | 7,215 | (5,810) | 1,404 |
| Local Plan | 336 | (136) | 200 |
| Neighbourhood Planning | 64 | 6 | 70 |
| Trading Accounts | 243 | (192) | 51 |
| Business Rates Growth | 158 | 534 | 692 |
| Total Earmarked Reserves | 8,016 | (5,598) | 2,418 |
| Unallocated Balances | 9,327 | 175 | 9,502 |
| Total General Fund Balance | 17,343 | (5,423) | 11,920 |

Description of Earmarked Reserves:

New Homes Bonus funding for Capital – the Council has chosen to set aside this funding from central government to fund large scale infrastructure projects in the capital programme.

Local Plan – this is funding set aside to support the on-going production of the Local Plan document.

Neighbourhood Planning – this is funding from central government to support the production of local Neighbourhood Plans.

Trading Accounts – these are ring-fenced surpluses from trading areas within the Council that by statute can only be used within these areas.

Business Rates Growth – these are locally retained rates from the Business Rates Pool that the Council participates in, which will be used to support economic development initiatives.

Accounting Policy - Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

The Council has created a series of Earmarked Reserves to manage more effectively the resources set aside for specific activities.

Certain reserves are kept to manage the accounting process for non-current assets, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

8 - MATERIAL ITEMS OF INCOME & EXPENSE

There are no material items of income and expenditure that are not detailed in the notes below.

9 - OTHER OPERATING EXPENDITURE

These are corporate items of income and expenditure that cannot reasonably be allocated or apportioned to services.

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Parish Council precepts | 1,499 | 1,666 |
| Levies | 109 | 109 |
| (Gains)/losses on the disposal of non-current assets | (1,022) | (839) |
| | 586 | 936 |

10 - FINANCING AND INVESTMENT INCOME & EXPENDITURE

These are corporate items of income and expenditure arising from the Council's involvement in financial instruments and similar transactions involving interest and investment properties.

| | 2016/17 £000 | 2017/18 £000 |
|---|-----------------|-----------------|
| Interest payable and similar charges | 183 | 157 |
| Net Interest on the Net Defined Benefit Liability | 2,267 | 2,157 |
| Interest receivable and similar income | (187) | (121) |
| Income & Expenditure in relation to investment properties and changes in their fair value | (466) | (584) |
| | 1,797 | 1,609 |

11 - TAXATION & NON-SPECIFIC GRANT INCOMES

This note consolidates all the grants and contributions receivable, including those that cannot be identified to particular service expenditure.

| Credited to Taxation & Non Specific Grant Income | 2016/17 £000 | 2017/18 £000 |
|---|-------------------------|-------------------------|
| Council tax income | 15,690 | 16,839 |
| Revenue Support Grant | 844 | 0 |
| Income from Retained Business Rates | 23,218 | 22,386 |
| Tariff Payable | (19,654) | (18,060) |
| Levy Payable | (117) | (91) |
| Non-ringfenced Government Grants | 5,882 | 4,678 |
| Total | 25,863 | 25,752 |
| Credited to Services | | |
| Housing Benefit Subsidy | 46,900 | 45,760 |
| Non-Domestic Rates - Cost of Collection | 206 | 204 |
| Council Tax Administration | 164 | 158 |
| New Legislation | 358 | 322 |
| Other Grants | 570 | 1,083 |
| Total | 48,198 | 47,527 |

Accounting Policy – Government Grants & Contributions

Whether paid on account, by instalments or in arrears, government grants, third party contributions and donations are recognised as due to the Council when there is a reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants and contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income & Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or condition are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation & Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income & Expenditure Statement.

Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

12 - TRADING OPERATIONS

The Council has established a number trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of those units are as follows:

| Operation | 2016/17 | 2017/18 | | (Surplus)/ Deficit £000 |
|------------------------------|-------------------------------|----------------|---------------------|-------------------------------|
| | (Surplus)/ Deficit £000 | Income £000 | Expenditure £000 | |
| Market | 45 | (287) | 383 | 96 |
| Parkwood Industrial Estate | (343) | (339) | 34 | (305) |
| Mote Park Café | 150 | (314) | 450 | 136 |
| Commercial Waste | 85 | (233) | 308 | 75 |
| Debt Recovery | 4 | (765) | 733 | (32) |
| Pay & Display Car Parking | (1,600) | (2,406) | 675 | (1,731) |
| On-Street Car Parking | (198) | (772) | 604 | (168) |
| Direct Services | 7 | (414) | 452 | 38 |
| Net (Surplus)/Deficit | (1,850) | (5,530) | 3,639 | (1,891) |

13 - MEMBERS' ALLOWANCES

The amount of Members Allowances paid during 2017/18 totalled £348,573. (£345,934 in 2016/17). The Council also produce a statement, in accordance with provision 1021 – 15(3) of the Local Authorities (Members Allowance) (England) Regulations 2003, giving details of allowances paid to Members for the year. This can be viewed on the Council's website:

<https://maidstone.gov.uk/councillorallowances>

14 – OFFICERS REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

| 2017/18 | Salary (Including Fees) £000 | Other Payments, Allowances & Benefits in Kind £000 | Total Remuneration excluding Pension Contributions £000 | Pension Contributions £000 | Total Remuneration including Pension Contributions £000 |
|--|------------------------------------|--|--|----------------------------------|--|
| Chief Executive | 123 | 16 | 139 | 19 | 158 |
| Director of Finance & Business Improvement | 100 | 1 | 101 | 14 | 115 |
| Director of Regeneration & Place | 100 | 2 | 102 | 14 | 116 |
| Director of Mid-Kent Services | 86 | 2 | 88 | 12 | 100 |

| 2016/17 | Salary (including Fees & Allowances) £000 | Other Payments, Allowances & Benefits in Kind £000 | Total Remuneration excluding Pension Contributions £000 | Pension Contributions £000 | Total Remuneration including Pension Contributions £000 |
|---|---|---|--|----------------------------------|--|
| Chief Executive | 118 | 18 | 136 | 17 | 153 |
| Director of Finance & Business Improvement* | 81 | 1 | 82 | 11 | 93 |
| Director of Regeneration & Place* | 80 | 1 | 81 | 11 | 92 |
| Interim Director of Mid-Kent Services** | 75 | 3 | 78 | 10 | 88 |

*Joined MBC June 2016

**Promoted from Head of Service to Interim Director August 2016

Senior Officers are defined as those who sit on the Corporate Leadership Team. There are no other officers who report directly to the Chief Executive and receive more than £50,000 remuneration for the year.

The Director of Mid-Kent Services is jointly funded with Swale and Tunbridge Wells Borough Councils, each making equal contributions. Therefore Maidstone's share of the salary is one-third of the value above (£33,173). The Monitoring Officer (Head of Mid Kent Legal Services) also sits on the Corporate Leadership Team but is paid by Swale Borough Council. Details of her remuneration are therefore within their accounts.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

| Remuneration Band | 2017/18 No.of employees | 2016/17 No.of employees |
|--------------------------|--|--|
| £50,000 - £54,999 | 5 | 5 |
| £55,000 - £59,999 | 5 | 6 |
| £60,000 - £64,999 | 3 | 2 |
| £65,000 - £69,999 | 1 | 0 |
| £70,000 - £74,999 | 2 | 2 |
| £75,000 - £79,999 | 1 | 2 |
| £80,000 - £84,999 | 2 | 1 |
| £85,000 - £89,999 | 0 | 0 |
| £90,000 - £94,999 | 0 | 0 |

Exit Packages

The number of exit packages with total cost per band and the total cost of the compulsory and other redundancies are set out in the table below:

| Exit Package Cost Band (including special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band | |
|--|--|----------------|--|----------------|---|----------------|---|----------------|
| | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 |
| | | | | | | | £000 | £000 |
| £0 - £20,000 | 0 | 0 | 9 | 0 | 9 | 0 | 45 | 0 |
| £20,001 - £40,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £40,001 - £60,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £60,001 - £80,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £80,001 - £100,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| £100,001 - £150,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 0 | 0 | 9 | 0 | 9 | 0 | 45 | 0 |

15 - EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's external auditors, Grant Thornton UK LLP.

| | 2016/17 £000 | 2017/18 £000 |
|---|-----------------|-----------------|
| Fees payable with regard to external audit services carried out by the appointed auditor for the year | 50 | 50 |
| Rebate from Public Sector Audit Appointments Limited | 0 | (8) |
| Fees payable for the certification of grant claims and returns during the year | 13 | 14 |
| Non-audit Services | 16 | 0 |
| Total | 79 | 56 |

16 – CAPITAL GRANTS RECEIPTS IN ADVANCE

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

| | 2016/17 £000 | 2017/18 £000 |
|--------------------------------------|-----------------|-----------------|
| Balance at start of year: | 2,604 | 3,592 |
| Grants Received | 2,773 | 2,333 |
| Transfers to/from Grants Unapplied | 0 | (63) |
| Other Transfers | 0 | (13) |
| Funding used for capital expenditure | (1,785) | (1,769) |
| Balance at end of year: | 3,592 | 4,080 |

17 - RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council- it is responsible for providing the statutory framework within which the Council operates, and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 1- the Expenditure and Funding Analysis.

Members and Senior Officers

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' Allowances paid in 2017/18 is shown in Note 13.

All Members and Senior Officers were required to complete a declaration of interests that included details of any finance-related transactions with the Council. There were no declarations of significance.

The Director of Regeneration and Place and Head of Housing and Community Services are both Directors of Maidstone Property Holdings Limited, which is a wholly owned subsidiary of the Council. The Balance Sheet as at 31st March 2018, reflects £76,000 which is payable from Maidstone Property Holdings to Maidstone Borough Council, relating to income and expenditure for the 2017/18 financial year.

18 - PROPERTY, PLANT & EQUIPMENT

Movements on Balances

| Movements in 2017/18 | Infrastructure Assets | Land & Buildings | Plant, Machinery & Equipment | Vehicles | IT & Office Equipment | Community Assets | Assets Under Construction | Total Property, Plant & Equipment |
|--|-----------------------|------------------|------------------------------|----------------|-----------------------|------------------|---------------------------|-----------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuations | | | | | | | | |
| At 1st April 2017 | 4,318 | 48,467 | 13,404 | 1,248 | 4,787 | 3,167 | 5,666 | 81,057 |
| Additions | 7 | 3,860 | 1,063 | 476 | 18 | 74 | 2,023 | 7,521 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 0 | (1,250) | 0 | 0 | 0 | 0 | 0 | (1,250) |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | 0 | (1,002) | 0 | 0 | 0 | 0 | 0 | (1,002) |
| Derecognition of assets | 0 | (57) | 0 | 0 | 0 | 0 | 0 | (57) |
| Other movements in cost or valuation | (4) | 3,235 | (2) | 0 | (3) | 0 | (3,235) | (9) |
| At 31st March 2018 | 4,321 | 53,253 | 14,465 | 1,724 | 4,802 | 3,241 | 4,454 | 86,260 |
| Accumulated Depreciation & Impairment | | | | | | | | |
| At 1st April 2017 | (2,936) | (4,657) | (5,983) | (788) | (2,471) | 0 | 0 | (16,835) |
| Depreciation charge | (211) | (2,931) | (924) | (386) | (428) | 0 | 0 | (4,880) |
| Depreciation written out to the Revaluation Reserve | 0 | 2,600 | 0 | 0 | 0 | 0 | 0 | 2,600 |
| Derecognition of assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| At 31st March 2018 | (3,147) | (4,988) | (6,907) | (1,174) | (2,899) | 0 | 0 | (19,115) |
| Net Book Value | | | | | | | | |
| At 31st March 2018 | 1,174 | 48,264 | 7,558 | 550 | 1,903 | 3,241 | 4,454 | 67,145 |
| At 31st March 2017 | 1,382 | 43,810 | 7,421 | 460 | 2,316 | 3,167 | 5,666 | 64,222 |

| Movements in 2016/17 | Infrastructure Assets | Land & Buildings | Plant, Machinery & Equipment | Vehicles | IT & Office Equipment | Community Assets | Assets Under Construction | Total Property, Plant & Equipment |
|--|-----------------------|------------------|------------------------------|--------------|-----------------------|------------------|---------------------------|-----------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuations | | | | | | | | |
| At 1st April 2016 | 4,008 | 44,994 | 12,967 | 2,052 | 4,675 | 3,142 | 2,032 | 73,870 |
| Additions | 419 | 3,701 | 1,071 | 177 | 647 | 25 | 3,634 | 9,674 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | 0 | (130) | 0 | 0 | 0 | 0 | 0 | (130) |
| Transfers between categories | (108) | (26) | (634) | (981) | (535) | 0 | 0 | (2,284) |
| Other movements in cost or valuation | (1) | (73) | 0 | 0 | 0 | 0 | 0 | (74) |
| At 31st March 2017 | 4,318 | 48,467 | 13,404 | 1,248 | 4,787 | 3,167 | 5,666 | 81,057 |
| Accumulated Depreciation & Impairment | | | | | | | | |
| At 1st April 2016 | (2,828) | (3,363) | (5,709) | (1,435) | (2,651) | 0 | 0 | (15,986) |
| Depreciation charge | (216) | (1,883) | (911) | (285) | (355) | 0 | 0 | (3,650) |
| Depreciation written out to the Revaluation Reserve | 0 | 563 | 0 | 0 | 0 | 0 | 0 | 563 |
| Transfers between categories | | | | | | | | 0 |
| Derecognition of assets | 108 | 26 | 637 | 932 | 535 | 0 | 0 | 2,238 |
| At 31st March 2017 | (2,936) | (4,658) | (5,983) | (788) | (2,471) | 0 | 0 | (16,835) |
| Net Book Value | | | | | | | | |
| At 31st March 2017 | 1,382 | 43,810 | 7,420 | 460 | 2,316 | 3,167 | 5,666 | 64,222 |
| At 31st March 2016 | 1,182 | 41,628 | 7,256 | 618 | 2,024 | 3,142 | 2,032 | 57,882 |

Additions for 2017/18 include the acquisition of a number of properties, the most significant of which are as follows:

- Fifteen houses to be used to accommodate temporarily homeless families;
- Two properties to enable the redevelopment of the Brunswick Street car park site.

As Land & Buildings form the most significant element of Property, Plant & Equipment a more detailed analysis of the assets is shown in the table below, sub-totalled by asset class.

| Analysis of Land & Buildings Movements 2017/18 | Car Parks | Cemetery & Crematorium | Depots, Workshops & Toolsheds | Halls | Housing | Land | Leisure Centres & Pools | Markets | Museums & Galleries | Parks & Open Spaces | Public Convenience | Residential / Commercial | Theatres | Town Hall | Total Land & Buildings |
|--|------------------|-----------------------------------|--|--------------|----------------|-------------|------------------------------------|----------------|--------------------------------|--------------------------------|---------------------------|---------------------------------|-----------------|------------------|-----------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuations | | | | | | | | | | | | | | | |
| At 1st April 2017 | 6,662 | 1,505 | 1,748 | 2,864 | 1,462 | 197 | 8,071 | 1,050 | 14,042 | 583 | 1,680 | 3,385 | 4,085 | 1,133 | 48,467 |
| Additions | | 133 | | | 3,697 | | 29 | | | | | | | | 3,860 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | | | | 85 | 564 | | | | (1,751) | 60 | | | (125) | (83) | (1,250) |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (227) | | | | 13 | (395) | 10 | | | | | (403) | | | (1,002) |
| Other movements in cost or valuation | 739 | | | | 747 | | | | | | | 1,691 | | | 3,178 |
| At 31st March 2018 | 7,174 | 1,639 | 1,833 | 3,441 | 5,512 | 207 | 8,100 | 1,050 | 12,291 | 643 | 1,680 | 4,673 | 3,960 | 1,050 | 53,253 |
| Accumulated Depreciation & Impairment | | | | | | | | | | | | | | | |
| At 1st April 2017 | 12 | (135) | (56) | (618) | (438) | (39) | (1,136) | (85) | (1,331) | (125) | (102) | (168) | (280) | (156) | (4,657) |
| Depreciation charge | | (67) | (91) | (319) | (552) | | (379) | (53) | (583) | (83) | (101) | (489) | (176) | (41) | (2,931) |
| Depreciation written out to the Revaluation Reserve | | | | 86 | 568 | | | 84 | 1,335 | 90 | | | 281 | 155 | 2,600 |
| Other movements in cost or valuation | | | | | | | | | | | | | | | 0 |
| At 31st March 2018 | 12 | (202) | (60) | (368) | (990) | (39) | (1,515) | (54) | (579) | (118) | (203) | (657) | (175) | (42) | (4,985) |
| Net Book Value | | | | | | | | | | | | | | | |
| At 31st March 2018 | 7,186 | 1,437 | 1,773 | 3,073 | 4,523 | 168 | 6,585 | 997 | 11,712 | 525 | 1,477 | 4,015 | 3,785 | 1,008 | 48,264 |
| At 31st March 2017 | 6,674 | 1,370 | 1,692 | 2,246 | 1,024 | 158 | 6,935 | 965 | 12,711 | 458 | 1,578 | 3,217 | 3,805 | 977 | 43,811 |

| Analysis of Land & Buildings Movements 2016/17 | Car Parks | Cemetery & Crematorium | Depots, Workshops & Toolsheds | Halls | Housing | Land | Leisure Centres & Pools | Markets | Museums & Galleries | Parks & Open Spaces | Public Convenience | Residential / Commercial | Theatres | Town Hall | Total Land & Buildings |
|--|------------------|-----------------------------------|--|--------------|----------------|-------------|------------------------------------|----------------|--------------------------------|--------------------------------|---------------------------|---------------------------------|-----------------|------------------|-----------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuations | | | | | | | | | | | | | | | |
| At 1st April 2016 | 6,662 | 1,441 | 1,748 | 2,864 | 1,462 | 197 | 8,071 | 1,050 | 14,001 | 583 | 1,705 | 0 | 4,078 | 1,133 | 44,995 |
| Additions | | 64 | 73 | | | | | | 41 | | | 3,515 | 7 | | 3,700 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | | | | | | | | | | | 243 | | | | 243 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | | | | | | | | | | | (242) | (130) | | | (372) |
| Derecognition of Assets | | | | | | | | | | | (26) | | | | (26) |
| Other movements in cost or valuation | | | (73) | | | | | | | | | | | | (73) |
| At 31st March 2017 | 6,662 | 1,505 | 1,748 | 2,864 | 1,462 | 197 | 8,071 | 1,050 | 14,042 | 583 | 1,680 | 3,385 | 4,085 | 1,133 | 48,467 |
| Accumulated Depreciation & Impairment | | | | | | | | | | | | | | | |
| At 1st April 2016 | 12 | (68) | (34) | (476) | (292) | (39) | (757) | (64) | (666) | (62) | (590) | | (210) | (117) | (3,363) |
| Depreciation charge | | (67) | (22) | (142) | (146) | | (379) | (21) | (665) | (63) | (101) | (168) | (70) | (39) | (1,883) |
| Depreciation written out to the Revaluation Reserve | | | | | | | | | | | 563 | | | | 563 |
| Other movements in cost or valuation | | | | | | | | | | | 26 | | | | 26 |
| At 31st March 2017 | 12 | (135) | (56) | (618) | (438) | (39) | (1,136) | (85) | (1,331) | (125) | (102) | (168) | (280) | (156) | (4,657) |
| Net Book Value | | | | | | | | | | | | | | | |
| At 31st March 2017 | 6,674 | 1,370 | 1,692 | 2,246 | 1,024 | 158 | 6,935 | 965 | 12,711 | 458 | 1,578 | 3,217 | 3,805 | 977 | 43,810 |
| At 31st March 2016 | 6,676 | 1,370 | 1,714 | 2,387 | 1,170 | 158 | 7,312 | 986 | 13,334 | 521 | 1,115 | 0 | 3,869 | 1,015 | 41,628 |

Community Assets have all previously been revalued at £1 each, in accordance with the accounting policy. The Code of Practice on Local Authority Accounting requires Community Assets to be recorded on the Balance Sheet at Historic Cost. Due to the age and nature of many of the Community Assets it is not possible to ascertain an accurate historical cost, but expenditure incurred is now added to the value of the asset. Any expenditure on Community Assets was previously written off as Revenue Expenditure charged to Capital under Statute.

The Code of Practice also requires that material classes of assets within Property, Plant & Equipment are now valued together and disclosed separately within the Statement, and this analysis is shown in the table above.

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Buildings – straight-line allocation over the useful life of the property as estimated by a suitably qualified officer.
- Vehicles, Plant, Furniture, IT & Office Equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- Infrastructure - straight-line allocation over 20 years.

Capital Commitments

As at 31st March 2018 the Council had the following capital commitments:

| Project | £000 |
|--------------------------------|--------------|
| Mote Park Adventure Zone | 667 |
| Public Realm Project - Phase 3 | 2,830 |
| Total | 3,497 |

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant & Equipment required to be measured at current value is revalued at least every 5 years. All valuations were carried out externally by Harrison's Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of RICS. The latest revaluations were carried out as at 1st January 2018 in accordance with the requirements of the Code of Practice, and are considered to be materially accurate at the Balance Sheet date.

The table also shows the historic cost values of the various asset classes, which were established at 1st April 2007 when the current capital accounting requirements came into force.

| | Infrastructure Assets | Community Assets | Land & Buildings | Plant, Machinery & Equipment | Vehicles | IT & Office Equipment | Assets Under Construction | Total |
|--------------------------------|-----------------------|------------------|------------------|------------------------------|--------------|-----------------------|---------------------------|---------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Carried at historical cost | 4,321 | 3,241 | 475 | 14,465 | 1,724 | 4,802 | 4,454 | 33,482 |
| Valued at current value as at: | | | | | | | | |
| 31st March 2015 | | | 16,006 | | | | | 16,006 |
| 31st March 2016 | | | 1,696 | | | | | 1,696 |
| 31st March 2017 | | | 5,058 | | | | | 5,058 |
| 31st March 2018 | | | 30,018 | | | | | 30,018 |
| Total Cost or Valuation | 4,321 | 3,241 | 53,253 | 14,465 | 1,724 | 4,802 | 4,454 | 86,260 |

Accounting Policy – Property, Plant & Equipment

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant & Equipment is capitalised on an accruals basis in the accounts, provided that the asset value is over £10,000 and yields benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of non-current assets which is charged directly to service revenue accounts.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in manner intended by management.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, Community Assets and Assets Under Construction - Depreciated Historical Cost
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every 5 years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income & Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income & Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income & Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income & Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss has not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant & Equipment assets by the systematic allocation of depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the useful life of the property as estimated by a suitably qualified officer. The useful lives range from 4 to 20 years.
- Vehicles, Plant, Furniture & Equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- Infrastructure - straight-line allocation over 20 years.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and depreciation that would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

19 - INVESTMENT PROPERTIES

The following table summarises the movement in the fair value of investment properties over the year:

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Balance at start of the year | 16,310 | 16,346 |
| Additions | 36 | 3,659 |
| Net gains/losses from fair value adjustments | (0) | (29) |
| Balance at end of year | 16,346 | 19,976 |

During the year the Council purchased two sets of industrial units on the Parkwood Trading Estate.

In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

The fair value for the council's investment property portfolio has been based on the market approach using current market conditions and recent sales or lettings evidence and other relevant information for similar assets in Maidstone Borough, or other suitably comparable locations. Where appropriate, adjustments have been made to the comparable evidence to relate these directly to the subject properties. Market conditions are such that similar properties are actively sold or let and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

There has been no change in the valuation techniques used during the year for investment properties.

Accounting Policy – Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset from the market participant's perspective. Investment properties are not depreciated and an annual valuation programme ensures that they are held at highest and best use value at the Balance Sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Accounting Policy – Fair Value Measurement

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

20 – HERITAGE ASSETS: RECONCILIATION OF THE CARRYING VALUE HELD BY THE COUNCIL

| Cost or Valuation | Museum Exhibits £000 | War Memorials £000 | Statues & Sculptures £000 | Other Items £000 | Total Assets £000 |
|------------------------|-------------------------|-----------------------|------------------------------|---------------------|----------------------|
| 1st April 2017 | 9,090 | 480 | 515 | 308 | 10,393 |
| Additions | | | | | 0 |
| 31st March 2018 | 9,090 | 480 | 515 | 308 | 10,393 |
| 1st April 2016 | 9,090 | 471 | 515 | 308 | 10,384 |
| Additions | | 9 | | | 9 |
| 31st March 2017 | 9,090 | 480 | 515 | 308 | 10,393 |

Museum Exhibits

The exhibits are held in two main locations, the Maidstone Museum & Bentrif Art Gallery, and the Carriage Museum. Further information on the museums and their collections can be seen on their dedicated website:

<http://www.museum.maidstone.gov.uk/>

The total of £9.090m represents those items that have formally been valued as at 1st April 2011 for insurance purposes by a number of reputable auction houses. The value of the total collection is likely to be far higher, and is valued for insurance purposes at £17.0m (which includes items on loan to the Council, and those held in Trust at the Museum), but it is considered that it would not be cost-effective or of any significant benefit to formally value the entire collection. The value is reviewed on an annual basis for insurance purposes.

War Memorials

The Council is responsible for two war memorials, one in the Broadway and the other in Brenchley Gardens. A local stone mason has provided a replacement value for the two memorials. Upkeep and maintenance of the memorials is the responsibility of the Council's Property Services section.

Statues and Sculptures

There are a number of statues and sculptures throughout the borough that the Council are responsible for. These are in a number of locations, and have been valued at their purchase cost, where this is known, although none of them individually have a significant value.

Other Items

This relates to two items, the civic regalia used by the Mayor, and the 'Elemental' art installation on the bridge across the River Medway. The civic regalia have been valued by a local jeweller for insurance purposes, and the art installation has been valued at purchase cost.

Listed Buildings and Other Heritage Assets

The Old College complex, comprising the Gateway, the Master's Tower and the Quarterdeck has been classified as a heritage asset. However due to the age and nature of the buildings it is not possible to ascertain an accurate valuation.

In addition the Council owns a number of other assets. These have not been valued as it would not be cost-effective in terms of time and financial resources to do so. These include the balance of the museum exhibits referenced earlier in this note.

Accounting Policy – Heritage Assets

Tangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

The Council's Heritage Assets are held principally for their contribution to knowledge and/or culture. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses and impairments) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets, and the valuation methods applied are as follows:

- Replacement Cost
- Purchase Cost
- Insurance Valuation

Where it is considered impractical (in terms of cost and/or benefit) to obtain a valuation there is no requirement to do so, but any assets that are treated in this way must be disclosed in the Heritage Assets note.

21 - FINANCIAL INSTRUMENTS

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

| | Long-term | | Short-Term | |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| | 31st March 2017 £000 | 31st March 2018 £000 | 31st March 2017 £000 | 31st March 2018 £000 |
| Investments | | | | |
| Loans & receivables | 0 | 25 | 15,856 | 17,400 |
| Available-for-sale financial assets | 0 | 0 | 0 | 0 |
| | 0 | 25 | 15,856 | 17,400 |
| Debtors | | | | |
| Loans & receivables | 0 | 0 | 7,924 | 9,560 |
| Creditors | | | | |
| Financial liabilities at amortised cost | 0 | 0 | 8,551 | 5,578 |
| Other Long Term Liabilities | | | | |
| Finance Lease Liabilities at amortised cost | 3,577 | 3,057 | 655 | 521 |

On the face of the Balance Sheet Loans & Receivables are split in Current Assets between Short Term Investments and Cash & Cash Equivalents.

The current financial liabilities are all due to be settled within one year.

Income & Expense

| | Long-Term | | Short Term | |
|-------------------------------------|------------|------------|------------|------------|
| | 31st March | 31st March | 31st March | 31st March |
| | 2017 | 2018 | 2017 | 2018 |
| | £000 | £000 | £000 | £000 |
| Income: | | | | |
| Loans & Receivables | 0 | 0 | 179 | 86 |
| Available-for-sale Financial Assets | 0 | 0 | 7 | 34 |
| Other Interest | 0 | 0 | 1 | 1 |
| Total | 0 | 0 | 187 | 121 |

Fair Value of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Available for sale assets are measured at fair value which is determined through an active market. Where an instrument has a maturity of less than 12 months the fair value is taken to be the carrying amount. The Council has no loans or long term creditors, and the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Accounting Policy – Financial Instruments

Financial Liabilities:

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Interest is charged to the Financing and Investment Income & Expenditure line in the Comprehensive Income & Expenditure Statement.

Financial Assets:

There are two types of financial asset which the Council holds. These are:

- Loans & Receivables – non derivative financial assets that have fixed or determinable payments but are not quoted on an open market.
- Available-for-sale assets – non derivative assets that are not classified as a) loans and receivables, b) held-to-maturity investments or c) financial assets at fair value through profit or loss.

Loans & Receivables:

Loans & Receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing & Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income & Expenditure Statement is the amount receivable for the year in the loan agreement.

Available-for-sale assets:

Available for sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at fair value through determining their value through an active market. The gain or loss arising from a change in the fair value of an available-for-sale financial asset shall be recognised in Other Comprehensive Income and Expenditure and taken to the Available-for-Sale Reserve.

22 - NATURE & EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Director of Finance & Business Improvement and the Finance Manager in Treasury, Insurance & VAT, under policies approved by the Council on 1st March 2017 in the Annual Treasury Management Strategy, which can be viewed on the Council's website – www.maidstone.gov.uk. A summary of the main points of the 2017/18 Treasury Management Strategy is also shown below.

The Council also provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These are set out in the Council's Treasury Management Practices, which are a requirement of CIPFA's Treasury Management Code of Practice, which has been adopted by the Council. Treasury Management indicators have also been set to control key financial instruments risks in accordance with CIPFA's Prudential Code. The Treasury Management Practices can also be viewed on the Council's website, at the above link.

Treasury Management Strategy 2017/18

A summary of the main points of the strategy is as follows:

- To run down balances to fund the Capital Programme until such a time that prudential borrowing will be needed.
- Majority of funds invested short term to be available when needed to fund the Council's liabilities. Longer term investment limit reduced from £8m down to £5m.
- No borrowing is expected within 2017/18, except for short term liquidity purposes.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice.

There are no credit limits set on the Council's customers, as the amounts involved are not considered sufficiently material to warrant the setting of such limits.

As at 31st March 2018 investments were held with the following institutions:

| | 31st March 2017 £000 | 31st March 2018 £000 |
|---------------------------|-------------------------------------|-------------------------------------|
| AAA rated Institutions | 5,810 | 1,400 |
| AA+ rated Institutions | 0 | 0 |
| AA rated Institutions | 2,046 | 0 |
| AA- rated Institutions | 0 | 3,000 |
| A+ rated Institutions | 0 | 6,000 |
| A rated Institutions | 8,000 | 0 |
| A- rated Institutions | 0 | 0 |
| BBB+ rated Institutions | 0 | 0 |
| Unrated Local Authorities | 0 | 7,000 |
| UK Government | 0 | 0 |
| Total | 15,856 | 17,400 |

Liquidity Risk

Liquidity risk arises from the Council having insufficient resources to meet its on-going commitments. The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money market, other local authorities and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to

meet its commitments under financial instruments. A borrowing provision of £4m exists for short term cash flow purposes, and there is also an overdraft facility of £0.5m available with Lloyds Bank. However provision has also been made with the current Treasury Management Strategy to have an authorised debt limit of £9.063m (£5.030m for capital programme) to fund on-going schemes in the event of projected capital receipts not being realised. This was not needed during the year.

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments to provide stability of maturities and returns in relation to the longer term cash flow needs.

Market Risk – Interest Rate Risk

As the Council did not find itself needing to borrow funds during 2017/18, except in the short term for cash flow reasons, its only risk is in relation to exposure to interest rate movements in its investments. This exposure is managed by use of Prudential Indicators, which set limits on the proportion of investments held at fixed and variable rates. These indicators are monitored on a daily basis. The main exposure to risk in this area is the use of investment Call Accounts, Enhanced Cash Funds and Money Market Funds which are linked to Base Rate. However the risk is considered to be small as these accounts are generally only used for the short-term investment of funds for cash flow purposes, and funds can be withdrawn on a daily basis. The risk exposure is summarised in the table below.

| | 31st March 2017 £000 | 31st March 2018 £000 |
|----------------------------------|-------------------------------------|-------------------------------------|
| Call Accounts/Money Market Funds | 8,856 | 10,400 |
| Receivables | 7,000 | 7,000 |
| Total | 15,856 | 17,400 |

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure.

The Council also makes use of interest rate forecasts and market data and advice provided by its Treasury Management advisors to ensure that investment income is maximised wherever possible.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

23 – DEBTORS

Short Term Debtors

| | 2016/17 £000 | 2017/18 £000 |
|--------------------------------|-----------------|-----------------|
| Central government bodies | 3,297 | 1,106 |
| Other local authorities | 4,833 | 4,159 |
| Other entities and individuals | 11,422 | 12,736 |
| Total | 19,552 | 18,001 |

The movement in the balances for Central Government and other local authorities is a reflection of the Council's membership of the Kent Business Rates Pool.

Provision for Bad Debts

| | 2016/17 £000 | 2017/18 £000 |
|----------------------------|-----------------|-----------------|
| Excess Charges Provision | 605 | 625 |
| Sundry Bad Debts Provision | 3,156 | 3,085 |
| Total | 3,761 | 3,710 |

The figure on the balance sheet represents Debtors less Provision for Bad Debts, which totals £14.291m.

Other entities and individuals within Short Term Debtors are broken down as follows:

| | £000 | £000 |
|-----------------------------|---------------|---------------|
| Council Tax payers | 881 | 948 |
| Business Rate payers | 1,636 | 1,358 |
| Capital debtors | 605 | 491 |
| General debtors | 6,798 | 8,280 |
| Payments in Advance | 584 | 696 |
| Other miscellaneous amounts | 918 | 963 |
| Total | 11,422 | 12,736 |

24 - CASH & CASH EQUIVALENTS

The balance of Cash & Cash Equivalents is made up of the following elements:

| | 2016/17 £000 | 2017/18 £000 |
|--------------------------|-----------------|-----------------|
| Cash held by the Council | 10 | 14 |
| Bank current accounts | (254) | (170) |
| Short-term deposits | 11,855 | 10,400 |
| Total | 11,610 | 10,244 |

The increase in short term deposits reflects a high level of funds held in short notice /liquid funds for Cash Flow purposes.

Accounting Policy – Cash & Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

25 – CREDITORS

Short Term

| | 2016/17 £000 | 2017/18 £000 |
|--------------------------------|-----------------|-----------------|
| Central government bodies | 2,845 | 1,593 |
| Other local authorities | 2,761 | 5,127 |
| Other entities and individuals | 5,970 | 7,513 |
| Total | 11,576 | 14,233 |

The movement in the balances for other local authorities is a reflection of the Council's membership of the Kent Business Rates Pool.

Other entities and individuals are broken down as follows:

| | 2016/17 £000 | 2017/18 £000 |
|----------------------|-----------------|-----------------|
| General creditors | 2,799 | 2,322 |
| Capital creditors | 141 | 462 |
| Council tax payers | 189 | 179 |
| Business Rate payers | 857 | 750 |
| Receipts in advance | 1,007 | 944 |
| Deposits | 936 | 2,785 |
| Retentions | 41 | 71 |
| Total | 5,970 | 7,513 |

26 - PROVISIONS

Provision for Business Rates Appeals

| | 2016/17 | 2017/18 |
|------------------------------------|--------------|--------------|
| | £000 | £000 |
| Business Rates Appeals - Current | 609 | 1,219 |
| Business Rates Appeals - Backdated | 2,437 | 1,087 |
| Total | 3,046 | 2,306 |

The Council is required to account for the effect of appeals which were previously borne by the national pool. The balance represents the Council's 40% share of the estimated current and backdated appeals.

The provision is split between long-term and short-term liabilities on the Balance Sheet.

Accounting Policy – Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant area.

Where some or all of the payment required to settle a provision is expected to be recovered from another party, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

27 - TRUST FUNDS

The Council is required to set out details of the nature and amount of trust funds where it acts as sole trustee, the only one of which is the Cobtree Manor Estate. The object of this trust is to hold Cobtree Manor and Cobtree Manor Estate for the benefit of the inhabitants of Maidstone and other members of the general public.

The assets and liabilities of the Trust as at 31st March 2018 are summarised in the following table. The figures for 2016/17 are the audited figures, which differ from those in the 2016/17 Statement of Accounts, as the audit took place after that was published.

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Fixed Assets: | | |
| Intangible Assets | 25 | 13 |
| Tangible Assets | 2,870 | 2,509 |
| Investment Property | 635 | 825 |
| Investments | 874 | 856 |
| | 4,404 | 4,203 |
| Current Assets | 190 | 223 |
| Current Liabilities | 78 | 97 |
| Total assets less current liabilities | 4,516 | 4,329 |
| Total Charitable Funds | 4,516 | 4,329 |

Gross expenditure in 2017/18 totalled £611,150 (£573,960 in 2016/17). Gross income in 2017/18 totalled £547,797 (£541,771 in 2016/17).

The accounts of the Trust are subject to a separate external audit.

28 - PRIVATE FINANCE INITIATIVES & SIMILAR CONTRACTS

The Council has no Private Finance Initiative Schemes, but the following scheme is a similar contract as it is defined as a service concession arrangement.

The Council entered into an agreement during 2009/10 with Serco, the managing contractor of Maidstone Leisure Centre, to undertake a major refurbishment of the centre. Under the terms of the agreement Serco have initially funded the cost of the works through a loan, and the Council are then repaying this loan over a 15 year term, by equal monthly instalments. The principal element of this loan is reflected on the Balance Sheet, and will be written down annually by the amount of principal repaid. Interest paid on the loan is charged to the Comprehensive Income & Expenditure Statement.

The annual principal repayments are credited to the Comprehensive Income & Expenditure Statement, and then reversed out of the Movement in Reserves Statement to the Capital Adjustment Account to reflect the fact that this is a repayment of debt, as this arrangement is classed as borrowing under the terms of the CIPFA Prudential Code for Capital.

Payments

| | 31st March 2017 £000 | 1st April 2017 (restated) £000 | 31st March 2018 £000 |
|---|-------------------------------|---|-------------------------------|
| Balance outstanding at start of year | 1,527 | 4,861 | 4,232 |
| Repayment of principal | (629) | (629) | (654) |
| Balance outstanding at end of year | 898 | 4,232 | 3,578 |

These figures are shown on the face of the Balance Sheet as Deferred Liabilities, and are split between the Short Term and Long Term elements.

Prior Period Error

The accounting treatment for this arrangement has been reviewed during the year, and the balance as at 31st March 2017 has been adjusted to reflect changes that have been made as a result. The principal element of the loan was £7.406m and this is written down annually by the value of the agreed repayments. In addition entries totalling £3.334m had been put through to reflect the value of the works that had been done to the leisure centre under the terms of the agreement with Serco.

However this caused the balance outstanding to not reconcile with the amount of principal due to be repaid, so upon review we believe this was incorrect treatment. The other side of the entries were debited to Property, Plant & Equipment (Land & Buildings), however these entries have subsequently been superseded by the revaluation of the leisure centre. It has therefore been decided that this balance should be corrected through the Capital Adjustment Account. As it was considered impracticable to determine the period specific effects of this error on earlier periods, the opening balance of the liability and unusable reserves at 1 April 2017 have been restated on the balance sheet and supporting notes.

The movements are summarised below:

Movement in Reserves Statement

| | 31st March 2017 £000 | 1st April 2017 (restated) £000 | 31st March 2018 £000 |
|---|-------------------------------|---|-------------------------------|
| Unusable reserves at 31st March 2016 | 16,074 | 12,740 | 902 |
| Increase or decrease in 2016 / 17 | (11,838) | (11,838) | 14,032 |
| Unusable reserves at 31st March / 1st April 2017 | 4,236 | 902 | 14,934 |

This reflects a movement of £3.334m within the capital adjustment account, reversing entries previously debited to the reserve in recognition of revaluation movements and capital additions to the leisure centre.

Balance Sheet

| | 31st March 2017 £000 | 1st April 2017 (restated) £000 | 31st March 2018 £000 |
|---|-------------------------------|---|-------------------------------|
| Balance outstanding at start of year | 1,527 | 4,861 | 4,232 |
| Repayment of principal | (629) | (629) | (654) |
| Balance outstanding at end of year | 898 | 4,232 | 3,578 |

This adjustment corrects the liability to show the actual balance outstanding under the Maidstone Leisure Centre contract.

Capital Adjustment Account

| | 31st March 2017 £000 | 1st April 2017 (restated) £000 | 31st March 2018 £000 |
|---|-------------------------------|---|-------------------------------|
| Balance at 31st March / 1st April 2016 | 57,603 | 54,269 | |
| Balance at 31st March / 1st April 2017 | 64,102 | 60,768 | 66,726 |

Accounting Policy – Deferred Liability

Deferred Liabilities are recognised under the terms of IFRIC 12 (IFRS Interpretations Committee) and the arrangement is recognised as a service concession, and accounted for accordingly. This generally involves the grantor (the Council) conveying to the operator (Serco) for the period of the concession the right to provide services that give the public access to major economic and social facilities, in this instance Maidstone Leisure Centre.

Accounting Policy – Minimum Revenue Provision

The Minimum Revenue Provision (MRP) is a statutory charge relating to the repayment of debt. It represents the Council's underlying need to borrow for capital expenditure. There is a general duty upon the Council to make an amount of MRP which it considers 'prudent'.

The Council has no borrowing, but has identified that it has contractual arrangements that are classified as finance leases under the requirements of IFRIC 4. The repayments under these leases therefore need to be treated as a borrowing arrangement. The MRP amount that is set aside is equivalent to the value of the annual principal repayments on the contracts.

29 – CAPITAL RECEIPTS RESERVE

This reserve contains the proceeds from the sale of non-current assets, which are used to fund capital expenditure, and forms part of the Usable Reserves section of the Movement in Reserves Statement. This section also includes Capital Grants Unapplied, Earmarked Reserves and the General Fund Balance.

| | 31st March 2017 £000 | 31st March 2018 £000 |
|------------------------------|-------------------------------------|-------------------------------------|
| Balance at 1st April | 325 | 437 |
| Capital Receipts Received | 1,071 | 897 |
| Capital Receipts Applied | (959) | (811) |
| Balance at 31st March | 437 | 523 |

30 - UNUSABLE RESERVE

| | 1st April 2017 (Original) | 31st March 2017 (Restated) £000 | 31st March 2018 £000 |
|------------------------------------|--|--|---|
| Revaluation Reserve | 26,751 | 26,751 | 28,036 |
| Capital Adjustment Account | 64,102 | 60,768 | 66,726 |
| Deferred Capital Receipts Reserve | 19 | 19 | 11 |
| Pensions Reserve | (81,534) | (81,534) | (77,618) |
| Collection Fund Adjustment Account | (4,912) | (4,912) | (2,037) |
| Accumulated Absences Account | (190) | (190) | (184) |
| Total Unusable Reserves | 4,236 | 902 | 14,934 |

Opening balances reflect an adjustment to the deferred liability relating to Maidstone Leisure Centre following identification of a prior period error. Full details are disclosed within note 28.

a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant & Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only the revaluation gains accumulated since 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| | 31st March 2017 £000 | 31st March 2018 £000 |
|---|-------------------------------------|-------------------------------------|
| Balance at 1st April | 26,223 | 26,751 |
| Upward revaluation of assets | 807 | 1,538 |
| Downward revaluation of assets | (243) | (188) |
| Additions and Disposals | 0 | (4) |
| Difference between fair value depreciation and historical cost depreciation | (35) | (61) |
| Balance at 31st March | 26,751 | 28,036 |

b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income & Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant & Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

The opening balance for 2016/17 has been adjusted to reflect the changes made to the deferred liability account as outlined in note 28.

| | 31st March 2017 £000 | 31st March 2018 £000 |
|---|-------------------------------------|-------------------------------------|
| Balance at 1st April | 54,269 | 60,768 |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement: | | |
| Charges for depreciation of non-current assets | (3,650) | (4,880) |
| Amortisation of intangible assets | (165) | (114) |
| Prior Year Adjustments | 72 | (58) |
| Revaluation Gains/Losses on Property, Plant & Equipment | (179) | 0 |
| Revenue expenditure funded from capital under statute | (2,527) | (1,109) |
| Write-off of non-enhancing capital expenditure | (83) | (195) |
| | (6,531) | (6,356) |
| Adjusting amounts written out of the Revaluation Reserve | 34 | (935) |
| Net written out amount of the cost of non-current assets consumed in the year | (6,497) | (7,291) |
| Capital financing applied in the year: | | |
| Sums set aside for Debt Repayment | 629 | 654 |
| Use of the Capital Receipts Reserve to finance new capital expenditure | 959 | 811 |
| Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing | 1,785 | 1,541 |
| Capital expenditure charged against the General Fund balance | 9,624 | 10,272 |
| | 12,997 | 13,278 |
| Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement | (0) | (29) |
| Balance at 31st March | 60,768 | 66,726 |

c) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income & Expenditure Statement as benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Opening balance at 1 April | 64,641 | 81,534 |
| Remeasurements of the net defined liability | 14,603 | (7,567) |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 5,691 | 7,013 |
| Employer's pensions contributions | (3,401) | (3,362) |
| Closing balance at 31 March | 81,534 | 77,618 |

d) Collection Fund Adjustment Account

| | 31st March 2017 £000 | 31st March 2018 £000 |
|--|----------------------------|----------------------------|
| Balance at 1st April | 2,957 | 4,912 |
| Amount by which council tax and non-domestic rates income credited to the Comprehensive Income & Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements | | |
| - Council Tax | 99 | (388) |
| - Non-domestic Rates | 1,856 | (2,487) |
| Balance at 31st March | 4,912 | 2,037 |

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

31 - CAPITAL EXPENDITURE & CAPITAL FUNDING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it.

| | 2016/17 £000 | 2017/18 £000 |
|---|-----------------|-----------------|
| Capital Investment | | |
| Property, Plant & Equipment | 9,533 | 7,521 |
| Investment Properties | 38 | 3,657 |
| Intangible Assets | 182 | 142 |
| Non-enhancing capital expenditure | 88 | 195 |
| Revenue Expenditure Funded from Capital Under Statute | 2,527 | 1,109 |
| | 12,368 | 12,624 |
| Sources of Finance | | |
| Capital receipts | 959 | 811 |
| Government grants & other contributions | 1,785 | 1,541 |
| New Homes Bonus | 9,287 | 9,815 |
| Other Revenue Contributions | 337 | 457 |
| | 12,368 | 12,624 |

The increase in Investment Properties includes the acquisition of a number of new industrial units on the Parkwood Trading Estate.

Accounting Policy – Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of council tax.

32 - DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time the employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Due to the adoption of the 2011 amendments to the International Accounting Standard (IAS) 19 Employee Benefits, there are now classes of components of defined benefit cost to be included in the financial statements, i.e. net interest on the net defined benefit liability and re-measurements of the net defined benefit liability.

Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make

against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income & Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| | 2016/17 | 2017/18 |
|---|----------------|----------------|
| | £000 | £000 |
| Comprehensive Income & Expenditure Statement (CI&ES) | | |
| Cost of Services: | | |
| Service cost comprising: | | |
| - Current service cost | 3,407 | 4,856 |
| - Past service costs including curtailments | 17 | 0 |
| Financing and Investment Income & Expenditure: | | |
| - Net interest expense | 2,267 | 2,157 |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 5,691 | 7,013 |
| Other Post Employment Benefit Charged to the CI&ES | | |
| Remeasurement of the net defined benefit liability comprising: | | |
| - Return on plan assets (excluding the amount included in net interest expense) | 14,979 | 717 |
| - Actuarial gains and losses arising on changes in financial assumptions | (35,909) | 6,850 |
| - Actuarial gains and losses arising on changes in demographic assumptions | 3,244 | 0 |
| - Experience gains and losses on defined benefit obligation | 3,015 | 0 |
| - Other actuarial gains and losses | 68 | 0 |
| Total Post Employment Benefit Charged to the CI&ES | (8,912) | 14,580 |
| Movement in Reserves Statement: | | |
| - Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | 5,691 | 7,013 |
| Actual amount charged against the General Fund Balance for pensions in the year: | | |
| - Employers' contributions payable to the scheme | (3,401) | (3,362) |

Curtailments

There were no employees who become entitled to unreduced early retirement benefits during the year.

Settlements

There were no liabilities settled at a cost materially different to the accounting reserve as a result of members transferring to / from another employer over the year (2016/17 £nil).

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

| | 2016/17 | 2017/18 |
|--|---------------|---------------|
| | £000 | £000 |
| Present value of funded obligation | 183,756 | 182,032 |
| Fair value of plan assets | 104,482 | 106,524 |
| Contributions by scheme participants | 79,274 | 75,508 |
| Present value of unfunded obligation | 2,260 | 2,110 |
| Net liability arising from defined benefit obligation | 81,534 | 77,618 |

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

| | 2016/17 | 2017/18 |
|---|----------------|----------------|
| | £000 | £000 |
| Opening fair value of Scheme assets | 87,447 | 104,482 |
| Interest on assets | 3,128 | 2,801 |
| Return on assets less interest | 15,035 | 769 |
| Actuarial gains/losses | 68 | 0 |
| Administration expenses | (56) | (52) |
| Contributions by employer including unfunded | 3,401 | 3,362 |
| Contributions paid by scheme participants | 843 | 829 |
| Estimated benefits paid plus unfunded net of transfers in | (5,384) | (5,667) |
| Closing fair value of Scheme assets | 104,482 | 106,524 |

Reconciliation of Present Value of Scheme Liabilities (Defined Benefit Obligation)

| | 2016/17 | 2017/18 |
|--|------------|----------------|
| | £000 | £000 |
| Opening balance at 1 April | 152,088 | 186,016 |
| Current Service cost | 3,407 | 4,856 |
| Interest cost | 5,395 | 4,958 |
| Remeasurement (gains) and losses | | |
| - Change in financial assumptions | 35,909 | (6,850) |
| - Experience loss/(gain) on defined benefit obligation | (3,015) | 0 |
| Changes in demographic assumptions | (3,244) | 0 |
| Past service costs, including curtailments | 17 | 0 |
| Estimated benefits paid net of transfers in | (5,211) | (5,498) |
| Contributions by Scheme participants | 843 | 829 |
| Unfunded pension payments | (173) | (169) |
| Closing balance at 31 March | 168 | 184,142 |

Local Government Pension Scheme Assets

| | 31st March 2017 | | 31st March 2018 | |
|----------------------|-----------------|---------------|-----------------|---------------|
| | £000 | % | £000 | % |
| Equities | 73,738 | 70.6% | 71,083 | 66.7% |
| Gilts | 779 | 0.7% | 815 | 0.8% |
| Other Bonds | 10,178 | 9.7% | 10,185 | 9.6% |
| Property | 13,020 | 12.5% | 13,394 | 12.6% |
| Cash | 2,669 | 2.6% | 3,530 | 3.3% |
| Absolute return fund | 4,098 | 3.9% | 7,517 | 7.1% |
| Total | 104,482 | 100.0% | 106,524 | 100.0% |

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels, etc.

The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the Kent County Council Pension Fund are based on the full valuation of the scheme as at 31st March 2016.

The principal assumptions used by the actuary have been:

| | 2016/17 | 2017/18 |
|--|---------|---------|
| Long-term expected rate of return of assets in the scheme | | |
| Mortality Assumptions | | |
| Longevity at 65 for current pensioners | | |
| - Men | 23.0 | 23.1 |
| - Women | 25.0 | 25.2 |
| Longevity at 65 for future pensioners | | |
| - Men | 25.1 | 25.3 |
| - Women | 27.4 | 27.5 |
| Financial Assumptions | | |
| RPI increases | 3.60% | 3.35% |
| CPI increases | 2.70% | 2.35% |
| Salary increases | 4.20% | 3.85% |
| Pension increases | 2.70% | 2.35% |
| Discount Rate | 2.70% | 2.55% |

The long term assumption made by the actuary is that salaries will increase at 1.5% p.a. above CPI. However, a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI has been allowed for, which is broadly in line with the assumptions made by the Council at budget setting stage.

Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases similarly for men and women. In practice, this is unlikely to occur. Changes in some of the assumptions may also be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumption used in preparing the sensitivity analysis below did not change from those used in the previous period.

| Sensitivity Analysis | £000 | £000 | £000 |
|--|---------|---------|---------|
| Adjustment to discount rate | +0.1% | 0.0% | -0.1% |
| - Present Value of Total Obligation | 180,906 | 184,142 | 187,440 |
| - Projected Service Cost | 4,455 | 4,570 | 4,688 |
| Adjustment to long-term salary increase | +0.1% | 0.0% | -0.1% |
| - Present Value of Total Obligation | 184,473 | 184,142 | 183,814 |
| - Projected Service Cost | 4,570 | 4,570 | 4,570 |
| Adjustment to pension increases and deferred revaluation | +0.1% | 0.0% | -0.1% |
| - Present Value of Total Obligation | 187,113 | 184,142 | 181,224 |
| - Projected Service Cost | 4,688 | 4,570 | 4,455 |
| Adjustment to mortality age rating | +1 Year | None | -1 Year |
| - Present Value of Total Obligation | 191,203 | 184,142 | 177,351 |
| - Projected Service Cost | 4,716 | 4,570 | 4,429 |

Scheme History

| | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Present value of defined benefit obligation in the Local Government Pension Scheme | (133,772) | (155,811) | (149,896) | (183,756) | (182,032) |
| Fair value of assets in the Local Government Pension Scheme | 79,694 | 87,531 | 87,447 | 104,482 | 106,524 |
| Present value of unfunded obligation | (2,398) | (2,400) | (2,192) | (2,260) | (2,110) |
| Surplus/(Deficit) in the scheme | (56,476) | (70,680) | (64,641) | (81,534) | (77,618) |

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £77.618m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2019 are £3.222m.

Accounting Policy – Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any type of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pensions Scheme, administered by Kent County Council (KCC). The Scheme is accounted for as a defined benefits scheme:

- The liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate specified by the actuaries (based on the indicative rate of return on high quality corporate bonds.)
- The assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value
- The change in net pensions liability is analysed into the following components:
 - Service cost which comprises:
 - Current service cost – the increase in liabilities as a result of years of service earned in the current year – allocated in the Comprehensive Income & Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement.
 - Net interest on the net defined benefit liability, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing & Investment Income & Expenditure line of the Comprehensive Income & Expenditure Statement.
 - Re-measurements comprising:
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This charged to the Pensions Reserve as Other Comprehensive Income & Expenditure.
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability. This charged to the Pensions Reserve as Other Comprehensive Income & Expenditure.
 - Contributions paid to the Kent County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with

debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The most recent actuarial valuation to determine contributions was on 31 March 2016.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

33 – LEASES

Finance Leases – Council as Lessee

The Council currently has a number of arrangements which it classifies as finance leases, covering the operation of the leisure centre, and vehicles used in the delivery of the park & ride contract.

The future minimum payments due under these arrangements in future years are:

| | 31st March 2017 £000 | 31st March 2018 £000 |
|--|-------------------------------------|-------------------------------------|
| Not more than 1 year | 778 | 694 |
| Later than 1 year and not later than 5 years | 2,663 | 2,815 |
| Later than 5 years | 905 | 309 |
| | 4,346 | 3,818 |

Accounting Policy - Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

34 – EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Director of Finance & Business Improvement on 31st May 2018. Events taking place after this date are not reflected in the financial statement or notes. Where events taking place before this date provided information about conditions existing at 31st March 2018 the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Accounting Policy – Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

35 – CASH FLOW STATEMENT - ADJUSTMENTS MADE TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

| | 2016/17 £000 | 2017/18 £000 |
|-----------------------------------|-----------------|-----------------|
| Depreciation | (3,650) | (4,881) |
| Revaluation Gains & Losses | (73) | (1,002) |
| Amortisation of Intangible Assets | (165) | (114) |
| Movement in Creditors | (1,091) | (862) |
| Movement in Debtors | (487) | 1,240 |
| Movement in Inventories | 47 | 10 |
| Movement in Pension Liabilities | (2,290) | (3,651) |
| Other Non-Cash items | (461) | 414 |
| | (8,170) | (8,846) |

36 - CASH FLOW STATEMENT - ADJUSTMENTS FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING & FINANCING ACTIVITIES

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Capital Grants credited to surplus or deficit on the provision of services | 1,785 | 1,541 |
| Proceeds from sale of Property, Plant & Equipment | 1,070 | 892 |
| | 2,855 | 2,433 |

37 - CASH FLOW STATEMENT – INVESTING ACTIVITIES

| | 2016/17 £000 | 2017/18 £000 |
|--|-----------------|-----------------|
| Purchase of property, plant & equipment, investment property and intangible assets | 9,544 | 11,346 |
| Purchase of short-term and long-term investments | 12,000 | 11,000 |
| Proceeds from the sale of property, plant & equipment, investment property and intangible assets | (706) | (896) |
| Proceeds from short-term and long-term investments | 0 | (8,000) |
| Other payments for investing activities | | 25 |
| Other receipts for investing activities (Grants) | (2,983) | (2,371) |
| Net cash flows from investing activities | 17,855 | 11,104 |

38 - CASH FLOW STATEMENT – FINANCING ACTIVITIES

| | 2016/17 £000 | 2017/18 £000 |
|---|-----------------|-----------------|
| Repayments of short & long-term borrowing | 629 | 655 |
| Other payments for financing activities | 2,045 | (4,264) |
| Net cash flows from financing activities | 2,674 | (3,609) |

COLLECTION FUND STATEMENT & NOTES

| 2016/17 £000 | | 2017/18 £000 £000 | |
|--------------------|---|---------------------------|----------------|
| INCOME | | | |
| 95,899 | Income From Council Tax | | 102,372 |
| 60,507 | Income From Business Rates (Note 2) | | 56,877 |
| | Transfers from General Fund | | |
| 156,406 | Total Income | | 159,249 |
| EXPENDITURE | | | |
| | Precepts and Demands - Council Tax | | |
| 67,048 | Kent County Council | 70,477 | |
| 9,000 | Kent Police & Crime Commissioner | 9,396 | |
| 15,751 | Maidstone Borough Council | 16,361 | |
| 4,260 | Kent Fire & Rescue Authority | 4,386 | |
| | | | 100,620 |
| | Shares of Business Rates | | |
| 31,342 | Central Government | 24,756 | |
| 5,642 | Kent County Council | 4,466 | |
| 25,073 | Maidstone Borough Council | 19,943 | |
| 627 | Kent Fire & Rescue Authority | 496 | |
| | | | 49,661 |
| 94 | Transitional Protection Payments - Business Rates | | 2,356 |
| | Impairment of Debts - Council Tax | | |
| 138 | Write offs of uncollectable amounts | 254 | |
| 279 | Additional / (Reduced) Impairment of Aged Debt | (904) | |
| | | | (650) |
| | Impairment of Debts/Appeals - Business Rates | | |
| 817 | Write offs of uncollectable amounts | 645 | |
| 18 | Additional / (Reduced) Impairment of Aged Debt | (255) | |
| (1,274) | Losses on appeal | (2,857) | |
| 2,601 | Additional / (Reduced) Provision For Appeals | 1,008 | |
| | | | (1,459) |
| 206 | Cost of Collection Allowance - Business Rates | | 204 |
| 161,622 | Total Expenditure | | 150,732 |
| (5,216) | Surplus/(Deficit) For Year | | 8,517 |
| (6,355) | Surplus/(Deficit) Brought Forward From Previous Years | | (11,571) |
| 1,186 | Surplus/(Deficit) on Council Tax | | 3,601 |
| (12,757) | Surplus/(Deficit) on Business Rates | | (6,641) |
| (11,571) | Surplus/(Deficit) as at 31st March 2018 | | (3,040) |

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of this council in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. Respective shares of Balance Sheet items are consolidated into the accounts of billing and precepting authorities.

Notes to the Collection Fund

Note 1 – Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating, for this specific purpose, 1 April 1991 values. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, the Kent Police & Crime Commissioner Kent Fire & Rescue Authority and this Council for the forthcoming year and dividing this by the council tax base which is the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts: 59,439.3 for 2017/18 (58,525.4 for 2016/17) (see table below.) This basic amount of council tax for a Band D property, £1,654.93 for 2017/18, (£1,597.31 for 2016/17) is multiplied by the proportion specified for the particular band to give an individual amount due. Parish Precepts are added to this basic amount.

The bands, number of dwellings in each, the multiplier for each and the resultant tax base are detailed in the table below.

| Band | Number of Dwellings | Multiplier | Council Tax Base |
|-------------------------------|---------------------|------------|------------------|
| Band A (incl disabled relief) | 0 | 5/9 | 0.0 |
| Band A | 2,381 | 6/9 | 1,587.4 |
| Band B | 5,896 | 7/9 | 4,585.9 |
| Band C | 14,665 | 8/9 | 13,035.6 |
| Band D | 15,566 | 9/9 | 15,566.3 |
| Band E | 8,532 | 11/9 | 10,428.4 |
| Band F | 4,960 | 13/9 | 7,164.2 |
| Band G | 3,723 | 15/9 | 6,205.1 |
| Band H | 323 | 18/9 | 646.8 |
| Other | | | 219.5 |
| | | | 59,439.3 |

Note 2 - Business (Non-domestic) Rates

The Council collects business rates for its area based on rateable values (as determined by the Valuation Office Agency) and multipliers set by central government. There are two multipliers:

- Standard Multiplier 47.9p / £ Rateable Value (49.7p in 2016/17)
- Small Business Multiplier 46.6p / £ Rateable Value (48.4p in 2016/17)

The rateable value at 31st March 2018 was £145.132m (£142.241m at 31st March 2017).

For 2017/18, it was calculated that the Council would receive £22.716m in business rates (£24.059m in 2016/17).

Maidstone Borough Council's share of this is 40%, with the remainder distributed to central government (50%), Kent County Council (9%) and Kent Fire & Rescue Authority (1%).

A system of Tariff and Top-Up payments operates on the localised shares distributed to local government bodies. A significant proportion of Maidstone's retained share (£18.059m in 2017/18, £19.654m in 2016/17) is subsequently topsliced and returned to DCLG for redistribution across local government.

A further Safety Net or Levy system acts to ensure that any local authority is protected from a net localised business rate yield of less than 92.5% of its Baseline Funding level set by the government. In these circumstances a local authority will receive a Safety Net grant. This grant is paid for by imposing a 50% levy on localised business rate receipts in excess of their Baseline Funding level.

For 2017/18 Maidstone Borough Council participated in a pooled arrangement with Kent County Council, Kent Fire and Rescue Authority and nine other district councils in order to minimise the levy payment due to central government and thereby maximise retention of locally generated business rates.

Business Rates surpluses/deficits declared by the Billing Authority in relation to the Collection Fund are apportioned to the relevant precepting bodies and Government in the subsequent financial year in their respective proportions.

GLOSSARY OF TERMS

ACCOUNTING POLICIES

The specific policies and procedures used by the Council to prepare the Statement of Accounts. These include any methods, measurement systems and procedures for presenting disclosures.

ACCOUNTS

Statement aggregating items of income and expenditure and assets and liabilities. The accounts may show detailed transactions for every activity (generally used for management and control purposes during a financial year) or be summarised to show the overall position at the end of the period. The latter are known as final accounts and show both the net surplus (profit) or deficit (loss) and a balance sheet of the assets, liabilities and other balances at the end of the accounting period. Councils are required to publish a Statement of Accounts as specified in the Accounts and Audit Regulations 2011.

ASSETS HELD FOR SALE

Assets that the Council are actively marketing for sale, and for which there is a reasonable expectation that the sale will take place within one year of the Balance Sheet date.

BALANCE SHEET

A statement of the assets, liabilities and other balances of the Council at the end of an accounting period.

BALANCES

Capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the general fund or any other account. Revenue balances may be utilised to provide for unforeseen circumstances, to ensure that payments can be made pending the receipt of income, and if justified they may be used to reduce the collection fund levy.

CAPITAL EXPENDITURE

Generally, expenditure which is of value to the Council in the provision of services beyond the end of the financial year in which it was incurred, e.g. purchase of land and buildings, construction or improvement of buildings.

CAPITAL FINANCING

The raising of money to pay for capital expenditure. Usually the cost of capital assets is met by borrowing, but capital expenditure may also be financed by other means such as leasing, contributions from the revenue accounts, the proceeds of the sale of capital assets, capital grants, reserves and other contributions.

CAPITAL RECEIPTS

Proceeds from the sale of capital assets. Capital receipts can be used to repay the debt on assets financed from loan or to finance new capital expenditure, subject to compliance with statutory requirements.

COLLECTION FUND

Councils that collect precepts and non-domestic rates on behalf of other authorities are required to maintain a Collection Fund to summarise the collection and payments of precepts, and any associated adjustments.

CREDITORS

Amounts owed by the Council for work done, goods received, or services rendered but for which payment had not been made at the date of the balance sheet.

DEBTORS

Sums of money due to the Council but unpaid at the balance sheet date.

DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful economic life of a non-current asset, whether arising from use, passage of time or obsolescence through technological or other changes.

GENERAL FUND

The main revenue account of a charging authority that summarises the cost of all services provided by the Council.

HERITAGE ASSETS

Heritage Assets are defined as assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge or culture.

INTANGIBLE ASSETS

Intangible assets are assets that do not have a physical substance but are identifiable and controlled by the Council, such as computer software.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

These are the accounting standards (as adapted for the public sector) that the Council are required to follow when preparing the annual Statement of Accounts.

INVESTMENT PROPERTIES

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

PROPERTY, PLANT & EQUIPMENT

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

REVENUE EXPENDITURE FUNDED FROM CAPITAL BY STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of property, plant or equipment, and is charged as expenditure to the relevant service revenue account in the year.

REVENUE SUPPORT GRANT

A general grant paid by central government to local authorities to help finance the cost of services. It is paid to charging authorities for credit to the Collection Fund.

REVENUE ACCOUNT

An account which records the day to day expenditure and income of the Council on such items as salaries and wages, running costs of services, the purchase of consumable materials and equipment, and the financing costs of capital assets.

SUPPORT SERVICES

An allocation of the net cost of the administrative and professional departments which provide support for all the Council's services (e.g. Executive Services, Finance, Personnel), together with the costs of pooled administrative buildings.

USABLE CAPITAL RECEIPTS

Funds received by an authority from the sale of capital assets that have yet to be used to finance capital expenditure or repay debt.

UNUSABLE RESERVES

These are non-cash reserves that are kept to manage the accounting processes for non-current assets, retirement benefits and employee benefits and do not represent usable resources for the Council.

USABLE RESERVES

These are funds available to the Council and represent specific amounts set-aside for future policy purposes or earmarked purposes, including the General Fund and the Capital Receipts Reserve.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAIDSTONE BOROUGH COUNCIL

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Maidstone Borough Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Business Improvement's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Business Improvement has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance and Business Improvement is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not

cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Director of Finance and Business Improvement and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Business Improvement. The Director of Finance and Business Improvement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair

view, and for such internal control as the Director of Finance and Business Improvement determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Business Improvement is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit, Governance and Standards Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Darren Wells
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

30 July 2018

Appendix A

Annual Governance Statement 2017/18

Introduction

The Annual Governance Statement is a review of the council's governance arrangements in 2017-18. The statement evaluates how we meet the governance framework and provides an opinion on whether the current governance arrangements are fit for purpose.

Our Responsibilities

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

The Council's section 151 Officer and the Monitoring Officer are key members of the Corporate Leadership Team, reviewing all decisions taken through Leadership Team, Committees and Full Council. The Section 151 officer has a number of statutory duties, including the duty to report any unlawful financial activity involving the authority (past, present or proposed) or failure to set or keep to a balanced budget. The Section 151 officer also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit. The Monitoring Officer serves as the guardian of the Council's Constitution and the decision-making process. They are responsible for advising the Council on the legality of its decisions and providing guidance to councillors and officers on the Council's Constitution and its powers. The Corporate Leadership Team is led by the Chief Executive who is the Council's chief policy advisor with overall corporate management and operational responsibility.

The Council operates a committee system of governance and the Leader is the Council's political and elected head, the focus for political direction and the chief spokesperson for the Borough. The Leader is also Chair of Policy and Resources Committee. The Council has four service based committees taking decisions within their terms of reference as agreed by full council, individual councillors do not have the power to make decisions. In addition there are committees that deal with licensing, planning, audit, governance and standards; democracy; urgent matters employment and other regulatory matters.

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

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) and Society of Local Authority Chief Executive's (SOLACE) Framework [Delivering Good Governance in Local Government Guidance Notes for English Authorities](#) 2016.

Our Governance Framework

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

The monitoring of Corporate Governance has a high priority at the Council. The Head of Policy, Communications and Governance is responsible for Corporate Governance. A small working group made up of the Head of Finance, the Head of Legal services (Monitoring Officer) and the Head of Policy and Communications assisted by the Head of Audit Partnership reports biannually to the Corporate Leadership Team and the Audit, Governance and Standards Committee on governance matters.

This governance framework has been in place at Maidstone Borough Council for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts.

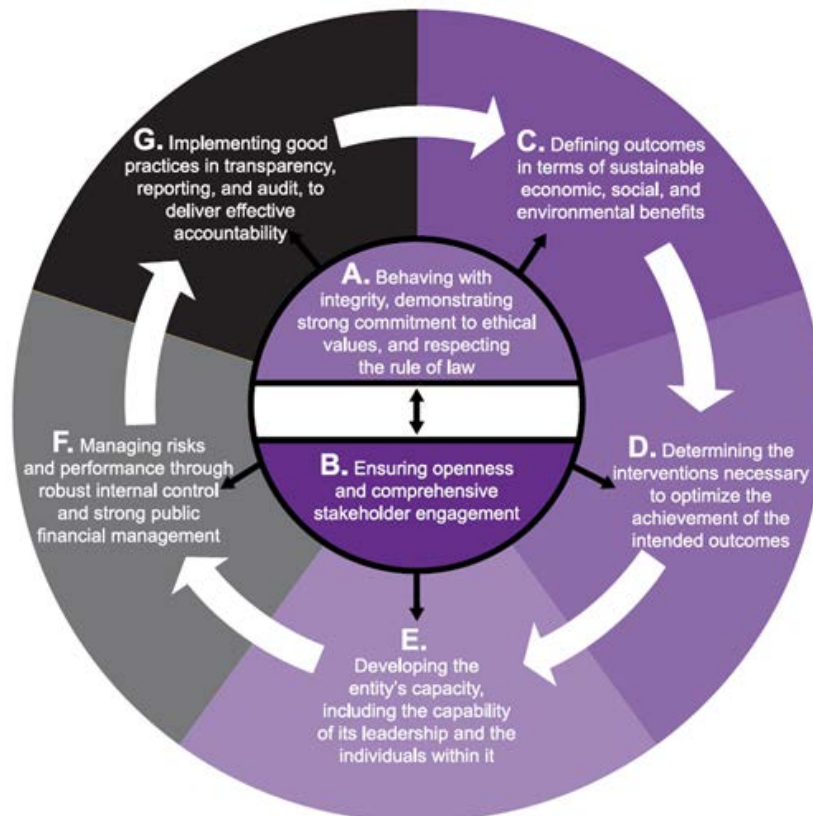
The International Framework: Good Governance in the Public Sector states that

“Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.”

Our Local Code sets out the framework within which we conduct our business and affairs and the governance structure we have in place. Whilst this code sets out principles, processes and policies, it is the application of the framework that will demonstrate good governance.

Below is a review of how we have demonstrated and met those principles in 2017-18.

The 7 Principles



Review of Effectiveness

1) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law

The Council adopted a new local code of corporate governance in 2017 which complies with the latest CIPFA and SOLACE “Delivering Good Governance in Local Government”.

The Council also has in place a local code of conduct for Councillors and a code of conduct for staff. Code of Conduct training is carried out annually for Councillors and included in the new councillor induction programme. Information on the code of conduct is set out in the staff handbook and is included in the induction for all new employees.

A [Register of Interests](#) is maintained and training is offered to councillors on standards, interests and our code of conduct. Councillor and Officer codes of conduct are in place. A register of gifts and hospitality is maintained and staff are regularly reminded to complete this. Information on conduct is included in our Staff Handbook.

The [Audit, Governance and Standards Committee](#)'s purpose is to promote and maintain high standards of Councillor and Officer conduct within the Council. The Committee has responsibility for adopting and reviewing the Annual Governance Statement, independent assurance of the adequacy of the financial and risk management framework and the associated control environment.

We have a clearly defined set of core values that are embedded at the Council. They form part of our competency framework and are used as part of the appraisal process. Annually we hold a staff awards event for those who have demonstrated they have exceeded the standards by going above and beyond the expected in their behaviour in relation to:

- Service
- Teamwork
- Responsibility
- Integrity
- Value
- Equality

There is an [Equality Policy](#) in place for the organisation. A new equality policy and objectives were agreed in 2017-18.

The Democracy Committee approved a member development programme that included training on interests and conduct. The Programme is focused on the following areas for Member Development:

- Support and build on existing skills for their role in the community now and in the future
- Support and build on existing skills for the various roles undertaken within and on behalf of the Council

The constitution is kept under review by the Democracy Committee and the Monitoring Officer, with changes agreed by full Council.

2) Ensuring openness and comprehensive stakeholder engagement

The Policy and Information Team and Communications Team work together with teams across the Council to ensure consultation is run consistently and effectively and is well communicated to all stakeholders. This collaborative working enables the teams to more effectively manage the consultation process, and in particular, better manage barriers such as consultation fatigue. Recognising the importance of effective engagement with our stakeholders, the Council became a member of the Consultation Institute earlier in the year, which provides a wealth of resources and insight. Officers are currently undertaking accredited training via the Institute to further improve our approach and processes.

A Member Sounding Board is in place to consider how Councillors engage with officers, carry out public consultation and engagement, share information as well as get involved in communications projects such as the residents' survey. This has ensured Councillors have an opportunity at an early stage to influence public engagement. The Board was involved in the development of the 2017 resident survey, the Council magazine Borough Insight and the redevelopment of our website.

Over the course of 2017-18 we have carried out a number of consultations and surveys. Our largest was the Resident Survey 2017 which had over 2,000 responses. Other consultations included taxi licensing, the low emission strategy, park and ride and council tax.

The Council has a Communication and Engagement Action Plan in place which is reviewed annually and approved by the Policy and Resources Committee. We also have a Statement of Community Involvement Plan in place for planning covering a whole variety of means of communicating with and involving residents.

We believe in transparency and have a large amount of information available on the [data and information](#) pages of our website including details of payments to suppliers, decision notices, performance information, a list of our assets and senior staff salaries. We have dealt with a large volume of FOI requests in 2017-18, processing 98% on time.

The Council takes up opportunities to engage with partners and stakeholders through avenues such as the Developers' Forum, Parish Liaison meetings, Maidstone Destination Management Plan, BME forum, Children and Young People forum, Voluntary and Community Services focus group, Disability Network and Older Person's Forum.

3) Defining outcomes in terms of sustainable economic, social, and environmental benefits.

The Council has a clear vision set out in the Strategic Plan. The [Strategic Plan](#) is refreshed annually. In 2017/18 we refreshed and updated the Strategic Plan. This was led by Committees using information from the resident survey. Outcomes are measured through strategy action plan updates, performance measures and targets which are reported regularly to Wider Leadership Team and the Service Committees. To ensure the delivery of the strategic plan priorities and actions, each service is required to produce a service plan and individuals also identify how they meet the priorities in their objectives for the year. The Investors in People (IIP) review in January

2017 identified Strategic Planning as a strength, “Staff clearly understand the challenges ahead and all take part in discussing service plans and their contribution.”

Our corporate report template requires report authors to identify how decisions align with the Council’s priorities and show the options that have been considered and the impact of the recommended course of action. We have a robust risk management framework in place.

4) Determining the interventions necessary to optimise the achievement of the intended outcomes

The [Council's Constitution](#) clearly defines the roles and responsibilities of Officers and Councillors. The Head of Legal Partnership has reviewed the constitutional arrangements and made recommendations for amendment in 2017/18.

The Council’s four service committees are responsible for making decisions on the services delivered by the Council. The four service committees, Democracy Committee and Audit, Governance and Standards Committee all have work programmes in place. These programmes detail the decisions and reports for the year and are reviewed monthly by each committee. Details of committees and their work can be found on our [website](#).

Performance is reported on a quarterly basis to each service committee as well as updates on plans and strategies throughout the year.

The highest level risks on the Comprehensive [Risk Register](#) were reported and monitored by Corporate Leadership Team throughout the year, and action taken to manage risks to an acceptable level. Further to this, risk updates were reported to Policy & Resources Committee and also to Audit, Governance and Standards Committee during the year for oversight and challenge.

5) Developing the entity’s capacity, including the capability of its leadership and the individuals within it

The Council in 2017 was accredited Silver following an Investors in People assessment. To achieve this level the council had to demonstrate that we have in place regular appraisals, service plans, learning and development activities, recruitment and selection procedures as well as a clear strategic vision, good leadership and strong corporate values.

The appraisal process for staff includes a personal development section where staff are encouraged to think about development needs and identify training required. This information is then fed into the Learning and Development team and assists with the development of the programme for the year. The Council has a management toolkit and training programme and introduced the “Maidstone manager” in 2017-18 which sets out the behaviour and standards that are expected of managers.

The Council has a learning and development programme in place for officers and councillors. This has been assessed as good in the IIP assessment. There is a wide variety of training offered to staff and councillors.

6) Managing risks and performance through robust internal control and strong public financial management

The council has in place a robust risk management framework and guidance. During December 2015 senior officers and Members from the Council took part in a risk identification workshop facilitated by Grant Thornton. This resulted in the identification of risks that operate at a corporate level. In February 2017 risks were re-assessed and any planned controls documented.

The risk register is reviewed regularly and reported to the Council's Leadership Team and Policy and Resources Committee. The Corporate report template includes guidance on risk assessment and requires report authors to assess risk implications.

Performance reports aligned to the Council's priorities are reported to the wider leadership team and service committees. Service committees carry out policy and strategy development. Financial performance is reported to all the service committees on a quarterly basis. Monthly budget spending is reported to budget holders and quarterly review meetings with the Director of Finance and Business Improvement are in place. The corporate report template requires information explaining the legal and financial impact of decisions and the S151 Officer and Monitoring Officer are required to comment on financial and legal implications of reports.

The Council has an anti-fraud and corruption policy in place and a whistle blowing policy.

6) Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Council's website includes information that is required under transparency. We publish a narrative report as part of our Statement of Accounts which includes our performance, progress against priorities and financial performance. We report the results of public consultation on our website and our committee meetings are webcast.

The annual governance statement and action plan is published on-line and reported to the Audit, Governance and Standards Committee.

Internal Audit Opinion

The Head of Internal Audit will present the annual report and opinion to Audit, Governance and Standards Committee on 30 July 2018. The specific extract of that report that includes the opinion reads:

Internal Control

I am satisfied that during the year ended 31 March 2018 the Council managed a system of internal control that offers sound assurance on control effectiveness.

Governance

I am satisfied that the Council's corporate governance arrangements for the year ended 31 March 2018 comply in all material respects with guidance on proper practices.

Risk Management

I am satisfied the risk management arrangements at the Council for the year ended 31 March 2018 are effective and provide sound assurance.

In addition, the report notes findings at a weak assurance level on *accounts receivable, procurement and land charges*. These are included among the governance actions below.

Governance actions 2017-18 - Update

| Governance Issue | Action Taken |
|--|--|
| Engaging with local people <ul style="list-style-type: none"> Implementing new Customer Service Standards Refresh of the Communication and Engagement Strategy | <ul style="list-style-type: none"> New Customer Service Standards in place Resident Survey 2017 undertaken Communication and Engagement Strategy updated 3 editions of Borough Insight delivered |
| Member and Officer Relationships <ul style="list-style-type: none"> Externally led away day Member Bulletin | <ul style="list-style-type: none"> Externally led away day held Monthly member bulletin introduced |
| Risk Management <ul style="list-style-type: none"> Setting the risk appetite Improving report writing in relation to risk | <ul style="list-style-type: none"> New report writing template agreed Risk appetite agreed |
| Decision Making <ul style="list-style-type: none"> Improving report writing Officers trained to deliver accurate procedural advice in meetings | <ul style="list-style-type: none"> New report template in place Training for report authors delivered Training for democratic services staff |
| Information Management <ul style="list-style-type: none"> Ensure the council is compliant with the new General Data Protection Regulations (GDPR) | <ul style="list-style-type: none"> Action plan in place. Further action identified for summer 2018. Progress has been reported to Leadership Team and Audit, Governance and Standards Committee E-learning module and team talks rolled out across the council Briefings held for councillors |
| Contract Management <ul style="list-style-type: none"> Improving consistency and effectiveness of contract management across the council | <ul style="list-style-type: none"> Contracts and Compliance Officer was appointed September 2017 Review of contract management processes completed Management actions being undertaken to address recommendations identified in the Internal Audit review of Procurement. |
| Audit Reviews with weak assurance Hazlitt Theatre Health & Safety Park and Ride Performance Management | <p>All recommendations implemented and reassessed as sound</p> <p>All recommendations implemented and reassessed as sound</p> <p>All recommendations implemented and reassessed as sound</p> <p>1 high priority and 1 medium priority recommendations outstanding and reassessed as sound in March 2018</p> |

Governance Actions for 2018-19

We do not consider there are any significant governance issues arising from the review; we have however identified actions to ensure good standards of governance are maintained. Updates on the actions will be provided to the Audit Governance and Standards Committee on a six monthly basis and kept under review by the Corporate Governance Group.

| Governance Issue | Action |
|--|--|
| Develop a clear and consistent strategic narrative with agreed vision and priorities | <p>The Strategic Plan will be revised one year ahead of schedule to ensure that the review of the Local Plan flows from an up to date agreed strategic vision</p> <p>Timetable to be set out in report to Policy and Resources</p> <p>Member workshop 12 June 2018</p> |
| <p>Audit Reviews with weak assurance:</p> <ul style="list-style-type: none"> • Accounts receivable (focused on debt recovery) • Procurement (focused on small to medium contracts) • Land charges (focused on controls between partner authorities) | Recommended actions implemented |
| Stress Survey | Implement actions arising from the stress survey results to improve organisational resilience |
| PCI compliance | Completion of compliance project to ensure the council is fully compliant |
| Procurement | <p>Completion of audit recommendations</p> <p>Amendment to constitution</p> <p>Training rolled out for all staff involved in procurement.</p> |
| <p>Risks that are marked as red in the risk appetite</p> <p>Failure to deliver commercial strategy: As a result of restrictions in market opportunities, staff skills or changes in Member consensus the Council is unable to deliver its' commercial ambitions</p> | <p>Regular update reports to Policy & Resources Committee</p> <p>Corporate Projects team in place to ensure delivery of projects</p> <p>Develop a more detailed delivery plan for approval of Policy & Resources Committee</p> <p>Provide training for relevant officers</p> |

Conclusion

Overall we are compliant and our governance arrangements are fit for purpose.

A number of issues have been identified to ensure we maintain good governance standards in 2018-19
The actions we propose to take are set out in the table above.

Signed:

Chief Executive:

Date:

Leader of the Council:

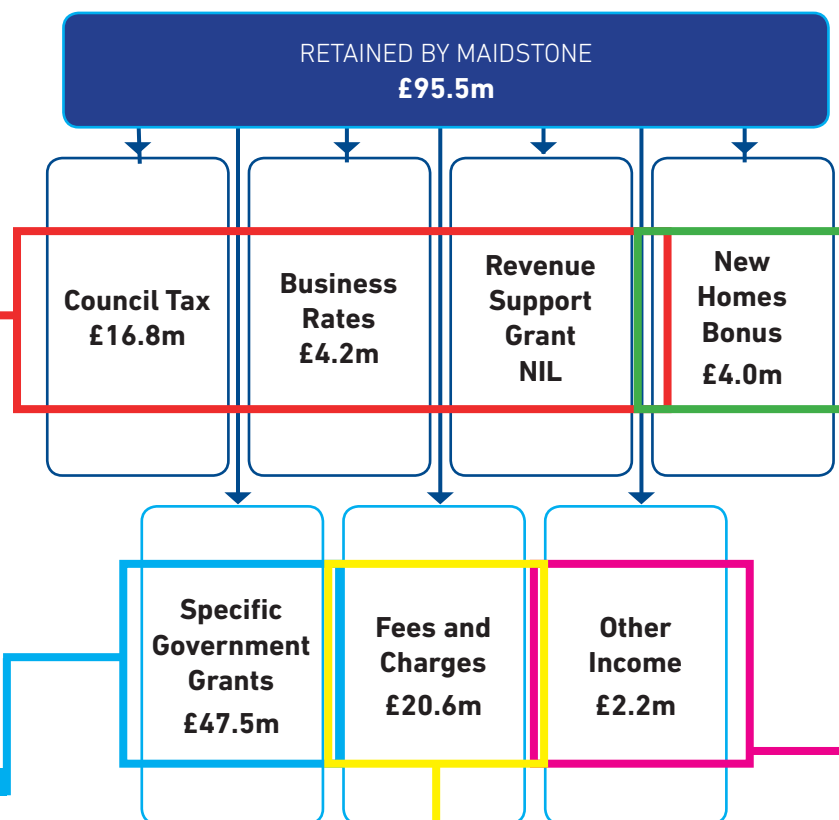
Date:



Financial Performance - Statement of Accounts EXCERPT

These sources of funding support the day to day running of the Council and its services. This is reflected in the Comprehensive Income and Expenditure Statement and note 11.

This represents funding which is awarded for a specified purpose, and often includes amounts which flow through the Council and are paid out to others, such as housing benefit. This is reflected in the Comprehensive Income and Expenditure Statement under the Policy and Resources Committee, and also within note 11.



This grant is used to fund investments in the Borough through the Council's capital programme. This is reflected in notes 11 and 31.

This category includes income transactions which the Council is required to make in order to comply with accounting standards, such as movements in investment property values. These amounts are not seen to be related to a particular service area or Committee, and generally cannot be spent. This is detailed within notes 9-11 to the Comprehensive Income and Expenditure Statement.

This represents income which the Council generates on a range of activities including property rentals, sales and shared service arrangements as well as charges which the Council is permitted to make in order to recover the costs of providing services. These amounts are shown within the Comprehensive Income and Expenditure Statement and include accounting transactions which the Council is required to make in order to comply with accounting standards.

Agenda Item 19

Audit, Governance and Standards Committee

30 July 2018

External Audit Fee Letter 2018/19

| | |
|---|--|
| Final Decision-Maker | Audit, Governance and Standards Committee |
| Lead Head of Service/Lead Director | Mark Green, Director of Finance and Business Improvement |
| Lead Officer and Report Author | Ellie Dunnet, Head of Finance |
| Classification | Public |
| Wards affected | All |

Executive Summary

This report sets out the planned fee for external audit work in relation to the 2018/19 financial statements audit and value for money conclusion.

This report makes the following recommendations to this Committee:

1. That the fee of £38,866 for the 2018/19 financial statements audit and value for money conclusion be noted.

Timetable

| Meeting | Date |
|---|--------------|
| Audit, Governance and Standards Committee | 30 July 2018 |

External Audit Fee Letter 2018/19

1. INTRODUCTION AND BACKGROUND

Audit Fee 2018/19

- 1.1 Following the decision of this Committee for the Council to opt in to the national scheme for auditor appointments, Public Sector Audit Appointments Limited (PSAA) appointed Grant Thornton UK LLP as the Council's external auditor. This is a five year appointment commencing in 2018/19.
- 1.2 PSAA also have responsibility for prescribing audit fees for opted-in bodies. The planned fees for 2018/19 were published by PSAA in March 2018, and have set the fee for Maidstone Borough Council at £38,866 which represents a 23% decrease from the fee charged in 2017/18.
- 1.3 It should be noted that the letter does not set out the planned fee for certification of the housing benefit subsidy claim, as this work falls outside the PSAA contract.
- 1.4 PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.
- 1.5 Further details regarding the scope of the audit fee and work planned for 2018/19 are set out within the letter from Grant Thornton attached at Appendix 1 to this report. A representative from Grant Thornton will be present at the meeting and able to answer any questions relating to this letter.

Audit Team

- 1.6 The Committee should note that as detailed in the letter at Appendix 1, 2017/18 will be Darren Wells' final year as Engagement Lead for the audit. Having working with Maidstone for the last seven years, he is now required to rotate off the audit in order to maintain an appropriate degree of independence. Darren will be replaced by Elizabeth Jackson, an experienced auditor who has worked with Maidstone previously.

2. AVAILABLE OPTIONS

- 2.1 The Committee is asked to note this report. No alternative options are proposed as the Committee has previously taken the decision to opt in to the national scheme for the appointment of auditors and setting of fees. as the council has a statutory obligation to have its accounts externally audited.
- 2.2 As the Council has a statutory obligation to have its accounts audited annually, the 'Do Nothing' option does not apply.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 As stated elsewhere in this report, Committee members are asked to note the planned audit fee of £38,866 for 2018/19.
- 3.2 PSAA has consulted with associations of local authorities, audited bodies and other stakeholders prior to setting the fees, and the planned fee is considered to have been set at a reasonable level.
-

4. RISK

- 4.1 This report is presented for information only and has no risk management implications.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 PSAA has consulted with associations of local authorities, audited bodies and other stakeholders prior to setting the fees, and the planned fee is considered to have been set at a reasonable level.
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 This is detailed within the letter attached at Appendix 1.
-

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|---------------------------------------|--|-----------------|
| Impact on Corporate Priorities | We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. The council has a statutory obligation to have its accounts externally audited, and this process underpins the council's ability to demonstrate accountability to taxpayers. | Head of Finance |
| Risk Management | There is risk that the council could incur additional fees if the | Head of |

| | | |
|------------------------------------|---|-----------------|
| | external auditor identifies significant issues which give rise to additional audit work needing to be undertaken. Officers will work closely with Grant Thornton throughout the year in order to minimise this risk. | Finance |
| Financial | The proposed 2018/19 audit fee of £38,866 represents a decrease of £11,609 from the 2017/18 fee of £50,475. This saving has been incorporated into the Council's financial planning. | Head of Finance |
| Staffing | No implications identified. | Head of Finance |
| Legal | No implications identified. | Head of Finance |
| Privacy and Data Protection | No implications identified. | Head of Finance |
| Equalities | No implications identified. | Head of Finance |
| Crime and Disorder | No implications identified. | Head of Finance |
| Procurement | No implications identified. | Head of Finance |

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix 1: External Audit Fee Letter 2018/19

Mark Green
Director of Finance and Business Improvement
Maidstone Borough Council
Maidstone House
King Street
Maidstone
Kent
ME15 6JQ

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG
T +44 (0)20 7383 5100
www.grant-thornton.co.uk

26 April 2018

Dear Mark

Planned audit fee for 2018/19

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

From 2018/19 all grant work, including housing benefit certification, now falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

Scale fee

PSAA published the 2018/19 scale fees for opted-in bodies in March 2018, following a consultation process. Individual scale fees have been reduced by 23 percent from the fees applicable for 2017/18. Further details are set out on the [PSAA website](#). The Council's scale fee for 2018/19 has been set by PSAA at £38,866.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2018/19, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2018/19. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2018/19 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Billing schedule

Fees will be billed as follows:

| Main Audit Fee | £ |
|-----------------------|---------------|
| September 2018 | 9,716 |
| December 2018 | 9,717 |
| March 2019 | 9,716 |
| June 2019 | 9,717 |
| Total | 38,866 |

Outline audit timetable

We will undertake our audit planning and interim audit procedures between October 2018 and March 2019. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June and July 2019 and work on the Whole of Government Accounts return in July 2019.

| Phase of work | Timing | Outputs | Comments |
|----------------------------------|----------------------------|---|--|
| Audit Planning and Interim Audit | October 2018 to March 2019 | Audit Plan | The Plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM. |
| Final Accounts Audit | June/July 2019 | Audit Findings Report (Report to Those Charged with Governance) | This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance. |

| | | | |
|------------------------------|--------------------------------|---|--|
| VfM Conclusion | January to March and July 2019 | Audit Findings Report (Report to Those Charged with Governance) | As above |
| Whole of Government Accounts | July 2019 | Opinion on the WGA Return | This work will be completed alongside the accounts audit. |
| Annual Audit Letter | September 2019 | Annual Audit Letter to the Council | The letter will summarise the findings of all aspects of our work. |

Our team

The key members of the audit team for 2018/19 are:

| Role | Name | Phone Number | E-mail |
|-----------------|-------------------|---------------------|--|
| Engagement Lead | Elizabeth Jackson | 020 7728 3329 | Elizabeth.L.Jackson@uk.gt.com |
| Senior Manager | Matt Dean | 020 7728 3181 | Matthew.Dean@uk.gt.com |

Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner, via paul.dossett@uk.gt.com.

Yours sincerely



Darren Wells

Engagement Lead

For Grant Thornton UK LLP

Audit, Governance & Standards Committee

30th July 2018

Treasury Management Annual Review 2017/18

| | |
|---|---|
| Final Decision-Maker | Audit, Governance & Standards Committee |
| Lead Head of Service/Lead Director | Ellie Dunnet, Head of Finance |
| Lead Officer and Report Author | John Owen, Finance Manager |
| Classification | Public |
| Wards affected | All Wards |

Executive Summary

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code requires that authorities report on the performance of the treasury management function at least twice a year (at mid-year and year-end).

The Council has delegated the role of considering these reports to the Audit, Governance and Standards Committee.

This report makes the following recommendations to this Committee:

1. That the Audit, Governance and Standards Committee note the review of the financial year 2017/18 in accordance with CIPFA's Code of Practice on Treasury Management.
2. That the Audit, Governance and Standards Committee agree that no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2017/18.

Timetable

| Meeting | Date |
|---|----------------------------|
| Audit, Governance and Standards Committee | 30 th July 2018 |

1. INTRODUCTION AND BACKGROUND

- 1.1 This report sets out the activities of the Treasury Management function for 2017/18 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 12 months.
- 1.2 The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
- 1.3 The Authority's Treasury Management Strategy for 2017/18 was approved by full Council on 1st March 2017. The key elements of the Strategy are:
- The maximum principal sums to be invested for a period exceeding 364 days has been reduced to £5m from £8m. This is consistent with the borrowing strategy to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate;
 - The Council will endeavour to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered;
 - Changes to the capital financing requirement are proposed in light of updated capital plans. The proposed limit on prudential borrowing has been revised accordingly.

1.4 Economic Overview of 2017/18

1.4.1 During financial year 2017/18 the following developments took place:

- The UK economy showed signs of slowing in the context of an improving global economic. Latest estimates showed GDP growth of 1.8% in calendar year 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.
- Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the

surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now span Q2 2019 to Q4 2020.

- The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 0.5% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Unemployment had dropped to its lowest level in 11 years in February 2017 to 4.7%.
- The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.
- The most significant credit rating change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.
- Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade). Local authorities investments have been placed within the investment banking side for most UK banks.
- Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.
- Moody's downgraded Rabobank's long-term rating due to its view on the bank's profitability and the long-term ratings of the major Canadian banks on the expectation of a more challenging operating environment and the ratings of the large Australian banks on its view of the rising risks from their exposure to the Australian housing market and the elevated proportion of lending to residential property investors. The Council has exposure to this institution, the funds are short term and was deemed to not have a detrimental effect to the Council.
- Arlingclose advised against lending to Northamptonshire County Council (NCC). NCC issued a section 114 notice in the light of severe

financial challenge and the risk that it would not be in a position to deliver a balanced budget. The Council has no exposure to this authority.

1.5 Investment Activity

1.5.1 The CIPFA Code and Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council has adhered to these principles during 2017/18.

1.5.2 The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18 the Authority's investment balances have ranged between £14.6m and £40.6m. The average investment balance for the year was £26.9m. The Council held investments totalling £17.4m as at 31st March 2018. A full list of these can be found within **Appendix I**.

1.5.3 Investment income for the year totalled £145k with the average rate on investments for 2017/18 being 0.44% against the benchmarked rate of 0.51%.

1.5.4 All investments during 2017/18 have been short term to enable funds being available to fund the capital programme and daily liabilities of the Council as and when necessary.

1.5.5 All investments during the year have been within the agreed limits of the Treasury Management Strategy 2017/18.

1.6 Borrowing Activity

1.6.1 As at 31st March 2017, the Authority did not hold any loans. The Council's only borrowing requirements for 2017/18 have been for short term purposes where the cheapest options to borrow were sought within the market. Details of these borrowings are as follows:

| Lender | Amount (£) | Rate (%) | Start | End |
|-----------------------------|-------------------|-----------------|--------------|------------|
| Rhonnda Cynon Taff CBC | 1,300,000 | 0.35 | 24/11/2017 | 27/11/2017 |
| Bournemouth Borough Council | 3,650,000 | 0.50 | 22/03/2018 | 28/03/2018 |
| Thurrock Borough Council | 3,600,000 | 0.70 | 28/03/2018 | 29/03/2018 |

1.7 Prudential and Treasury Indicators

1.7.1 The Council has operated within its Prudential and Treasury Indicators set out in the Treasury Management Strategy 2017/18 and in compliance with the Council's Treasury Management Practices. The Treasury Indicators can be found in **Appendix II**.

1.8 Compliance Report

1.8.1 The Director of Finance & Business Improvement is pleased to report that all treasury management activities undertaken during 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

2. AVAILABLE OPTIONS

- 2.1 The recommendation is for the Audit, Governance and Standards Committee to agree that no amendments to the current procedures for 2018/19 are necessary as a result of the review of activities in 2017/18.
- 2.2 The Audit, Governance and Standards Committee could alternatively propose changes to the current procedures as a result of the review of activities in 2017/18.
-

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 That the Audit, Governance and Standards Committee agrees that no amendments to the current strategy for 2018/19 are necessary as a result of the review of activities in 2017/18. The information presented within this report is not considered to justify making any changes to the existing Treasury Management strategy.
-

4. RISK

- 4.1 Risks related to this matter were detailed in the Treasury Management Strategy 2017/18 Report dated 16th January 2017. Since that report the risks identified have not significantly changed.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 None
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 If Audit, Governance and Standards Committee agrees that no change in current procedures with Treasury management will be made, then there will be no further action.
-

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|--------------|---------------------|-----------------|
|--------------|---------------------|-----------------|

| | | |
|---------------------------------------|--|---------------------|
| Impact on Corporate Priorities | We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims. | Head of Finance |
| Risk Management | See section 4 of this report. | Head of Finance |
| Financial | This report relates to the financial activities of the Council in respect of treasury management and specific financial implications are therefore detailed within the body of the report. | Section 151 Officer |
| Staffing | None. | |
| Legal | The report is in compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury management in local authorities. | Legal Team |
| Privacy and Data Protection | None. | |
| Equalities | None. | |
| Crime and Disorder | None. | |
| Procurement | None. | |

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix I: Investments held as at 31st March 2018.
- Appendix II: Prudential and Treasury Indicators.

9. BACKGROUND PAPERS

9.1 None

Maidstone Borough Council Investments as at 31st March 2018

| Counterparty | Type of Investment | Principal £ | Start Date | Maturity Date | Rate of Return | Arlingclose Credit Limits | |
|-----------------------------|------------------------|-------------------|------------|------------------|-------------------|---------------------------|-----------------|
| | | | | | | Suggested Term | Maximum Deposit |
| SANTANDER UK PLC | NOTICE ACCOUNT | 3,000,000 | 30/10/2017 | 28/04/2018 | 0.70% | 6 months | £3,000,000 |
| STANDARD LIFE LIQUIDITY FUN | MONEY MARKET FUND | 1,400,000 | 29/03/2018 | 03/04/2018 | 0.46% | 2 Years | £8,000,000 |
| LLOYDS BANK PLC | DEPOSIT - FIXED | 2,000,000 | 11/10/2017 | 11/04/2018 | 0.36% | 6 months | £3,000,000 |
| LLOYDS BANK PLC | DEPOSIT - FIXED | 1,000,000 | 03/11/2017 | 03/05/2018 | 0.65% | 6 months | £3,000,000 |
| LANCASHIRE COUNTY COUNCIL | DEPOSIT - LA | 3,000,000 | 16/11/2017 | 16/05/2018 | 0.42% | 5 Years | £8,000,000 |
| SUFFOLK COUNTY COUNCIL | DEPOSIT - LA | 2,000,000 | 02/10/2017 | 01/10/2018 | 0.50% | 5 Years | £8,000,000 |
| THURROCK BOROUGH COUNCIL | DEPOSIT - LA | 2,000,000 | 10/11/2017 | 09/11/2018 | 0.75% | 5 Years | £8,000,000 |
| COOPERATIEVE RABOBANK UA | CERTIFICATE OF DEPOSIT | 2,000,000 | 16/10/2017 | 15/10/2018 | 0.64% | 13 months | £3,000,000 |
| COOPERATIEVE RABOBANK UA | CERTIFICATE OF DEPOSIT | 1,000,000 | 20/10/2017 | 19/10/2018 | 0.62% | 13 months | £3,000,000 |
| TOTAL | | 17,400,000 | | | | | |

PRUDENTIAL INDICATORS

Capital Expenditure

| 2017/18 Estimate £,000 | 2017/18 Actual £,000 |
|------------------------------|----------------------------|
| 13,999 | 12,624 |

This is the actual capital expenditure against the estimate for 2017/18.

Capital Financing Requirement

| 2017/18 Estimate £,000 | 2017/18 Actual £,000 |
|------------------------------|----------------------------|
| 2,993 | 3,267 |

This is a measure of the capital expenditure incurred historically by the council that has yet to be financed. It is a measure of the Council's borrowing need to fund the proposed capital programme. The CFR for the Authority is small and it is aware that borrowing is necessary in the coming years

Treasury Indicators

210

Authorised Limit for External Debt

| | 2017/18 Estimate £,000 | 2017/18 Actual £,000 |
|-----------------------------|------------------------------|----------------------------|
| Borrowing | 4,000 | 3,650 |
| Other Long Term Liabilities | 4,033 | 4,033 |
| Total | 8,033 | 7,683 |

This is the main limit which is set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003. Only short term borrowing was undertaken during this period.

Operational Limit for External Debt

| | 2017/18 Estimate £,000 | 2017/18 Actual £,000 |
|-----------------------------|------------------------------|----------------------------|
| Borrowing | 0 | 3,650 |
| Other Long Term Liabilities | 4,514 | 4,033 |
| Total | 4,514 | 7,683 |

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day basis. The Council required borrowing for short term purposes during the year as detailed within the report

Upper Limit for Fixed Interest Rate Exposure

| 2017/18 Estimate £,000 | 2017/18 Actual £,000 |
|------------------------------|----------------------------|
| -40,000 | -21,000 |

This is the maximum amount of net borrowing and investment that can be at a fixed rate. Due to the nature of the council's cashflows it is likely that this limit will only be approached towards the end of the financial year when there are less surplus funds available for short term investment.

Upper Limit for Variable Interest Rate Exposure

| 2017/18 Estimate £,000 | 2017/18 Actual £,000 |
|------------------------------|----------------------------|
| -32,000 | -23,650 |

This is the maximum amount of net borrowing and investment that can be at a variable rate.

The Council needs to be mindful of this limit when rates are fluctuating, however due to static rates recently, the risk is minimal.

Principal Invested for more than 364 Days

211

| 2017/18 Estimate £,000 | 2017/18 Actual £,000 |
|------------------------------|----------------------------|
| 5,000 | 0 |

This indicator shows the Council have not breached the limit agreed by Council within its Treasury Management Strategy 2017/18

Actual External Debt

| | 2017/18 Estimate £,000 | 2017/18 Actual £,000 |
|-----------------------------|------------------------------|----------------------------|
| Actual Borrowing | 0 | 0 |
| Other Long Term Liabilities | 4,033 | 4,033 |
| Total | 4,033 | 4,033 |

Council's borrowing as at 31st March 2018

Agenda Item 21

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

30 July 2018

Budget Strategy – Risk Assessment Update

| | |
|---|--|
| Final Decision-Maker | Audit, Governance and Standards Committee |
| Lead Head of Service/Lead Director | Mark Green, Director of Finance and Business Improvement |
| Lead Officer and Report Author | Mark Green, Director of Finance and Business Improvement |
| Classification | Public |
| Wards affected | All |

Executive Summary

This report provides an update on the budget risks facing the Council. The longstanding risk about the future funding of local government remains and if anything is greater than hitherto. Early indicators suggest that broader economic factors may have an impact on business rates income.

This report makes the following recommendations to this Committee:

That the Audit Governance and Standards Committee notes the updated risk assessment of the Budget Strategy provided at Appendix A.

Timetable

| Meeting | Date |
|---|--------------|
| Audit, Governance and Standards Committee | 30 July 2018 |

Budget Strategy – Risk Assessment Update

1. INTRODUCTION AND BACKGROUND

- 1.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.
- 1.2 The key element in the Council's budget strategy is its rolling five year Medium Term Financial Strategy (MTFS). An updated five year MTFS for 2018/19 – 2022/23 was agreed by Council at its meeting on 25th October and formed the basis for the detailed budget for 2018/19 that was agreed by Council at its meeting on 7th March 2018. Given uncertainty about the future, MTFS projections were prepared on the basis of various potential scenarios, representing (a) favourable, (b) neutral and (c) adverse sets of circumstances. The revenue budget, as adopted, was based on the neutral scenario.
- 1.3 Policy and Resources Committee agreed an approach to updating the MTFS for the five years 2019/20 – 2023/24 at its meeting on 27 June 2018. Given continuing uncertainty about the position at the end of the current four year local government funding settlement in 2020, the scenario planning approach will be adopted again in the new MTFS. The new MTFS is due to be agreed by Council in December 2018.
- 1.4 Uncertainty about the local government funding regime is captured in the budget risk register under the heading of 'adverse impact from changes in local government funding'. This is a longstanding risk, but there have been a number of indications over the past few months that it should be given even greater weight in the risk register.
 - The appointment of commissioners to take over management of Northamptonshire County Council has highlighted the risks faced in particular by local authorities with social services responsibilities. Whilst Maidstone Borough Council does not come into this category, additional support for social services authorities may be at the expense of district authorities.
 - The National Audit Office's most recent report on the financial sustainability of local authorities was pessimistic about the lack of a long-term financial plan for the sector that includes sufficient funding to address specific service pressures and secure its future financial sustainability.
 - The position for local authorities after 2020 remains unclear. The government has said that it plans to increase the amount of business rates retained by local government from 50% to 75%, but in practice the amounts that individual authorities receive will depend on the findings of a 'Fair Funding Review', designed to allocate resources to

those areas of greatest need. The overall amounts to be allocated as part of the Fair Funding Review are also subject to a planned Spending Review covering all government departments in 2019. It is therefore difficult to predict with any degree of accuracy what the funding position will be from 2020.

- The government has committed to increasing expenditure on the NHS. Although the overall picture for spending plans and taxation will not become clear until the Chancellor's Autumn budget statement, increases in NHS expenditure may come at the expense of other areas of public expenditure such as local government spending.

1.5 The wider economic climate contributes to the degree of risk faced by the authority. The latest economic indicators are unfavourable, with retail sales falling in June. The turbulent political climate has led to the pound falling in value, which affects retail prices and is likely to dampen growth still further. Whilst government tax receipts have recently been better than expected, in the long run a slowing economy will impact the public finances and thus the amount of money available for local government.

1.6 The wider economic environment also affects the Council through our exposure to fluctuations in business rates income. Around 35% of the Council's business rates income comes from the retail sector, which is particularly exposed to economic fluctuations and general trends in consumer behaviour. An indicator that gives some cause for concern is the level of business rates income locally, which is now projected to be 1.25% less than forecast in January 2018, although it is still above the level assumed for the purposes of the Business Rates Retention Pilot. A major contributor to this is the increase in the number of empty business premises from 296 to 351.

1.7 The risks included in the Budget Risk Register have been reviewed in light of the above developments. A summary of the changes to the risk register is set out below. Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register.

| | Risk | Factor considered | Implications for risk profile |
|---|--|--|--|
| H | Adverse impact from changes in local government funding | This is a longstanding risk but recent developments in the local government sector and in the broader context of public expenditure sector have increased the level of risk. | Impact – no change Likelihood – increased |
| L | Collection targets for Council Tax and Business Rates missed | Business rates income is now projected to be slightly lower than forecast for 2018/19 and may be further threatened by any slowdown in growth. | Impact – no change Likelihood – increased |

| | Risk | Factor considered | Implications for risk profile |
|---|---|-------------------|--|
| M | Business Rates pool / pilot fails to generate sufficient growth | As above. | Impact – no change Likelihood – increased |

2. AVAILABLE OPTIONS

- 2.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact the Council's service planning and/or be reflected in the developing Medium Term Financial Strategy.
- 2.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 Option 2 – It is recommended that the Committee notes the risk assessment.

4. RISK

- 4.1 Risk is addressed throughout this report so no further commentary is required here.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Each year the council as part of the development of the MTFS and budget carries out consultation on the priorities and spending of the council.
- 5.2 A Residents' Survey was undertaken during Summer 2017 and has informed the Council's response to the financial projections in the updated MTFS. Detailed budget proposals for 2018/19 were widely publicised and have been subject to review by the Service Committees.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

| Issue | Implications | Sign-off |
|---------------------------------------|---|--|
| Impact on Corporate Priorities | The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan. | Director of Finance and Business Improvement |
| Risk Management | Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in Appendix A. | Director of Finance and Business Improvement |
| Financial | The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process. | Director of Finance and Business Improvement |
| Staffing | The process of developing the budget strategy will identify the level of resources available for staffing over the medium term. | Director of Finance and Business Improvement |
| Legal | The Council has a statutory obligation to set a balanced budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of | Director of Finance and Business Improvement |

| | | |
|------------------------------------|--|--|
| | a balanced budget. | |
| Privacy and Data Protection | No implications. | Director of Finance and Business Improvement |
| Equalities | The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities. | Director of Finance and Business Improvement |

8. REPORT APPENDICES

The following document is to be published with this report and forms part of the report:

- Appendix A: Budget Strategy Risks

9. BACKGROUND PAPERS

None.

Budget Strategy Risks

Summary

The risk matrix below provides a summary of the key budget risks. The risk register that follows provides more detail on each risk.

| | | | | | | |
|------------|---|--------|-----|-----|-----|---|
| Likelihood | 5 | | | | | |
| | 4 | | | L,M | | |
| | 3 | | B | G | H | |
| | 2 | | E | C,F | A,D | J |
| | 1 | | I,K | | | |
| | | 1 | 2 | 3 | 4 | 5 |
| | | Impact | | | | |

- A. Failure to contain expenditure within agreed budgets
- B. Fees and Charges fail to deliver sufficient income
- C. Commercialisation fails to deliver additional income
- D. Planned savings are not delivered
- E. Shared services fail to meet budget
- F. Council holds insufficient balances
- G. Inflation rate predictions underlying MTFS are inaccurate
- H. Adverse impact from changes in local government funding
- I. Constraints on council tax increases
- J. Capital programme cannot be funded
- K. Increased complexity of government regulation
- L. Collection targets for Council Tax and Business Rates missed
- M. Business Rates pool / pilot fails to generate sufficient growth

Budget Strategy Risk Register 2017/18

The following risk register sets out the key risks to the budget strategy 2017/18 onwards. The register sets out the consequences of each risk and the existing controls in place.

| Ref | Risk (title & full description) | Consequences | Key Existing Controls | Overall Risk rating | | |
|------------------|---|---|---|---------------------|---|---|
| | | | | I | L | Σ |
| 219 ^A | <p>Failure to contain expenditure within agreed budgets</p> <p>The Council overspends overall against its agreed budget for the year</p> | <p>Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.</p> | <ul style="list-style-type: none"> - Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2017/18. - Strong controls over expenditure and established process for recovering from overspends | 4 | 2 | 8 |
| B | <p>Fees & Charges fail to deliver sufficient income</p> <p>Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.</p> | <p>The total value of all Council income from fees and charges is in excess of £16 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.</p> | <ul style="list-style-type: none"> - Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised. | 2 | 3 | 6 |
| C | <p>Commercialisation fails to deliver additional income</p> <p>The commercial activities currently being delivered and projected in the MTFs do not</p> | <p>The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy.</p> | <ul style="list-style-type: none"> - The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but | 3 | 2 | 6 |

| Ref | Risk (title & full description) | Consequences | Key Existing Controls | Overall Risk rating | | |
|----------|---|--|--|---------------------|---|---|
| | | | | I | L | Σ |
| | deliver the expected level of income. | Income generation from commercial activities supports the revenue budget and is required in order to pay back capital investment. | <p>available to cover short term losses.</p> <p>- Individual risks associated with specific projects within commercialisation strategy will be assessed, both as part of the project appraisal process and during the course of delivering the projects.</p> <p>- Decision made to outsource the management of the Mote Park Café from Spring 2018.</p> | | | |
| 220 D | <p>Planned savings are not delivered</p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p> | <p>The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.</p> <p>Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p> | <p>- The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process.</p> <p>- Savings proposals are separately identified and monitored in the Council's general ledger.</p> <p>- The ability to achieve the targeted savings is reported quarterly to Corporate Leadership Team and to Service Committees.</p> | 4 | 2 | 8 |
| E | <p>Shared Services</p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p> | <p>Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p> | <p>The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.</p> | 2 | 2 | 4 |

| Ref | Risk (title & full description) | Consequences | Key Existing Controls | Overall Risk rating | | |
|----------|---|--|---|---------------------|---|----|
| | | | | I | L | Σ |
| F | <p>Insufficient Balances Minimum balance is insufficient to cover unexpected events</p> <p>OR</p> <p>Minimum balances exceed the real need and resources are held without identified purpose with low investment returns</p> | <p>Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.</p> <p>The Council would not gain best value from its resources as Investment returns are low in the current market.</p> | <p>- The Council has set a lower limit below which General Fund balances cannot fall of £2 million.</p> <p>- At the beginning of the 2018/19 financial year unallocated General Fund balances stood at £7 million.</p> | 3 | 2 | 6 |
| G 221 | <p>Inflation rate predications underlying MTFS are inaccurate Actual levels are significantly above or below prediction</p> | <p>Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.</p> <p>Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities.</p> | <p>- Allowances for inflation are developed from three key threads:</p> <ul style="list-style-type: none"> ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally <p>- MTFS inflation projections are based on the government's 2% inflation target.</p> | 3 | 3 | 9 |
| H | <p>Adverse impact from changes in local government funding Unexpected shocks lead to changes in Local Government funding. Government strategy fails to address economic challenges, such as those which could arise from Brexit.</p> | <p>The Council will no longer receive Revenue Support Grant (RSG) after 2016/17 and will be subject to 'negative RSG' in 2019/20. The government has now announced that it will look at options for dealing with negative RSG.</p> | <p>- The Medium Term Financial Strategy to 2022/23 includes an adverse scenario which allows for a significant impact on the Council's resources,</p> <p>- The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.</p> | 4 | 3 | 12 |
| I | <p>Constraints on council tax increases The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to</p> | <p>The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be absorbed by making savings elsewhere.</p> | <p>- Planning for the budget 2018/19 was based on a £4.95 (2.06%) increase, as agreed by Policy and Resources Committee at its meeting on 25 July 2017 and by full Council at its meeting on 25</p> | 2 | 1 | 2 |

| Ref | Risk (title & full description) | Consequences | Key Existing Controls | Overall Risk rating | | |
|-----|---|--|---|---------------------|---|----|
| | | | | I | L | Σ |
| | cost increases greater than 2% per annum. | | <p>October 2017.</p> <p>- The Government increased the referendum cap for 2018/19 from £4.95 / 2% to 3% and this was reflected in the Council Tax level actually set.</p> | | | |
| J | <p>Capital Programme cannot be funded Reduction or total loss of funding sources means that the capital programme cannot be delivered</p> | <p>The main sources of funding are:</p> <ul style="list-style-type: none"> ○ New Homes Bonus ○ Capital Grants ○ Prudential borrowing ○ Developer contributions (£106) <p>A reduction in this funding will mean that future schemes cannot be delivered.</p> | <p>- Council has been able to fund the capital programme without recourse to borrowing so far,</p> <p>- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.</p> <p>- Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board but there is a risk that this may be subject to restrictions in future.</p> | 5 | 2 | 10 |
| K | <p>Increased complexity of government regulation Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at an early stage.</p> | <p>On a small number of occasions the 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.</p> <p>In general these events bring consequences to other agencies and external relationships.</p> | <p>- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents.</p> <p>- Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.</p> | 2 | 1 | 2 |
| L | <p>Business Rates & Council Tax collection Council fails to maintain collection targets for business rates and council tax</p> | <p>Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> | <p>- The Council has a good track record of business rates and Council Tax collection.</p> <p>- Steps are taken to maximise collection rates, such as active debt collection, continual review of</p> | 3 | 4 | 12 |

222

| Ref | Risk (title & full description) | Consequences | Key Existing Controls | Overall Risk rating | | |
|----------|--|---|---|---------------------|---|----|
| | | | | I | L | Σ |
| | | <p>Business rates due are in excess of £60 million for 2017/18.</p> <p>Council tax due is in excess of £80 million per annum.</p> | <p>discounts, etc.</p> <p>- Nonetheless, increasingly difficult trading conditions for some businesses may lead to a deterioration in collection performance.</p> | | | |
| 223 M | <p>Business Rates pool (17/18) / pilot (18/19) Changes to rateable value (RV) or instability of business rates growth within the pool/pilot may not generate projected levels of income</p> | <p>Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.</p> | <p>- The pool (pilot wef 18/19) is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of pool increased from £5.1m to £7.5m in 2017/18.</p> <p>- The Council applied successfully with other Kent authorities to take part in a 100% Business Rates Retention pilot in 2018/19. This will mean Kent & Medway retaining a further £25m of business rates growth.</p> <p>- Provisions have been made when projecting business rates income for bad debts and losses on appeal so any loss of income would relate to the excess over the provisions already made.</p> | 3 | 4 | 12 |

Impact & Likelihood Scales

RISK IMPACT

| Level | Service risk | Reputation Risk | H&S | Legal Risk | Financial Risk | En'ment Risk |
|-------------------|---|---|--|---|---|---|
| Catas-trophic (5) | Ongoing failure to provide an adequate service | Perceived as failing authority requiring intervention | Responsible for death | Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment or significant fines | Uncontrollable financial loss or overspend over £500k | Permanent, major environmental or public health damage |
| Major (4) | Failure to deliver Council priorities Poor service. Disrupted 5 days+ | Significant adverse national publicity | Fails to prevent death, causes extensive perm injuries or LT sick | Litigation expected, but defensible Breaches of law punishable by fines | Financial loss or overspend greater than £250k | Long term major public health or environmental incident (1yr+) |
| Moderate (3) | Unsatisfactory performance Service disrupted/ stopped 3-5 days | Adverse national publicity or significant adverse local publicity | Fails to prevent extensive, permanent injuries or LT sickness | Complaint likely, litigation possible Breaches of regs or standards | Financial loss or overspend greater than £50k | Medium term major public health or environmental incident (up to 1yr) |
| Minor (2) | Marginal reduction in performance Service disrupted/ stopped 1-2 days | Minor adverse local publicity | Medical treatment required, potential long term injury or sickness | Unlikely to cause complaint Breaches of local procedures | Financial loss or overspend greater than £10k | Short term public health or environmental incident (weeks) |
| Minimal (1) | No significant service impact Service disruption up to 1 day | Unlikely to cause adverse publicity | First aid level injuries | Financial loss or overspend under £10k | Environmental incident with no lasting detrimental effect | |

RISK LIKELIHOOD

| Type | Probability | Detail description |
|--------------------|-------------|---|
| Almost certain (5) | 90%+ | Without action is likely to occur; frequent similar occurrences in local government/Council history |
| Probable (2) | 60%-90% | Strong possibility; similar occurrences known often in local government/Council history |
| Possible (3) | 40%-60% | Might occur; similar occurrences experienced in local government/Council history |
| Unlikely (2) | 10%-40% | Not expected; rare but not unheard of occurrence in local government/Council history |
| Rare (1) | 0%-10% | Very unlikely to occur; no recent similar instances in local government/Council history |

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