

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Tuesday 30 July 2019
Time: 6.30 pm
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Adkinson (Vice-Chairman), Brindle, Cox, Daley, Fissenden, Harvey (Chairman), McLoughlin, Perry, Round and Titchener (Parish Representative)

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.

AGENDA

Page No.

- | | |
|--|---------|
| 1. Apologies for Absence | |
| 2. Notification of Substitute Members | |
| 3. Urgent Items | |
| 4. Notification of Visiting Members | |
| 5. Disclosures by Members and Officers | |
| 6. Disclosures of Lobbying | |
| 7. To consider whether any items should be taken in private because of the possible disclosure of exempt information | |
| 8. Minutes of the meeting held on 18 March 2019 | 1 - 9 |
| 9. Question and answer session for members of the public | |
| 10. Minutes of the meeting held on 21 May 2019 | 10 |
| 11. Committee Work Programme 2019/20 | 11 - 13 |
| 12. Annual Governance Statement 2018-19 | 14 - 32 |
| 13. Audit, Governance & Standards Committee Annual Report | 33 - 45 |
| 14. Annual Internal Audit Report & Opinion 2018/19 | 46 - 81 |
| 15. Budget Strategy - Risk Assessment Update | 82 - 96 |

Issued on Monday 22 July 2019

Continued Over/:

Alison Broom

Alison Broom, Chief Executive

16. Treasury Management Annual Review 2018/19	97 - 106
17. Capital Strategy	107 - 131
18. External Audit Fee Letter 2019/20	132 - 138
19. Final Statement of Accounts 2018/19	139 - 239

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 (i.e. Friday 26 July 2019). 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.

To find out more about the work of the Committee, please visit www.maidstone.gov.uk.

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 18 MARCH 2019

Present: Councillor McLoughlin (Chairman) and
Councillors Bartlett, Coulling (Parish Representative),
Cox, Daley, Harvey and Purle

Also Present: Ms Elizabeth Jackson, External Auditor,
Grant Thornton

82. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Perry, Titchener (Parish Representative) and Webb.

83. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

84. MR CHRIS HARTGROVE

The Chairman welcomed Mr Chris Hartgrove, Interim Head of Finance, to his first meeting of the Committee.

85. URGENT ITEMS

There were no urgent items.

86. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

87. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

88. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

89. EXEMPT ITEMS

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

90. MINUTES OF THE MEETING HELD ON 14 JANUARY 2019

RESOLVED: That the Minutes of the meeting held on 14 January 2019 be approved as a correct record and signed.

91. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

92. COMMITTEE WORK PROGRAMME 2019/20

Mr Mark Green, the Director of Finance and Business Improvement, said that the Officers were putting together the Committee Work Programme for the 2019/20 municipal year. The Work Programme would be reported to the meeting of the Committee scheduled to be held on 30 July 2019, and if Members wished to include items in the Work Programme, they should let the Officers know.

93. HOUSING BENEFIT GRANT CLAIM

Mr Mark Green, Director of Finance and Business Improvement, reminded Members that, at the last meeting of the Committee, consideration was given to a report summarising the work undertaken by Grant Thornton, the External Auditor, to certify the Housing Benefit Subsidy Claim submitted by the Council for 2017/18.

Mr Green explained that the External Auditor's certification letter had now been received confirming that they had certified the Council's Housing Benefit Subsidy Claim for the financial year 2017/18 relating to the subsidy claimed of £45.4m.

It was noted that the certification work had identified a number of errors and as a consequence a qualification letter was issued by the External Auditor. However, the errors identified had no impact on the net value of the Council's claim.

In response to questions, Mr Green advised the Committee that the Housing Benefit Subsidy Claim was a huge claim and it was not unusual for errors to be identified due to the volume of transactions. The level of error identified did not indicate any significant underlying control weaknesses or anything untoward. The additional audit fees incurred (£10k subject to approval by PSAA Limited) could be managed within existing budgets, and it was hoped that additional audit fees would not be incurred again in future years.

RESOLVED: That the Housing Benefit Certification letter, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

94. CONTRACT MANAGEMENT UPDATE

The Chairman welcomed Uche Olufemi, Contracts and Compliance Officer for leisure and culture contracts, to the meeting.

Mrs Georgia Hawkes, Head of Commissioning and Business Improvement, introduced her report setting out details of progress on the planned improvements to contract management across the Council following an Internal Audit review completed in November 2018.

Mrs Hawkes advised the Committee that:

- Reports on contract management arrangements and planned improvements had been submitted to the Committee in September 2017 and November 2018. In the most recent report Members were informed that the highest value contracts were being well managed, but an Internal Audit report on contract management had returned a Weak level of assurance rating and concluded that whilst there was good practice in the management of leisure and culture contracts, improvements were required corporately.
- Since that time, positive progress had been made; for example, standard contract documents had been created by Mid-Kent Legal Services and put onto the Intranet for all Officers to use. Quarterly spend analysis was being undertaken by the Procurement Team to ensure contracts were in place where they should be and procurement was being carried out in line with the requirements of the Council's Constitution. It was recognised that good contract management was essential to the delivery of the Council's objectives so a risk and management actions for contract management had been drafted for inclusion in the Council's corporate risk register.
- In addition, temporary staffing arrangements had been put in place to ensure that staff resources were available to deliver the actions required to address the findings of the Internal Audit report and improve contract management across the Council.
- The Contracts and Compliance Officer for leisure and culture contracts had taken on additional responsibilities for three months from March 2019 to deliver improvements in the corporate control of contract management. An additional temporary staff resource was being recruited to ensure that the monitoring and management of leisure and culture contracts was not detrimentally affected.
- From 1 April 2019, the full substantive role of the Procurement and Contracts Manager would be covered on a temporary basis until 31 December 2019. This arrangement would allow further exploration of potential closer working opportunities with other Councils whilst ensuring that there was additional resource and oversight given to contract management arrangements at management level.

- Looking at the longer term, consideration was being given to whether a permanent role covering the corporate elements of contract management, including ensuring good practice in the management of delivery of contracts as well as oversight of the use of contract documents, was required.
- Improvements which were planned for implementation within the next three months included:

Introduction of corporate contract management guidance;
 Delivery of training on good contract management and the new guidelines;
 Introduction of improved processes for better central procurement and contract document oversight and control;
 Review of all existing key contracts to confirm that exit plans are a requirement and are in place; and
 Introduction of a central digital repository for completed and signed contract documents.

In response to questions, the Officers explained that:

- In terms of risk management, a risk had been drafted for inclusion in the Council's corporate risk register together with actions to mitigate against any contracts not being delivered as they should i.e. to ensure good contract management. It was an overall risk so it did not reference specific contracts, but there were actions to ensure that key contracts were delivered as they should be. Consideration had been given to including a level of detail regarding individual significant risks, but the view had been taken that good management practice is necessary across all of the key contracts and measures need to be in place to ensure that none go wrong. Internal Audit reports had confirmed that the Council's key contracts were being well managed.
- There was an additional cost to recruiting an additional temporary staff resource to support the Contracts and Compliance Officer for leisure and culture contracts whilst that post holder takes on additional corporate responsibilities, and a budget had been identified for this.
- There were checks in the system to address the risks associated with placing orders for third party service or product procurement and the payment of invoices. Placing orders was subject to limits prescribed on the Council's Agresso accounting system so it would not be possible to place an order without the proper authorisations and there were further checks when invoices were received and payments made. The whole process was also subject to internal audit.
- In terms of contractual linkage to payments, the Council had contract guidelines which prescribed the contracts that should be in place at different levels. Depending upon the value of the contract, quotations had to be obtained or a tendering process undertaken. A contract had to be in place for purchases in accordance with the Council's Contract

Procedure Rules. Robust processes were in place to make sure that payments were not made unless a proper contract was in place. The Procurement and Contracts Team was involved in the procurement of all high value outsourced contracts.

- The Contract Manager or whoever had client responsibility would be the person who signed-off invoices subject to authorisation limits and there would have been processes in place before sign-off whereby the contract had been awarded in accordance with the Contract Procedure Rules.
- In terms of whether sufficient controls were in place to prevent someone putting in place a contract and signing-off invoices against it, the organisation was of sufficient size to achieve separation of responsibility. The Procurement Team oversee the process of awarding all material contracts.

The Committee noted the progress made in improving contract management across the Council, and the planned actions, and asked for a further update in six months' time.

RESOLVED: That the progress made in improving contract management across the Council, and the planned actions, be noted, and that provision be made in the Committee Work Programme for a further update in six months' time.

95. INTERNAL AUDIT & ASSURANCE PLAN 2019/20

Mr Rich Clarke, Head of Audit Partnership, introduced his report setting out the proposed Plan for Mid-Kent Audit's work at Maidstone Borough Council during 2019/20, including the proposed audit and assurance project work and assurance non-project work. The report also set out the principles which would guide the External Quality Assessment of the Internal Audit Service, due before the end of 2019/20.

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.
- Although the Plan had been the subject of broad consultation with management, it had been compiled independently and without being subject to inappropriate influence.
- The Internal Audit Team had just concluded the consultation phase of a planned restructure. The aim was to have the new structure in place by 1 April 2019. Currently there was a degree of doubt on the precise extent and arrangement of the Team, but it was likely that there would be 1,865 days available across the Partnership for 2019/20. The total number of days was divided between the Partner

authorities in the proportions set out in the collaboration agreement, which meant that 540 days were available for Maidstone. The Head of Audit Partnership was of the view that the Partnership currently had sufficient resources to deliver the Plan and a robust Head of Audit Opinion.

In response to questions, Mr Clarke explained that:

- In terms of risk and the impact of potential disruption due to Brexit and IT failure for various reasons on business continuity for the Internal Audit Team in particular, the Team was not as reliant on printed material as might be expected. The Team's main software was cloud based and members of the Team were used to travelling between the Partner authorities or working from home, but ultimately the Team was reliant on the information provided to it to deliver the work. With regard to IT network security, cyber security had been a high priority risk for many years so IT Network Security was a high priority audit project in 2019/20 and would remain so. In addition, Business Continuity was a medium priority project in the Audit and Assurance Plan.
- It was the intention to seek one External Quality Assessment across the whole Partnership rather than individual assessments for each authority. It was considered that one assessment would provide reasonable conclusions for all four Partner authorities.
- The results of the consultation and details of the new staff structure for Mid-Kent Audit would be reported to the Committee in July 2019 as part of the annual reporting.

During the discussion:

- A Member drew attention to the risk that, notwithstanding the move to electronic payments, it might be necessary to continue to take cash payments due to concerns about the use of CCTV for staff safety and security reasons and the possibility of people's personal details on payment cards being captured in some way by the cameras. The Head of Audit Partnership said that he would raise this issue with the member(s) of the Internal Audit Team who would carry out the planned review of Customer Services.
- A Member referred to the Audit Universe (a running record of all services at the Council that the Internal Audit Team might examine) and its current arrangement, and asked that the planned Business Continuity, Contract Management, IT Backup and Recovery and Procurement audit projects be undertaken during 2019/20. The Head of Audit Partnership said that the Internal Audit Team would be following up recommendations from earlier reviews and a mid-year update would be submitted to the Committee in November 2019. However, a brief update report could be submitted to each meeting of the Committee on the work undertaken recently to provide an

opportunity for Members to comment on changes in priorities, including the prioritisation of the four service areas mentioned above.

- It was suggested that new entries to the Audit Universe or changed risks should be identified in some way in future. The Head of Audit Partnership undertook to do this by way of asterisks.

RESOLVED: That

1. The Internal Audit and Assurance Plan for 2019/20 be approved subject to an update report being submitted to each meeting of the Committee on the audit work undertaken recently to provide an opportunity for Members to comment on changes in priorities.
2. The Head of Audit Partnership's view that the Partnership currently has sufficient resources to deliver the Plan and a robust Head of Audit Opinion be noted.
3. The Head of Audit Partnership's assurance that the Plan is compiled independently and without inappropriate influence from management be noted.
4. The proposed criteria for commissioning an External Quality Assessment of the Internal Audit Service be noted.

96. EXTERNAL AUDITOR'S AUDIT PLAN 2018/19

Ms Elizabeth Jackson presented the External Auditor's Audit Plan for delivering the audit of the 2018/19 financial statements and value for money conclusion to meet the statutory deadline for the publication of audited local government accounts (31 July 2019). The report included details of the significant risks identified, the concept of materiality and the anticipated audit fee.

In response to questions, Ms Jackson explained that the External Auditor had no control over the way that materiality was calculated. Materiality at the planning stage of the audit was £1.8m which equated to 2% of the Council's prior year gross expenditure for the year. Housing Benefit was included because it formed part of the Council's expenditure for the year. If the level was set lower, then it would be necessary to undertake more work and the audit fee would increase.

RESOLVED: That the External Auditor's Audit Plan for the year ending 31 March 2019, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

97. EXTERNAL AUDIT PROGRESS REPORT - MARCH 2019

Ms Elizabeth Jackson presented the report of the External Auditor on the progress to date against the 2018/19 audit plan. The report also provided a summary of emerging national issues and developments of relevance to the local government sector.

Ms Jackson advised the Committee that:

- Some early substantive work had been undertaken to ease the burden on the accounts phase of the audit from mid-June onwards with the following testing carried out for months 1 to 9:

Operating expenses sample;
Revenue testing;
Payroll testing of starters and leavers; and
Operating balances reconciliation

- All of the planning work was complete and there were no issues arising from any of the work undertaken to date that needed to be reported back to the Committee charged with governance.

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.

98. 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.

Mr Green explained that:

- The two key risks highlighted in the report were continued uncertainty about future local government funding arrangements and the potential financial implications of a disorderly Brexit.
- In terms of changes to the local government funding regime, the government had now given some indications about the architecture of the new system. However, the amount of funding to be distributed between local authorities depended on this year's spending review.
- The Council now depended for its revenue income largely on Council Tax and locally-generated fees and charges. However the Council did retain a proportion of the business rates that it collected. The exact amount of the Council's share depended on decisions made by central government. It was this element of the Council's income that was most at risk from changes in the local government funding regime.
- For planning purposes, the Council, following the lead of the Kent Resilience Forum, was continuing to prepare on the basis that there might be a 'no deal' Brexit on 29 March. This had already involved incurring additional costs, and would certainly involve significant further costs if this outcome materialised. Costs included staff overtime and additional contract costs to maintain key services such as waste collection.

- There might be adverse longer term effects on the economy from Brexit, with a knock-on impact for local authorities. This would affect both the Council's costs, with the risk of having to spend more on services like homelessness, and revenues, with a downturn in the economy affecting income from parking, planning fees and the Council's commercial property holdings.
- The presentation of the risks had been amended to give an indication of the financial value of the risks and to give an idea of the order of magnitude of some of the risks.

In response to a question about timescales, Mr Green explained that typically risks over the coming year would be examined, but longer term risks should not be ignored, so it was necessary to consider the whole of the five year period covered by the Medium Term Financial Strategy for this type of exercise.

During the discussion, it was suggested that a visual presentation of the results of the methodology would make it easier to understand.

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.

99. DURATION OF MEETING

6.30 p.m. to 8.05 p.m.

Agenda Item 10

MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 21 MAY 2019

Present: Councillor Harvey (Chairman) and
Councillors Adkinson, Bartlett, Cox, Daley, Mrs Grigg,
McLoughlin, Perry and Round

1. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Fissenden and Titchener (Parish Representative).

2. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Mrs Grigg was substituting for Councillor Fissenden.

3. ELECTION OF CHAIRMAN

RESOLVED: That Councillor Harvey be elected as Chairman of the Committee for the Municipal Year 2019/20.

4. APPOINTMENT OF VICE-CHAIRMAN

RESOLVED: That Councillor Adkinson be appointed as Vice-Chairman of the Committee for the Municipal Year 2019/20.

5. DURATION OF MEETING

7.00 p.m. to 7.03 p.m.

2019/20 WORK PROGRAMME

	Committee	Month	Lead	Report Author
Annual Governance Statement and Local Code of Corporate Governance	AGS	Jul-19	Angela Woodhouse	Angela Woodhouse
Audit, Governance & Standards Committee Annual Report	AGS	Jul-19	Rich Clarke	Rich Clarke
Internal Audit Annual Opinion	AGS	Jul-19	Rich Clarke	Rich Clark
Budget Strategy - Risk Assessment Update	AGS	Jul-19	Mark Green	Chris Hartgrove
Treasury Management Annual Report 2018/19	AGS	Jul-19	Chris Hartgrove	John Owen
Capital Strategy	AGS	Jul-19	Mark Green	Chris Hartgrove
Final Statement of Accounts 2018/19	AGS	Jul-19	Mark Green	Chris Hartgrove
External Audit Fee Letter 2019/20	AGS	Jul-19	Mark Green	Chris Hartgrove
Risk Management Annual Report	AGS	Sep-19	Rich Clarke	Rich Clark
Annual Complaints Report	AGS	Sep-19	Angela Woodhouse	Anna Collier
Complaints received under the Members' Code of Conduct	AGS	Sep-19	Patricia Narebor	Christine Nuttall
Review of Standards Procedures in the Constitution	AGS	Sep-19	Patricia Narebor	Christine Nuttall
Budget Strategy - Risk Assessment	AGS	Sep-19	Mark Green	Chris Hartgrove
Contract Monitoring Update	AGS	Sep-19	Mark Green	Georgia Hawkes

2019/20 WORK PROGRAMME

	Committee	Month	Lead	Report Author
External Auditor's Annual Audit Letter 2018/19	AGS	Sep-19	Mark Green	Chris Hartgrove
GDPR Update	AGS	Sep-19	Angela Woodhouse	Angela Woodhouse
Budget Strategy - Risk Assessment	AGS	Nov-19	Mark Green	Chris Hartgrove
Complaints received under the Members' Code of Conduct	AGS	Nov-19	Patricia Narebor	Christine Nuttall
External Audit Update Report November 2019	AGS	Nov-19	Mark Green	Chris Hartgrove
Internal Audit Interim Update	AGS	Nov-19	Rich Clarke	Rich Clarke
Maidstone Property Holdings Governance Arrangements	AGS	Nov-19	Mark Green	Chris Hartgrove
Treasury Management Mid-Year Review 2019/20	AGS	Nov-19	Chris Hartgrove	John Owen
Annual Governance Statement Update	AGS	Jan-20	Angela Woodhouse	Angela Woodhouse
Budget Strategy - Risk Assessment	AGS	Jan-20	Mark Green	Chris Hartgrove
Counter-Fraud Strategy	AGS	Jan-20	Rich Clarke	Rich Clarke
Housing Benefit Grant Claim	AGS	Jan-20	Sheila Coburn	Liz Norris
Internal Audit Charter	AGS	Jan-20	Rich Clarke	Rich Clarke
Treasury Management Strategy 2020/21	AGS	Jan-20	Chris Hartgrove	John Owen

2019/20 WORK PROGRAMME

	Committee	Month	Lead	Report Author
Audit & Assurance Plan	AGS	Mar-20	Rich Clarke	Rich Clarke
Budget Strategy - Risk Assessment	AGS	Mar-20	Mark Green	Chris Hartgrove
Complaints received under the Members' Code of Conduct	AGS	Mar-20	Patricia Narebor	Christine Nuttall
External Audit Update Report March 2020	AGS	Mar-20	Mark Green	Chris Hartgrove
External Auditor's Audit Plan 2019/20	AGS	Mar-20	Mark Green	Chris Hartgrove
Risk Management Process	AGS	TBA	Rich Clarke	

3

Audit, Governance and Standards Committee

30 July 2019

Annual Governance Statement 2018-19

Final Decision-Maker	Audit Governance and Standards Committee
Lead Head of Service	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	

Executive Summary

Attached at Appendix A is the Annual Governance Statement for 2018-19. The purpose of the Annual Governance Statement is to provide assurance on the Council's governance arrangements.

Purpose of Report

Decision

This report makes the following recommendations to this Committee:

To approve the Annual Governance Statement for 2018-19.

Timetable

Meeting	Date
Corporate Leadership Team	21 May 2019
Audit, Governance and Standards Committee	30 July 2019

Annual Governance Statement 2018-19

1. 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
Cross Cutting Objectives	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	The action plan may have resource implications. These will be identified as projects come forward.	Section 151 Officer & Finance Team
Staffing	The action plan may have resource implications these will be identified as projects come forward	Head of Policy, Communications and Governance
Legal	<p>Section 6(1) of the Accounts and Audit Regulations 2015 requires all local authorities to:</p> <p>a) conduct a review of the effectiveness of the system of internal control required by regulation 3; and</p> <p>(b) prepare an annual governance statement;</p> <p>Under the Council's Constitution one of the functions of the Committee is to oversee the production of the Council's Annual Governance Statement. The Annual Statement demonstrates measures are in place to ensure good governance arrangements which enable the Council to meet its statutory requirements.</p>	Principal Solicitor, Corporate Governance
Privacy and Data Protection	Data protection is covered in the statement and action will continue into 2019-20	Policy and Information Team
Equalities	Effective corporate governance arrangements include behaving with integrity, demonstrating strong commitment to ethical	Policy & Information Manager

	values, and respecting rule of law as set out in the code of corporate governance.	
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Public Health Officer
Crime and Disorder	No implications.	Head of Policy, Communications and Governance
Procurement	No implications.	Head of Policy, Communications and Governance

2. INTRODUCTION AND BACKGROUND

- 2.1 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 of the Council and Chief Executive.
- 2.2 Overall, we can confirm that the council has the appropriate systems and processes in place and we do not consider there are any significant governance issues arising from the review. Whilst we are satisfied the arrangements work well our review has 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 internal Corporate Governance Group.
- 2.3 Areas for Improvement 2019-20

Key improvement area	Lead Officer	To be delivered by
Ensuring sufficient resource to deliver the ambition for embracing growth and enabling infrastructure priority (link to Corporate Risk Register)	Director of Regeneration and Place	1 March 2020
Ensuring there is protection against bribery and corruption.	Monitoring Officer	As identified in Audit report
Capacity to deliver the investment and regeneration	Director of Regeneration and Place	1 March 2020

programme – (link to Corporate Risk Register)	Director of Finance and Business Improvement	
Property Maintenance, Health and Safety Compliance	Director of Finance and Business Improvement	1 March 2020
Governance for Maidstone Property Holdings	Chief Executive	1 March 2020
Contract Management	Director of Finance and Business and Improvement	1 November 2019
Partner Relationships	Chief Executive	1 November 2019

2.4 A number of improvements actions were identified as part of the 2017-18 Annual Governance Statement

The table below shows progress with these actions:

Governance Issue	Update
Develop a clear and consistent strategic narrative with agreed vision and priorities	Strategic Plan Vision, Outcomes and Objectives were agreed in December 2018. New strategic Plan adopted
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) 	These audit reviews have now been rated as sound following implementation of agreed remedial action.
Stress Survey	Actions: <ul style="list-style-type: none"> • Presentation of results to Unit Managers and Staff Forum. • Team Talks delivered on the stress survey results and actions and appropriate behaviour. • Training for managers on managing resilience in teams • Well-being week and activities held
Risks: Housing Pressures Continue to Increase Project Failure – failure of significant capital projects of a housing and regeneration nature	CLT receive a monthly update on the service. Projects approved and managed

Governance Issue	Update
Financial Restrictions	MTFS Adopted
Data Protection Compliance	Action plan has been progressed
Payment Card Industry (PCI) compliance	Project has been completed and council is PCI compliant.

3 AVAILABLE OPTIONS

- 3.1 The Annual Governance Statement is a requirement of statutory regulations and provides assurance about the Council's governance arrangements.
- 3.2 The Committee can approve the Annual Governance Statement as it has been presented or make amendments as appropriate.

4 PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The Committee is asked to review the Annual Governance Statement and action plan and approve the areas suggested for improvement for 2019-20.

5 RISK

- 5.1 The Annual Governance Statement considers and gives assurance to the Council's approach to risk management.

6 CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Members of Corporate Leadership Team and the Corporate Governance working Group have all been consulted on the council's governance arrangements for 2018-19, the views gathered have been included in the statement.

7 NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 Following the Audit, Governance and Standards Committee's approval the statement will be included in the final statement of accounts and published on the Council's website.

8 REPORT APPENDICES

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

- Appendix A: Annual Governance Statement 2018-19

9 BACKGROUND PAPERS

None.

Annual Governance Statement

2018-19

Introduction

The Annual Governance Statement is a review of the council's governance arrangements in 2018-19. The statement evaluates how we meet the governance framework and provides an opinion on whether the current governance arrangements are fit for purpose.

Significant Governance Issues

Overall, we can confirm that the council has the appropriate systems and processes in place. We do not consider there are any significant governance issues arising from the review. Whilst we are satisfied the arrangements work well our review has 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 internal Corporate Governance Group.

Areas for Improvement 2019-20

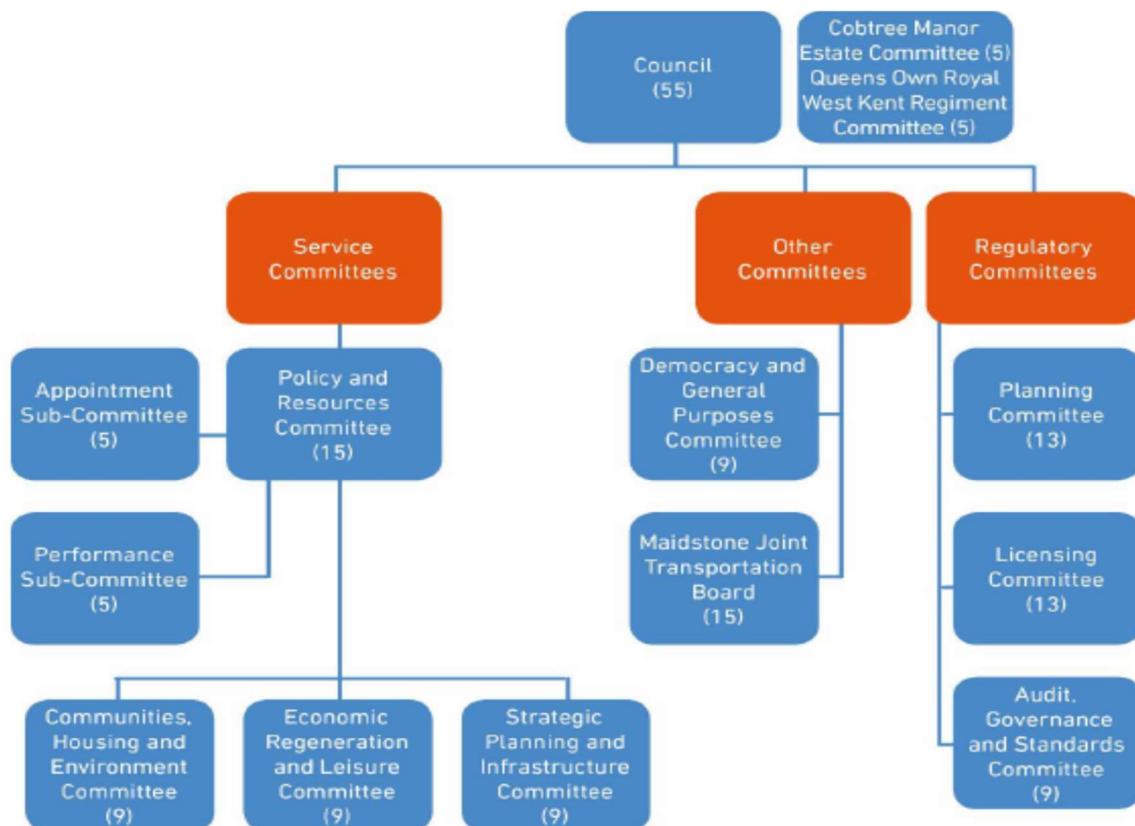
Key improvement area	Lead Officer	To be delivered by
Ensuring sufficient resource to deliver the ambition for embracing growth and enabling infrastructure priority (link to Corporate Risk Register)	Director of Regeneration and Place	1 March 2020
Ensuring there is protection against bribery and corruption.	Monitoring Officer	As identified in Audit report
Capacity to deliver the investment and regeneration programme – (link to Corporate Risk Register)	Director of Regeneration and Place Director of Finance and Business Improvement	1 March 2020
Property Maintenance, Health and Safety Compliance	Director of Finance and Business Improvement	1 March 2020
Governance for Maidstone Property Holdings	Chief Executive	1 March 2020
Contract Management	Director of Finance and Business and Improvement	1 November 2019
Partner Relationships	Chief Executive	1 November 2019

Scope of Responsibility

Maidstone Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for. 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 2018-19 also meets the requirements of the Accounts and Audit Regulations 2015, regulation 6(1) which require an authority to conduct a review of the effectiveness of its system of internal control and the duty to prepare an annual governance statement.

Key Governance Roles and Responsibilities

The Council operates a committee system of governance and the Leader is the focus for political direction and the chief spokesperson for the Council. The Leader is also Chair of the Policy and Resources Committee. The Council has four service 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 and employment and other regulatory matters. The numbers shown in the diagram below reflect membership.



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 2018-19 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 Head of Paid Service and the Council's chief policy advisor with overall corporate management and operational responsibility.

The Head of Policy, Communications and Governance has responsibility for corporate governance, leading the council's corporate governance group and coordinating the annual governance statement as well as ensuring the Local Code of Corporate Governance is updated.

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.

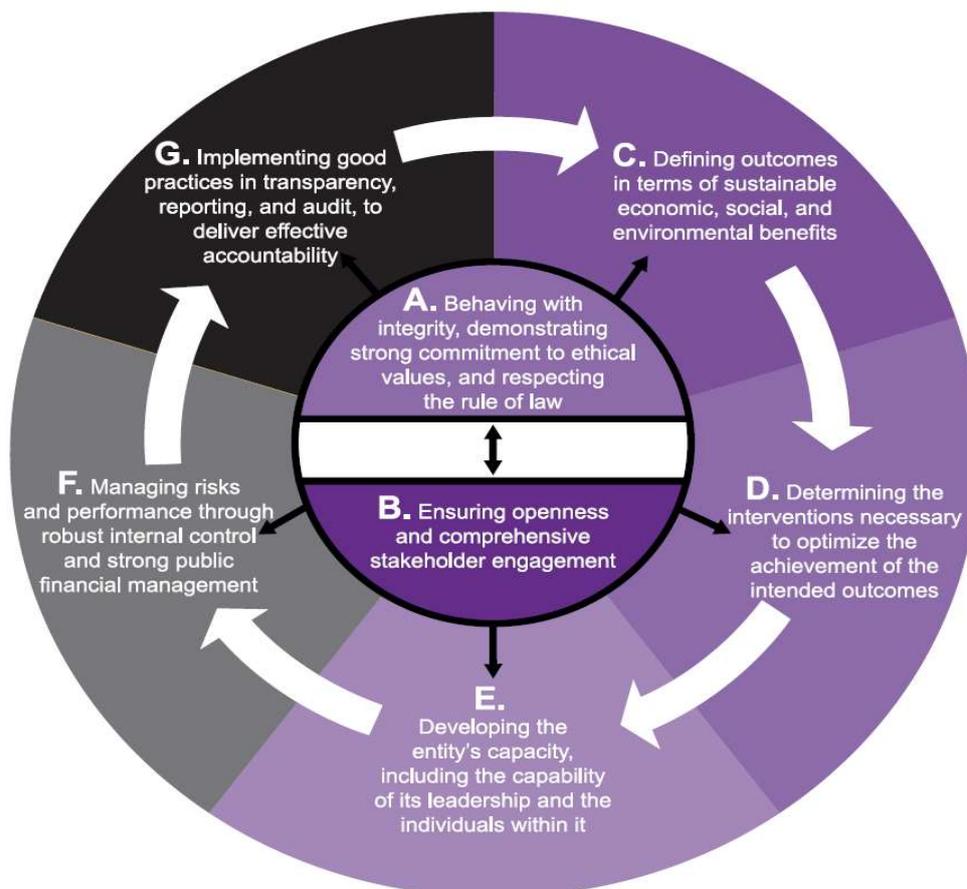
This governance framework has been in place at Maidstone Borough Council for the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts.

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 2018-19.

The 7 principles within the Local Code of Corporate Governance



Looking back at 2017-18

A number of improvement actions were identified as part of the 2017-18 Annual Governance Statement.

The table below shows progress with these actions.

Governance Issue	Update
Develop a clear and consistent strategic narrative with agreed vision and priorities	Strategic Plan Vision, Outcomes and Objectives were agreed in December 2018. New Strategic Plan adopted.
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) 	These audit reviews have now been rated as sound following implementation of agreed remedial action.
Stress Survey	Actions: <ul style="list-style-type: none"> • Presentation of results to Unit Managers and Staff Forum. • Team Talks delivered on the stress survey results and actions and appropriate behaviour. • Training for managers on managing resilience in teams. • Well-being week and activities held.
Risks: Housing Pressures Continue to Increase Project Failure – failure of significant capital projects of a housing and regeneration nature Financial Restrictions Data Protection Compliance Payment Card Industry (PCI) compliance	CLT received a monthly update on the service. Projects approved and managed. MTFS Adopted. Action plan has been progressed. Project has been completed and council is PCI compliant.

Review of Effectiveness 2018-19

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. The monitoring officer has had cause during the year to remind councillors about the obligations within the code relating to the disclosure of exempt and confidential information. During the municipal year 2018-2019, there were 11 code of conduct complaints dealt with under the Localism Act 2011 against Parish Councillors and 8 complaints against Borough Councillors. One complaint was referred to the Standards Committee for a formal investigation hearing and sanctions applied and guidance was given to the individual.

Information on the employee 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 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. It has been identified that the process and policy for the register of interests by employees and gifts and hospitality needs to be revised in 2019-20.

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, and ensuring 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.

There is an [Equality Policy](#) in place for the organisation the objectives and action plan were updated in 2018.

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 consultations are 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 'consultation fatigue' - where we are consulting the same people repeatedly and they lose interest in responding. The Council is a member of the Consultation Institute, which provides a wealth of resources and insight. Officers have undertaken accredited training via the Institute to further improve our approach and processes.

Over the course of 2018-19 we have carried out 16 consultations including, for example: taxi emissions, Public Space Protection Orders, Borough Insight and Heather House as well as customer satisfaction surveys.

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 in place for planning covering a whole variety of means of communicating with and involving residents in planning which was revised in December 2018. In 2018-19 we engaged with key stakeholders including Councillors, Parish Councils, businesses and residents on the development of our new Strategic Plan through surveys, meetings and events.

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: 704 in 2018-19, processing 94% on time. The Borough Insight magazine informs residents about our services and in 2018-19 we ran 365 days of good news promoting council services, activities and events throughout the year.

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. We received positive feedback from the Kent Association of Local Councils on the Local Plan review. We have acted as community ambassadors in our capacity as the democratically elected body representing residents through events such as the workshop held with the Clinical Commissioning Group on GP provision.

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

The Council developed a new [Strategic Plan](#) in 2018-19 through a series of events, meetings and consultation with stakeholders. We have in place a new vision and four key priorities to 2045. 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. Individuals also identify how they meet the priorities in their objectives for the year. Regular updates are given on progress with the Strategic Plan at our Staff and Manager Forums as well as at our annual One Council event.

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. The new template agreed in 2018-19 includes the four new priorities and the four cross

cutting objectives. We also have a robust risk management framework in place: risks are reported to the Leadership Team, Policy and Resources and Audit, Governance and Standards Committees.

In 2019-20 a new commissioning strategy will be developed which will include social value considerations when we commission and procure goods and services.

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 2018-19.

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](#).

Democracy Committee reviewed the Committee Structure in 2018-19 and a number of changes have been agreed to align the four service committees to the new strategic plan objectives, with the biggest change to Heritage, Culture and Leisure Committee (now known as Economic Regeneration and Leisure Committee) taking on Economic Development from Policy and Resources.

Performance is reported on a quarterly basis to each service committee as well as updates on plans and strategies throughout the year. Corporate Leadership Team received monthly performance monitoring reports for Housing and Planning during 2018-19.

The Council has a transformation team which carries out reviews to improve the efficiency of council services. In 2018-19 reviews were carried out of Electoral Services and Customer Services. Reviews planned for 2019-20 include street cleansing and leisure services.

Contract Standing Orders were reviewed in 2018-19, and as we head into 2019-20 the Council will need to ensure that effective contract management practice is embedded throughout the organisation.

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.

In 2018-19 the Council undertook a review of its property portfolio, introducing a better database and monitoring arrangements. Work will be undertaken in 2019-20 on health and safety compliance.

In 2018-19 two new projects were begun which will continue into 2019-20. One focused on a Borough that works for everyone - looking at inclusive growth and the other giving consideration to social value in our contracts and procurement.

In 2018-19 the Council had reason to pursue a judicial review of a County Council decision. A settlement and way forward has been agreed between both partners. The Council will need to continue to have a strong relationship with all partners to ensure its ambitious vision is delivered.

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.

The new Strategic Plan sets out a number of priorities and outcomes to be achieved by 2045. To achieve these we will need to look at the organisation's capacity particularly in relation to Economic Regeneration and Community Development.

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. Financial management whilst effective does need to be improved in the Planning Service with increased training and support for budget managers.

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

The Council has a Data Protection Officer and has in place an action plan to ensure compliance with Data Protection Legislation. The information management group chaired by the Senior Information Risk Owner meets quarterly to review information management practice and policies including cyber security. Work is planned this year on improving data protection and compliance in CCTV, elections and information sharing.

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 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 Whistleblowing Policy was updated in 2016 and is due to be refreshed in 2019/20. 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 2019-20.

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.

We are part of Mid Kent Services, along with Swale Borough Council and Tunbridge Wells Borough Council. To ensure the partnership is operating effectively regular board meetings are held quarterly to manage performance. Looking ahead we will need to consider the changes in political leadership at our partner councils as this could impact the partnership.

Maidstone Property Holdings has been identified in 2018-19 as requiring corporate governance arrangements to grow alongside the activity levels of the company.

Internal Audit Opinion

The Head of Internal Audit will present the annual report and opinion to Audit, Governance and Standards Committee on 30 July 2019. The specific extract of that report that includes the opinion reads:

Internal Control

I am satisfied that during the year ended 31 March 2019 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 2019 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 2019 are effective and provide sound assurance.

Signed:

Chief Executive:

Date:

Leader of the Council:

Date:

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

30 July 2019

Audit, Governance and Standards Committee Annual Report 2018/19

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

Executive Summary

The report outlines how the Audit, Governance & Standards Committee has discharged its duties during 2018/19. The report provides assurance to the Council that important internal control, governance and risk management issues are being monitored and addressed by the Committee.

Purpose of Report

Noting

This report makes the following recommendations to this Committee:

1. That the Audit, Governance & Standards Committee Annual Report for 2018/19 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 2019
Council	25 September 2019

Audit, Governance and Standards Committee Annual Report 2018/19

1. 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.	Jen Warrillow Audit Manager
Cross Cutting Objectives	We do not expect the recommendations will directly impact the Council's cross cutting objectives	Jen Warrillow 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.	Jen Warrillow 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.	Jen Warrillow Audit Manager
Legal	There are no legal or statutory implications identified in the report. The report demonstrates that measures are in place to ensure good governance arrangements which enable the Council to meet statutory requirements.	Keith Trowell, Team Leader (Corporate Governance) MKLS
Privacy and Data Protection	There are no privacy and data protection implications with this proposal.	Policy and Information Team
Equalities	This report does not describe circumstances which require an Equality Impact Needs Assessment.	Equalities and Corporate Policy Officer
Public Health	This report does not impact on population health or that of individuals.	Public Health Officer
Crime and Disorder	There are no crime and disorder implications for this report.	Jen Warrillow Audit Manager
Procurement	There are no procurement implications for this report.	Rich Clarke Head of Audit Partnership

2. INTRODUCTION AND BACKGROUND

- 2.1 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 report sets out how this has been achieved during 2018/19.
- 2.2 This is the fourth year that the Committee has reported its activity in this way since updating its Terms of Reference in 2014/15 to include Standards.
- 2.3 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 2018/19 a number of briefings were provided, as outlined in Appendix A. This report proposes further briefings for 2019/20 for the Committee to agree.

3. AVAILABLE OPTIONS

- 3.1 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.
- 3.2 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.

4 PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 This report provides the Council with assurance that important governance, risk and standards issues are monitored and addressed.
- 4.2 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.

5 RISK

- 5.1 This report has no risk management implications.

6 CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 This report was compiled through consultation between Officers.

7 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 2018/19

8 BACKGROUND PAPERS

None

Audit, Governance & Standards Committee

Annual Report 2018/19



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 2018/19:

- 30 July 2018
- 17 September 2018
- 19 November 2018
- 14 January 2019
- 18 March 2019

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

Duri

During 2018/19 the Audit, Governance and Standards Committee was comprised of 10 members: 9 Borough Councillors and 2 Parish Councillors. The following Councillors were Members of the committee at various points during the year:

Members	
Cllr McLoughlin (Chair)	Cllr Perry
Cllr Harvey (Vice-Chair)	Cllr Purle
Cllr Bartlett	Cllr Webb
Cllr Cox	Parish Cllr Coulling
Cllr Daley	Parish Cllr Titchener
Cllr Garland	

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 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 2018/19. All 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
Annual Internal Audit Report & Opinion 2017/18
Interim Internal Audit and Assurance Report
Internal Audit Charter
Internal Audit & Assurance Plan 2019/20
External Audit (Grant Thornton)
External Audit Progress Reports
External Auditor's Annual Letter
External Auditor's Audit Plan 2018/19
External Auditor's Fee Letter 2018/19
Housing Benefit Grant Claim
Finance
Annual Accounts 2017/18
Budget Strategy - Risk Assessment Update
Changes to Financial and Contract Procedure Rules
Contract Management Update
Treasury Management Annual Review 2017/18
Treasury Management Mid-Year Review 2018/19
Treasury Management, Investment and Capital Strategies 2019/20
Governance
Annual Complaints Report 2017/18
Annual Governance Statement 2017-2018
Annual Governance Statement Update
Annual Risk Management Report
Audit, Governance and Standards Committee - Annual Report
CIPFA Position Statement on Audit Committees in Local Authorities and Police
Complaints received under the Member's Code of Conduct
Data Protection Act 2018 (GDPR) Progress to Compliance
Investigatory Powers Commissioner's Officer Inspection Report
Maidstone Property Holdings Governance Arrangements

The business outlined above has been fulfilled in accordance with the Committee's agreed Terms of Reference (detailed in Appendix I). Furthermore, the Committee has, where applicable to 2018/19, 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 2017/18 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 19/20 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 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 July 2018.
The Committee receives updates on the Council's Treasury Management activity and has 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 addressing 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 2019, 17 new Member complaints were received. Six of the complaints related to Borough Councillors with the remaining complaints relating to parish councillors.

- 7 concluded there was no breach.
- 6 were resolved through informal resolution.
- 3 were not concluded due to lack of response from the complainant.
- 1 was rejected as failed one or more of the legal jurisdiction tests.

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 invitation is extended to all Members not just those on the Committee. For 2018/19 Members continued to show an interest to continually develop their knowledge and skills and as such the following sessions were delivered over the year:

- Delivering an internal audit
- Risk Management
- Recharging
- Role of the Audit Committee
- Financial Statements

Proposed Programme 2019/20

The table below details a proposed programme of updates and briefings that could be delivered during 2019/20. 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.

Member training remains a high priority and we are currently looking at alternative methods for presenting these sessions such as webcasting. The first briefing is to be on Member Standards and below are possible other topics for inclusion in the Member development program for 2019/20:

- Assurance across the partnerships;
- Role of internal and external audit;
- Internal Audit Standards;
- Assurance on value for money;
- Treasury Management;
- Reviewing the Annual Governance Statement.

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 2018/19.

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.
- 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.

Agenda Item 14

Audit, Governance & Standards Committee

30 July 2019

Annual Internal Audit Report & Opinion 2018/19

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

Executive Summary

The report provides the opinion of the Head of Internal Audit for the year ended 31 March 2019, concluding the Council has sound internal control, risk management and governance arrangements.

Purpose of Report

Noting

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 2018/19.
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.
3. The Committee **notes** progress so far towards completing the 2019/20 audit and assurance plan.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	30 July 2019

Annual Internal Audit Report & Opinion 2018/19

1. 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 by helping to achieve good governance.	Rich Clarke Head of Audit Partnership 18 July 2019
Cross Cutting Objectives	The report recommendations support the achievement of cross cutting objectives through promotion of good governance.	
Risk Management	The recommendations pose no new risks to the Council nor modify any existing risks.	
Financial	The proposals set out in the recommendations 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.	
Legal	Accepting the recommendations will help fulfil the Council's duties under the Accounts and Audit Regulations 2015 to deliver an effective internal audit service.	
Privacy and Data Protection	The recommendations have no new implications for privacy and data protection.	
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	
Crime and Disorder	The recommendations have no new implications for crime and disorder.	
Procurement	The recommendations require no new procurement to deliver.	

2. INTRODUCTION AND BACKGROUND

2.1 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 2018/19.

2.2 PSIAS, in particular Standard 2450: Overall Opinions, direct that the annual report must incorporate:

- The annual internal audit opinion,
- A summary of the work completed that supports the opinion, and

2.3 A statement on conformance with PSIAS. Internal audit is a required service under Regulation 5 of the Accounts and Audit Regulations 2015. The principal 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.

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

...consider the Head of Audit Partnership's annual report and opinion, and a summary of audit activity (actual and proposed) and the level of assurance it can give over the council's governance arrangements, and any report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.

2.5 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 2018/19 was agreed by this Committee in March 2018. This Committee also received an interim update on progress to date in November 2018.

2.6 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 2019/20.

2.7 We also include, at Annex C within the substantive report, a summary on progress so far with the 2019/20 audit and assurance plan.

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 2018/19. 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.
- 3.2 Please see the appendix for the full Annual Report for 2018/19 which includes a summary of all work conducted to support the opinion and confirms the independence and effectiveness of the internal audit service.
-

4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 4.1 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.
-

5. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 5.1 The Head of Internal Audit opinion is incorporated within the Annual Governance Statement.
-

6. REPORT APPENDICES

- *Appendix 1: Annual Internal Audit Report & Opinion 2018/19*
-

7. BACKGROUND PAPERS

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

Appendix 1
Annual Internal Audit Report
and Opinion 2018/19

July 2019

Maidstone Borough Council



MID KENT AUDIT

Introduction

1. The 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 2018/19 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.

MID KENT AUDIT

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 2019.

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 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 2018/19*.
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. Beyond this general disclaimer, I have no specific limits of our scope to report to the Committee.

Consideration of work completed and reliance on others

9. I have drawn my opinion from the work completed during the year. I first set out the work in the plan approved by Members on 19 March 2018 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.
10. In completing my work I have placed no specific reliance on external sources.

Information supporting the opinion

11. The rest of this report summarises the work completed in delivering the internal audit plan through 2018/19.
12. 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

13. 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.
14. The Council has described key parts of its internal control and risk management within the [Local Code of Governance](#) and [Risk Management Framework](#).
15. 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.
16. In completing our work we have considered the control environment and objectives in place at the Council.

Conformance with standards

17. Mid Kent Audit has conducted its work following the Standards and good practice as represented in our internal quality assurance. This includes working to an agreed audit manual with satisfactory supervision and review.
18. 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 during the year 2019/20.
19. 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

20. I am satisfied that during the year ended 31 March 2019 the Council managed its internal controls to offer sound assurance on control effectiveness.

Governance

21. I am satisfied that Council's corporate governance arrangements for the year ended 31 March 2019 comply in all material respects with guidance on proper practices¹.

Risk Management

22. I am satisfied the risk management arrangements at the Council for the year ended 31 March 2019 are effective and provide sound assurance, but note forthcoming revisions to the strategic risk register and recent updates to operational risk approach.

Other Matters

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



Rich Clarke CPFA ACFS
Head of Audit Partnership

19 July 2019

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

24. 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.
25. 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 2018/19

26. This Committee approved our *Annual Audit & Assurance Plan 2018/19* on 19 March 2018. 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 will close later this month. Although we have some matters to finish, I am satisfied we have advanced our work enough to enable delivery of a robust opinion. We will provide updates on any work awaiting completion in our interim reporting.
27. The table below shows progress in total number of days delivered against the plan (with a forecast of final position).

Category	2018/19 Plan Days	Forecast total	Balance
2018/19 Assurance Projects	380	277	-103
Non-Project Assurance Work	120	210	+90
Unallocated Contingency	30	58	+28
Total	530	545	+15
Concluding 2017/18 projects	n/a	80	n/a

28. We forecast final delivery of around 545 audit days. This is 103% of planned days. We detail the specifics, and results, of this progress further in this report.

MID KENT AUDIT

Results of Audit Work

29. The tables below summarise audit project findings up to the date of this report. Where there are material matters finished before the committee meeting we will provide a verbal update. (* = Days split between partners, MBC only shown).

Completed Assurance Projects

	Title	Plan Days	Actual Days	Report Issue	Rating	Notes
2017/18 Assurance Projects Completed After 1 April 2018						
	Food Safety	n/a*	n/a*	Apr-18	Sound	Reported to Members in Jul-18
	Parking Income	n/a*	n/a*	Apr-18	Sound	Reported to Members in Jul-18
	Promotion & Marketing	n/a	n/a	May-18	Sound	Reported to Members in Jul-18
	Insurance	n/a	n/a	May-18	Sound	Reported to Members in Jul-18
	Legal Services	n/a*	n/a*	Jun-18	Sound	Reported to Members in Jul-18
	Street Scene	n/a	n/a	Jul-18	Sound	Reported to Members in Nov-18
	HR Policy Compliance	n/a*	n/a*	Jul-18	Sound	Reported to Members in Nov-18
	Member Training & Induction	n/a	n/a	Aug-18	Sound	Reported to Members in Nov-18
	Complaints	n/a	n/a	Aug-18	Sound	Reported to Members in Nov-18
	Contract Management	n/a	n/a	Nov-18	Weak	Reported to Members in Nov-18
	Animal Welfare Control	n/a	n/a	Nov-18	Weak	Reported to Members in Nov-18
Planned 2018/19 Assurance Projects Completed so far						
I	Housing Allocations	15	15	Aug-18	Sound	Reported to Members in Nov-18
II	CIPFA Financial Resilience Index	5*	4*	Sep-18	N/A	Reported to Members in Nov-18
III	Budgetary Control	15	16	Nov-18	Sound	Reported to Members in Nov-18
IV	Museum Income Collection	16	15	Nov-18	Sound	Reported to Members in Nov-18

MID KENT AUDIT

	Title	Plan Days	Actual Days	Report Issue	Rating	Notes
V	Absence Management	11*	11*	Apr-19	Sound	
VI	Accounts Payable	15	15	Apr-19	Sound	
VII	Markets	18	19	May-19	Sound	
VIII	Licensing Administration	8*	8*	Jun-19	Sound	
IX	Building Control	18	25	Jun-19	Sound	
X	Revenues & Benefits Compliance Team	6*	8*	Jul-19	Sound	
XI	Council Tax Reduction Scheme	10*	10*	Jul-19	Sound	
XII	Declarations of Interest	15	15	Jul-19	Weak	
XIII	General Data Protection Regulations	5*	5*	Jul-19	N/A	
	Transformation	18	25	Jul-19	tbc	Draft report issued
	Planning Enforcement	15	15	Jul-19	tbc	Draft report issued
	Cyber Security	8*	8*	Aug-19	tbc	Draft report issued
	Commercial Waste	16	17	Sep-19	tbc	Fieldwork complete

MID KENT AUDIT

Assurance Projects Removed from 2018/19 Plan

Title	Days Spent	Rationale and alternative assurance sources
Air Quality	0	Delayed to allow development of new air quality strategy.
Business Rate Liabilities	1	Rescheduled to 2019/20 owing to audit resource issues.
Cobtree Trust	1	Removed from plan following changes to arrangements led by Maidstone BC.
Community Protection	0	Rescheduled to 2019/20 owing to audit resource issues.
Homelessness Reduction Act	0*	Replaced by individual reviews in 2019/20
IT Technical Support	1*	Rescheduled to 2019/20 to allow service to focus on laptop upgrade project.
Property Management	1	Delayed to allow completion of non-plan work.
Public Consultations	0	Delayed to allow completion of non-plan work.
Recruitment	2*	Rescheduled to 2019/20 owing to audit resource issues.
Waste Contract	2*	Replaced by ad hoc advice support following developments with contractor.

MID KENT AUDIT

I: Housing Allocations (August 2018)

30. Our testing has concluded applicants entered onto the housing register are suitably scrutinised to establish their eligibility. The housing need and local connection are properly determined, and allocation decisions are transparent.
31. However, due to a recent lack of resources all areas of the Scheme are not being enforced. In particular rules around the frequency of bidding and review timescales aren't being met. Furthermore, there are limited controls in place to prevent MBC Officers from accessing and updating their own housing register accounts.

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

32. The Council completed all agreed actions before the end of January 2019. We have now closed this review.

II: Financial Resilience Index (September 2018)

33. CIPFA closed its consultation on a proposed Resilience Index (the "Index") on 24 August 2018. The stated aim of the index, according to CIPFA is:

"...to be an authoritative measure of council's financial resilience, drawing on publicly available information, intended to provide an early warning system where it is needed so that action can be taken at a local level in a timely manner."

34. CIPFA published a reasonably detailed explanation of its intended method alongside the consultation on its overall proposal. The core of the method is to take accounts data focusing on RSG reliance, reserve levels and auditor opinions and combine them into a single weighted score. CIPFA will then adjust the scores to set the median at 100. Authorities with a score of greater than 100 show signs associated with greater financial resilience than their peers.
35. Based on the method set out in the consultation, we found all four authorities in the partnership comfortably into or beyond the mid-range with index scores between 98 and 125. However, there is notable range among districts. The top of the index is 190, far above the median level, with scores falling down to 55. Across Kent we found a range between 87 and 166.

MID KENT AUDIT

36. In December 2018 CIPFA announced plans to move away from a single index and instead publish to authorities a range of financial resilience indicators. CIPFA will publish the first set of indicators following conclusion of the 2018/19 financial statement audit opinions.

III: Budgetary Control (November 2018)

37. The Council's budgetary control process is defined within its Financial Procedure Rules. There are no budget monitoring procedure notes to support the process. These should be introduced to provide guidance and ensure a consistent approach.
38. Training was provided to budget managers in 2017 and this was supplemented by a detailed budget management pack. The Finance team also provide ongoing individual support. However our testing identified staff who hadn't received training and staff who required additional training. Budget managers also made suggestions for improvement to the support provided by Finance in response to our survey.
39. Our virement testing concluded they were processed and authorised in line with the Financial Procedure Rules. However the Service needs to better document where the authorisation for the virement has come from.

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	0
Low (Priority 4)	5
Advisory	0

40. The final agreed actions, related to budget management training for managers across the Council, fall due for action this month. We will follow up progress and report to Members later in the year.

IV: Museum Income Collection (November 2018)

41. Our review concludes that controls are generally operating as designed to ensure that income is appropriately collected, banked and coded. Detailed procedures are in place to help ensure cash is collected, stored and banked accurately and securely. However, our testing found that some invoices sent to schools are not being raised in a timely manner. Combined with ineffective credit control, this has resulted in several late payments. This can be partially attributed a lack of sufficient cover within the team to undertake this task.

MID KENT AUDIT

42. The Museum's income targets have been set as part of the annual budget setting process. At the time of audit, income (excluding grants) was 19% short of the budgeted year to date target. However this was found to be due to targets not being profiled over the year. There are appropriate mechanisms to monitor income levels.

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	0
Low (Priority 4)	4
Advisory	0

43. The Council completed all agreed actions by April 2019. We have now closed this review.

V: Absence Management (April 2019)

44. Our testing found good controls and support available to help both Maidstone and Swale councils track sickness absence and mitigate its impact. We identified good levels of understanding and conformance among managers on both process and purpose. The Shared HR Service regularly reports sickness absence levels to senior management and we found evidence of suitable support and action in response. We highlighted a few minor improvements needed, but our most significant finding concerns training. The Sickness Toolkit Training is good quality and comprehensive but has low take-up rates. We encourage the councils to consider how to improve engagement with training on absence management.

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	6
Low (Priority 4)	3
Advisory	1

45. The actions fall due at the end of September. We will follow up later in the year and detail progress to Members in our interim report.

MID KENT AUDIT

VI: Accounts Payable (April 2019)

46. We found that key accounts payable processes are not supported by comprehensive procedure notes.
47. Our testing has established that access to add and amend suppliers is appropriately restricted, and that new suppliers added and changes to existing suppliers are processed correctly and in a timely manner. However, there is no evidence that amendments to the supplier master-file are checked and approved by a second officer.
48. There is good segregation of duties in the invoice payment process and requisitions were authorised, in accordance with the Council's authorised signatory list. However, we identified one instance where a payment was made prior to the relevant goods being received. We also identified two instances of late payments, outside the 30-day target.
49. Credit notes are approved in accordance with the Council's authorised signatory list, with good segregation of duties. However, three instances were noted where credit notes were not processed in a timely manner.
50. There is good segregation of duties in the processing of urgent payment transactions. However, the date the payment request is received is not always recorded.
51. Invoice payments are not always posted to the ledger in a timely manner.
52. BACS payments are processed on a weekly basis, prior to the relevant payment run and remittance proposal and remittance confirmation reports are generated and authorised.
53. System reconciliations were completed but not fully recorded and there was no evidence of reconciliations being independently reviewed or approved.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Medium)	Priority 4 (Low)	Advisory
0	3	3	1	0

54. The agreed actions fall due later in the year. If all proceeds as planned, the actions will all be complete by October 2019. We will report progress to Members later this year.

MID KENT AUDIT

VII: Markets (May 2019)

55. Our review concludes that controls are operating as designed to ensure that income is securely collected, stored and banked. Our testing found that income is appropriately documented and is accurately reconciled and recorded on the financial system.
56. Sufficient health & safety measures are in place although, there is currently no permanent member of staff on site that is first aid trained.
57. The service has been extremely proactive in promoting the Market and staff show an exceptional level of commitment to their roles. However, improving resilience and succession planning should be considered to ensure that the Market continues to operate effectively.

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	2
Low (Priority 4)	1
Advisory	0

58. The agreed actions fall due this summer and will conclude by September if proceed as planned. We will follow up and report to Members later this year.

VIII: Licensing Administration (June 2019)

59. We found the Licensing Partnership prepared suitably for the introduction of the new Animal Licensing legislation, although the changes still added to the staff workload. The service brought in additional resources and prioritised work well, however there are still other tasks that need attention, such as updating procedures.
60. Our testing found the service process applications inconsistently with several issues that require action. All income is accounted for and there are sound arrangements to ensure continuing service delivery in the event IT resources become unavailable.

Critical (Priority 1)	0
High (Priority 2)	1
Medium (Priority 3)	2
Low (Priority 4)	1
Advisory	0

61. The agreed actions fall due this summer and will conclude by end of July if proceed as planned. We will follow up and report to Members later this year.

MID KENT AUDIT

IX: Building Control (June 2019)

62. The Council has effective and embedded processes to ensure that building control applications are processed promptly, consistently and in line with statutory requirements.
63. From our testing, we are satisfied that there are sound procedures for the setting and collection of fees. We found there to be a good quality of record keeping and noted that solid progress is being made on scanning historic hard copy records.
64. Areas for improvement are the need to introduce a periodic reconciliation of income charged to income received and for the procedures to be documented.

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	1
Low (Priority 4)	1
Advisory	0

65. The agreed actions fall due for completion at the end of 2019. We will follow up early in the new year and report to Members as part of our 2019/20 Annual Report.

X: Revenues & Benefits Compliance Team (July 2019)

Our review found the Council's approach to receiving and dealing with data matches is sound. Procedure notes are in place to support the team, who have clearly defined roles and responsibilities. Our testing confirmed the service generally follows correct procedure and accurately removes and recovers discounts from relevant accounts.

66. We have identified some actions that will improve existing arrangements. These include introducing quality assurance checks on work completed and clear service performance reporting.

Critical (Priority 1)	0
High (Priority 2)	0
Medium (Priority 3)	3
Low (Priority 4)	0
Advisory	1

67. The actions fall due at the end of September. We will follow up later in the year and detail progress to Members in our interim report.

MID KENT AUDIT

XI: Council Tax Reduction Scheme (July 2019)

68. The council tax reduction scheme has been appropriately approved and is being monitored through appropriate performance indicators which are regularly reported to appropriate levels within both Councils.
69. Our testing found that all claims sampled were verified, assessed and awarded in line with the scheme. However, the Data Protection declaration present on the Council Tax Support application form did not include all required text recommended by the Information Commissioners Office in the most recent guidance on privacy statements.

Priority 1 (Critical)	Priority 2 (High)	Priority 3 (Medium)	Priority 4 (Low)	Advisory
0	0	1	0	0

70. Management have already addressed the sole action arising from our report. We have therefore closed this review.

XII: Declarations of Interest (July 2019)

71. This audit focused on the following declarations:
- Members Declarations of Interest
 - Members & Officers Related-Party Transactions
 - Officer Declarations of Interest
 - Member and Officer Gifts & Hospitality Interests
72. The Council's Constitution sets out the requirements in relation to declaration of interests for both Members and Officers and allocates overall responsibility to the Council's Monitoring Officer.
73. Our testing established that the processes in place in relation to Member declarations of interest, Member Related Party Transactions and Officer and Member Gifts & Hospitality are generally effective, with some areas for minor improvement.
74. Our testing also established that all new employees are asked to submit their declaration of interests to HR as part of the corporate induction process and these forms are stored on the employee's personnel file. However, these forms are not reviewed by line managers or the Council's Monitoring Officer. Additionally there is no effective declaration of interest process in place for existing Council employees.

MID KENT AUDIT

This is a repeated finding from our last internal audit review of Declaration of Interests, which we completed in March 2015.

75. Due the lack of consistent procedures in place in relation to officer declarations, we were unable to determine whether officer declarations are assessed as part of the Council's procurement decision making process.
76. The assurance rating reflects that despite the previous audit review, there is still no declaration of interest process in place for existing Council officers. This is a core weakness of control that leaves the Council exposed to uncontrolled risk.

Critical (Priority 1)	0
High (Priority 2)	1
Medium (Priority 3)	1
Low (Priority 4)	4
Advisory	0

77. The agreed actions fall due before the end of 2019. We will follow them up through the remainder of this year and into next and report to Members in our Annual Report.

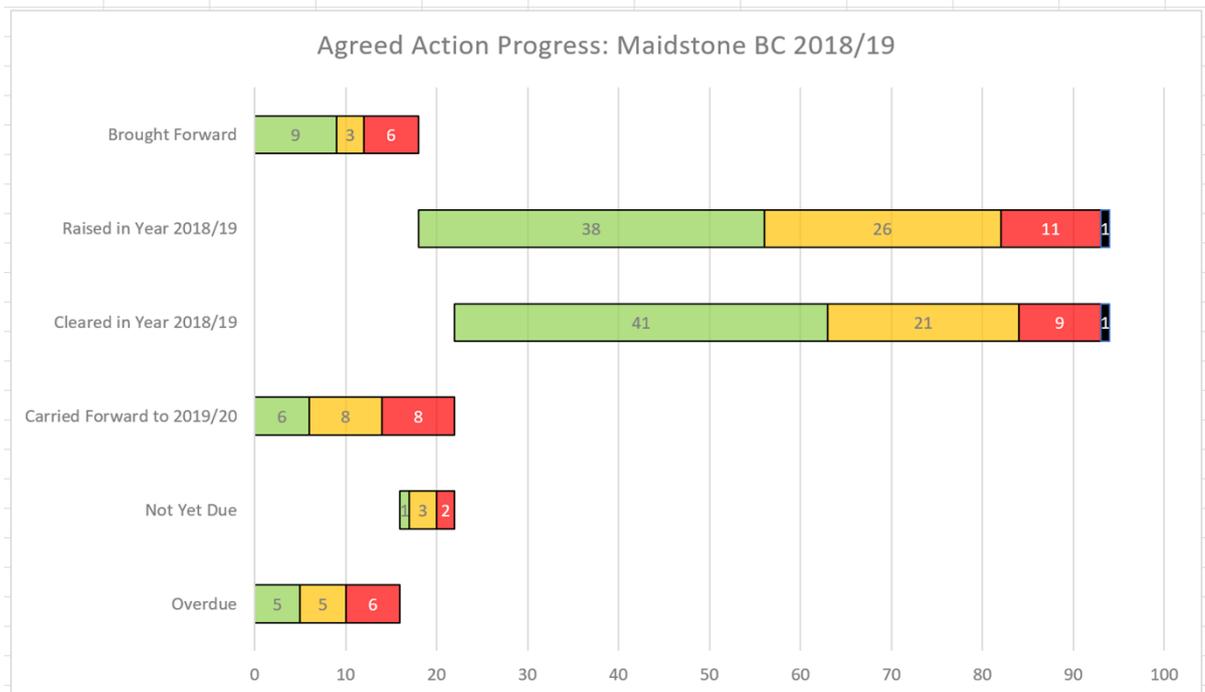
XIII: General Data Protection Regulations (July 2019)

78. Our review found the Policy team were thorough in their preparations to help ensure the Council were ready for the new GDPR requirements. This included some actions unique to the 4 partner authorities, such as maintaining a GDPR risk register. The team demonstrated the Council collects and processes data fairly, lawfully and transparently and privacy notices are in line with ICO requirements.
79. The Council has also justified why and how long it retains personal data, in line with best practice guidance. However, testing found non-compliance with the retention policy, which is not centrally enforced. Along with their Mid Kent partners, the Council has yet to take a decision on how long to retain e-mails for.

MID KENT AUDIT

Following Up Actions

80. Our approach to agreed actions is that we follow up each quarter, examining those 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 each quarter. Our report includes matters of continuing concern and where we have revisited an assurance rating (typically after action to address key findings).
81. We summarise the current position below. The chart shows low priority actions (at the foot of each bar) in green, medium priority in amber (in the middle) and high priority in red (at the top of the bars), with the sole critical action in black.



82. We are largely content with officers' progress on acting to address findings we raise but we note actions often happen a little after originally agreed dates.
83. The actions marked as overdue stem chiefly from three specific projects reported originally as part of our 2017/18 audit programme:

MID KENT AUDIT

Emergency Planning (Originally reported March 2018)

84. The outstanding actions comprise one high priority, two medium priority and one low priority. The originally agreed action dates fell between June and September 2018 with the high priority action – confirming emergency planning responsibilities – due at the end of June 2018.
85. The Council first deferred this key agreed action because of administrative issues around changing the job description of the officer appointed to the role. However, later in the year the officer left the Council during a broader restructure. Since April the Council has temporarily earmarked the role within the Commissioning and Business Improvement directorate but intends to consider a more permanent solution. We are continuing to note discussions and will update Members in our interim reporting.

Contract Management (Originally reported November 2018)

86. The outstanding actions comprise two high priority and two medium priority. The originally agreed action dates fell at the end of March 2019.
87. Officers have kept Members of this Committee up-to-date on progress and delays in contract management with separate updates. We plan currently to revisit these actions early in the autumn and will update Members in our interim reporting.

Animal Welfare Control (Originally reported November 2018)

88. The two outstanding actions are both high priority with originally agreed action dates at the end of December 2018. Members will recall this review contained a Critical level action on formalising arrangements with its supplier. The Council has addressed this risk by signing a Service Level Agreement (SLA). The remaining high priority actions aim to put this formalisation on a secure footing by looking longer term at procurement of the service and its associated financial arrangements.
89. The delays here partly arise from difficulties in agreeing the SLA with the supplier. However, the service has also experienced key officer departure; the same officer mentioned above. We plan currently to revisit these actions early in the autumn and will update Members in our interim reporting.

MID KENT AUDIT

Corporate Governance

90. Corporate governance is the rules, practices and processes that direct and control the Council.
91. 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.
92. We attend the Council's Information Governance and Corporate Governance Groups. We also help in upholding good governance by providing advice and training to both officers and Members.

Counter Fraud & Corruption

93. 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.
94. During 2018/19 we have completed three longer investigations and a number of preliminary enquiries and ad hoc responses to queries. One of these investigations, summarised to Members in November 2018, involved a former member of staff receiving a police caution. We also continue to help managers at the Council with disciplinary and other investigations.
95. 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.
96. We have had no matters raised with us for investigation as whistleblowing complaints.

National Fraud Initiative

97. 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.
98. The Cabinet Office released the 2018-19 matches in January 2019 as reported to this Committee in June 2019. Most matches (66%) fall to the MKS Revenues & Benefits

MID KENT AUDIT

Compliance team to look into. As of June 2019, the team have examined 90% of all matches and have identified 115 errors with a total value of over £42,000.

99. The remaining matches cover datasets such as creditors, procurement, payroll and housing waiting list. As of June 2019 we have not yet begun examining the matches as we are currently finalising our testing strategy. The NFI has replaced recommended matches with a fraud risk score, which we will use to guide our investigations.

Risk Management

100. Earlier in the year we reported to this Committee a summary of risk management work at the Council through the year. This included a then current look at the Council's strategic risks. We have continued to advise on risk management at the Council including a revision of the overarching framework and policy at the beginning of the year.
101. In January 2019 we also led a risk identification workshop aiming to refresh the Council's strategic risk register. We presented a revised analysis of strategic risks, developed from this workshop, to the Policy and Resource Committee in April 2019.

Other Audit and Advice Work

102. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council.
103. A significant component of this work has become completing independent Reviews commissioned by Kent's Safeguarding Boards. These follow on from serious incidents and seek to get a view from all local public sector agencies on contact with the relevant individuals, combining to create an overall report aiming to learn and improve services.
104. During 2018/19 we completed two such reviews - Child H and Child K – following safeguarding incidents concerning children resident in the borough. These will form a larger part of our work in the new-year as we take on responsibility for all such reviews commissioned to the Council.
105. 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.

Audit Quality & Improvement

Standards and ethical compliance

106. Government sets out the professional standards we must work to in the Public Sector Internal Audit Standards (the “Standards”). These Standards are a strengthened version of the Institute of Internal Audit’s global internal audit standards, which apply across public, private and voluntary sectors in more than 170 countries around the world.
107. The Standards include a specific demand for reporting to Senior Management and Audit Committee on our conformance with the Code of Ethics as well as the Standards themselves.
108. We include a short summary of the duties placed on us by the Code as an appendix to this report. 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.
109. We underwent an external independent assessment in 2015 that reported the service in full conformance with the Standards. During 2019/20 we must undergo a fresh assessment. We include more details in the next section.
110. In 2019 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, based around the headline Principles which underpin the Standards:

Demonstrating Integrity

Fully Conforms

- **2018/19 Assessment Notes:** We have the Code of Ethics embedded in our audit manual. During 2018/19 we updated guidance on independence and conflicts of interest, including refreshed training. We also updated file guidance on confidentiality when handling sensitive Council information.
- **2019/20 Development Goals:** Develop guidance further on declaring interests across the Partnership.

MID KENT AUDIT

Competence & Due Care

Fully Conforms

- **2018/19 Assessment Notes:** We work to a full procedures manual supported by template steps guiding auditors through various work programmes. We also have robust internal review arrangements, including having all work programmes and reports signed off by Managers. Within the team we have more than 100 years collective audit experience and every member of the team either holds or is working towards a professional qualification.
- **2019/20 Development Goals:** Expand range of work programme guidance within our software to include our investigative work.

Objective & Independent

Fully Conforms

- **2018/19 Assessment Notes:** Our cross authority partnership strengthens the objectivity and independence of our work. We also have strength in our Audit Charter – approved by Members – setting out clearly how we achieve objectivity and independence in our work.
- **2019/20 Development Goals:** Make more of links across London & South East through audit groups and framework agreements with firms to provide a greater range of options for providing independent and specialist support.

Strategic Alignment

Fully Conforms

- **2018/19 Assessment Notes:** We prepared our audit plan following an analysis of the Council's objectives and strategic risks. Within each audit engagement we orient our work against the objectives of the service and risk to their achievement. We also continue to support the Council in a broader consultative and governance advice role.
- **2019/20 Development Goals:** Make greater use of Pentana's capabilities to draw up work programmes based closely on risks. Improve our reporting to focus more clearly on risk, especially the implications of our findings on risks faced.

MID KENT AUDIT

Positioning & Resourcing

Fully Conforms

- **2018/19 Assessment Notes:** We have a direct link and good relationship with senior officers and Members. Our budget overall is steady, with our restructure in early 2019 also ensuring we can maintain appropriate resource levels for the medium term. We also have access, through framework arrangements, with reliable contractor support.
- **2019/20 Development Goals:** Review the recently published (April 2019) CIPFA Statement on the Role of the Head of Internal Audit to ensure we continue to work to best practice.

Quality & Improvement

Fully Conforms

- **2018/19 Assessment Notes:** The team continue to progress towards professional qualifications, with the entire team now having achieved or on track. Our Pentana software enables greater standardisation of method and ability to incorporate guidance to support individual engagements. We have group membership of the IIA and CIPFA to enable access to latest guidance and thinking in the profession.
- **2019/20 Development Goals:** Work with external assessor in EQA to further identify best practice. Support audit apprentices through professional Level 7 qualifications.

Communicates Effectively

Fully Conforms

- **2018/19 Assessment Notes:** Our report formats consistently draw praise for their clarity and focus on key issues. We also use a wide range of reporting techniques, including graphics and infographics, where they support our findings. During the year we have also refreshed our report approach to allow a greater focus on risk and the implications of our audit findings.
- **2019/20 Development Goals:** Continue with report writing training and support across the audit team with focus on investigative and follow up reporting.

MID KENT AUDIT

Risk Based Assurance

Fully Conforms

- **2018/19 Assessment Notes:** Our audit approach in using Pentana is driven by risk assessments to ensure a tight scope and focus on key threats facing a service or process. We also use priority ratings and assurance ratings to give appropriate gravity to our findings and results.
- **2019/20 Development Goals:** Continue building risk library across Pentana to inform similar work in partner authorities. This will include a clearer 'golden thread' between the objectives of a service and the improvements resulting from addressing audit findings.

Insightful, Proactive & Future Focus

Fully Conforms

- **2018/19 Assessment Notes:** We have a flexible, adaptive plan leaving space for advice, consultancy and emerging issues. We also seek to make practical recommendations for improvement aimed directly at service improvement rather than compliance for the sake of compliance.
- **2019/20 Development Goals:** We are using Pentana to bring even greater flexibility to our planning with in-year risk assessment. The software also enables us to analyse findings in new ways, leading to thematic or trend reporting of issues arising wherever in the audit partnership.

Promotes Improvements

Fully Conforms

- **2018/19 Assessment Notes:** Our practical recommendations support improvement in each engagement, but we also have a wider role offering advice and support for Members and senior management. This includes briefings and training programmes on governance.
- **2019/20 Development Goals:** Noting in particular significant changes at Member level, we are developing a library of training and support for Audit Committees.

MID KENT AUDIT

External Quality Assessment

111. Our 2019/20 Audit Plan included full wording from Standard 1312. That Standard demands all internal audit services seek an external quality assessment at least every five years. In that plan we set out some headline principles to guide our assessment.
- A properly qualified and experienced external assessor.
 - A paid review rather than reciprocal or peer arrangement.
 - To consider best practice as well as simple conformance.
 - One assessment across the whole partnership.
 - Published terms of reference before fieldwork begins.
 - Publish the final report in full to Members, including response to any action plan for improvements.
112. Members from all four authorities in the partnership supported these principles. We will therefore go forward to appoint a suitably qualified assessor this autumn, aiming to complete the review late in the year. We hope to report to Members in spring 2020.
113. We welcome further discussions from Members, especially Audit Committee Chairs, who wish to engage with the Assessment. Such engagement could be reviewing bids, being part of interview panels to speak with the Assessors or contributing to surveys. Please discuss further with the Head of Audit Partnership on how Members can best support the assessment and ensure it gives proper weight to your views on the objectives and quality of the audit service.

Training and Qualifications

114. We continue to offer strong support to the audit team in continuing development and upholding professional competence. In 2018/19 this involved providing individual training budgets and supporting people to follow avenues for development suitable for their career position and ambitions.
115. A key but far from sole part of this approach is supporting professional qualifications. During 2018/19 we supported several of the team through professional studies and remain pleased with their progress and success. We would like to highlight:
- **Ben Davis**, Auditor, completed the full professional qualification of the Chartered Institute of Public Finance and Accounting (CIPFA). In doing so, Ben became the first full graduate of our trainee programme begun in 2015.

MID KENT AUDIT

- **Andy Billingham**, Auditor, and **Louise Taylor**, Trainee Auditor, both completed the second of three stages in the Certificate of Internal Audit (CIA) qualification awarded by the IIA. We hope to see both complete the full qualification in 2019/20.
 - **Jen Warrillow**, Audit Manager, passed the second of three stages towards achieving the full Chartered qualification of the Institute of Internal Audit.
116. For the year ahead we are now working to a new structure which has enabled us to create two *Audit Apprentice* roles. These apprentices will follow the full Level 7 Apprenticeship approved by the Government, leading to postgraduate qualifications and everything needed (on paper, at least) to take up a role as Head of Internal Audit. These apprentice schemes will run until 2022.
117. We have also continued to work closely with neighbouring authorities. Most notably in a continuing secondment for our Deputy Head of Audit Partnership, **Russell Heppleston**, as Head of Audit for Dartford and Sevenoaks Councils. We have renewed this secondment through 2019/20 during which period the authorities will decide on the future shape of their audit service.
118. Russell's secondment, and the absence on maternity leave of another manager, have created opportunities within the team for people to gain experience in more senior roles. Currently, **Jen Warrillow** is acting manager with responsibility for Maidstone BC and **Mark Goodwin** at Ashford. Ben Davis and Andy Billingham, whose qualification achievements we mention above, are both in Senior Auditor roles.
119. Through regional and national roles, the Head of Audit Partnership continues to represent the service in gaining opportunities for professional development. This includes developing training with the London Audit Group aimed at supporting aspiring Audit Managers, as well as speaking engagements at national events such as CIPFA Audit Conference.

Performance Indicators

120. 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.

MID KENT AUDIT

121. 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. We have changed the set of measures we present to more closely focus on the priorities identified by Members and officers in our 2017/18 Mid Term Review of the service.

Measure	17/18 Final	18/19 Q1/2	18/19 Q3/4	18/19 Final
Overall Plan Progress - <i>The percentage of planned audit days delivered</i>	91%	42%	52%	94%
Training Take Up - <i>Number of training days per full time equivalent employee (we aim for 15 to 20)</i>	12.3	10.0	10.4	20.4
Audit Feedback - <i>The percentage of respondents 'satisfied' with their audit engagement</i>	97%	100%	100%	100%
Prompt Reporting - <i>Median number of days between fieldwork end and final report issue (we try and keep this under 40)</i>	45	53	37	43

122. While overall performance in the service is good, especially on client satisfaction, our focus in 2019/20 will be on productivity and quicker turnaround of audit reports. In the latter we are working with audit clients in particular in supporting them to understand and respond to our draft reports promptly to ensure findings remain current.

Acknowledgements

123. 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.

124. 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.

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

MID KENT AUDIT

Annex A: Assurance & Priority level definitions

Assurance Ratings 2018/19 (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>

MID KENT AUDIT

Recommendation Ratings 2018/19 (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.

MID KENT AUDIT

Annex B: Internal Audit Code of Ethics

{ CODE of ETHICS... }

// PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity**
The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
- **Objectivity**
Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- **Confidentiality**
Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competency**
Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit services.

// RULES OF CONDUCT

1. **Integrity**

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. **Objectivity**

Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. **Confidentiality**

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. **Competency**

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- 4.2. Shall perform internal audit services in accordance with the *International Standards for the Professional Practice of Internal Auditing*.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

Annex C: Update on Progress Towards 2019/20 Plan 19/20 plan

126. Our 19/20 plan runs from 1 June 2019 to 31 May 2020 with quarter 1 running up to 1 September. We aim to have fieldwork for the following audits nearing completion by the end of the quarter.

- Council Tax Billing
- Recruitment
- Health & Safety
- Corporate Credit Cards
- Developer Contributions

Other work and changes to the plan

127. We are currently completing work following up the 29 agreed actions for Maidstone that fell due during the first quarter of 2019/20. We will report to Members in full on the outcomes of that work in our interim reporting later in the year.

128. In line with our charter, Internal Audit are often involved in non-assurance pieces of work. Examples of this include undertaking a preliminary investigation into allegations of fraud/misconduct and providing consultancy work as requested by services among others.

129. Based on continuing assessment of the risks facing the Council we have undertaken the following additional work since June 2019:

- A preliminary investigation has been completed following an allegation from a member of the public;
- The Council has identified that the risk to staff personal safety is of increasing concern. Internal Audit have therefore undertaken a risk review and reported their findings to Corporate Leadership Team;
- We have recently taken on responsibility for serious case reviews to help support the integrity and independence of that process. The first one under these newly formed arrangements has now been reported.
- Using the expertise within the team, we will be doing Housing Benefit case testing in order to support certification and reduce external audit fees.

Agenda Item 15

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

30 July 2019

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 two principal budget risks continue to be uncertainty about future local government funding arrangements and the potential financial consequences of a disorderly exit from the EU.

This report makes the following recommendations to this Committee:

That the updated risk assessment of the Budget Strategy provided at Appendix A be noted.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	30 July 2019

Budget Strategy – Risk Assessment Update

1. 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
Cross Cutting Objectives	The cross cutting objectives are reflected in the MTFS and the budget.	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. The update	Team Leader (Corporate Governance), MKLS

	on the budget risks facing the Council set out in this report supports achievement of 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
Public Health	None identified.	Director of Finance and Business Improvement
Crime and Disorder	None identified.	Director of Finance and Business Improvement
Procurement	None identified.	Director of Finance and Business Improvement

2. INTRODUCTION AND BACKGROUND

2.1 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.

2.2 Key issues to be considered in reviewing the budget risk profile are as follows:

- Current financial performance

- The wider economy and the potential impact of Brexit
- Local authority funding regime.

Current financial performance

- 2.3 The financial out-turn for the year ended 2018/19 is reported elsewhere on the agenda. The Council is in a relatively strong financial position, with growing revenues, a surplus for the year as compared with the budget, and usable reserves up from £12.4 million to £15.1 million by the end of the financial year. The Council's dependence on external funding continues to reduce, with 93% of Council revenue now generated locally. No significant budget variances have been identified so far for the 2019/20 financial year.

The wider economy and Brexit

- 2.4 The outlook for the wider UK economy is uncertain. UK growth is lagging behind that of other major economies. The prospect of a no-deal Brexit is depressing the exchange rate, which increases key input costs such as fuel. The Council is exposed to the wider economy in other ways, with around £20 million of our revenues coming from fees and charges such as parking income, which would be adversely affected by a downturn. Collection of business rates and council tax also risk being affected and the cost of delivering services such as homelessness could increase.
- 2.5 In the short term, there would be a direct financial cost from a disorderly Brexit. Preparations for a 'no deal' Brexit in the Spring involved additional costs, and further such costs will be incurred in the run up to the likely revised Brexit date of 31 October 2019. Although the government notified us of a £35,000 grant to cover Brexit costs in January 2019, this is the same amount that was provided for most other District Councils, so paid no attention to our proximity to the Channel ports, and falls far short of our estimated likely costs.

Local Government funding regime

- 2.6 Uncertainty about local government funding is captured in the budget risk register under the heading of 'adverse impact from changes in local government funding'. Although we are now largely dependent on locally generated resources, the amount of business rates that we are allowed to retain at a local level is a key variable in budget setting. There is also a risk that negative Revenue Support Grant, which was due to be levied on the Council in 2019/20 before political pressure forced it to be withdrawn, may be resurrected, even if in another guise.
- 2.7 The current local government funding arrangements are expected to be rolled forward into 2020/21, given that other priorities are likely to prevent the government implementing a new funding regime, as originally planned. However, there are a number of variables that are still uncertain even within the existing arrangements, including the Council Tax referendum limit, the Business Rates baseline (which determines the level of Business Rates that we retain locally), future specific grants, and the potential for the Council to suffer negative Revenue Support Grant.

2.8 In summary, it can be seen that the Council has been successful in managing risks over which it has some control locally, but it remains subject to further risks arising in the wider economic and political environment. The Budget Risk Register has been reviewed in light of developments since it was last reported to members and a summary of the changes to the risk register is set out below.

	Risk	Factor considered	Implications for risk profile
D	Planned savings are not delivered	The budget for 2019/20 reflects a significant level of planned savings - £1.2 million. However, the Council continues to have a good track record in delivering budget savings.	Impact – major (no change) Likelihood – unlikely (reduced)
F	Insufficient balances	Usable reserves increased from £12.4 million to £15.1 million by the end of the 2018/19 financial year. This represents around one third of annual revenues and is considered to be adequate.	Impact – major (no change) Likelihood – unlikely (reduced)
I	Constraints on Council Tax increases	The MTFs assumes annual Council Tax increases of 2% per annum. Council Tax is a key source of income for the authority, so continued uncertainty about referendum limits poses a risk.	Impact – moderate (increased) Likelihood – possible (increased)
M	Business rates pool does not generate projected level of income	For 2019/20 MBC no longer benefits from 100% business rates retention, with the former pool arrangements, which generate a lesser benefit, being reinstated.	Impact – minor (reduced) Likelihood – possible (no change)

2.9 Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register. Additionally, at the Committee’s request, the possible monetary impact of the risks has been indicated. Note that it is very difficult to quantify the financial impact of risks in precise terms. The information is provided simply to give an indication of the order of the risks’ financial magnitude.

3. AVAILABLE OPTIONS

3.1 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.

- 3.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Option 2 – It is recommended that the Committee notes the risk assessment.
-

5. RISK

- 5.1 Risk is addressed throughout this report so no further commentary is required here.
-

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Each year the council as part of the development of the MTFs and the budget carries out consultation on the priorities and spending of the council. A Residents' Survey was carried out as part of the consultation on the new Strategic Plan and the updated MTFs 2019/20 – 2023/24.
-

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.
-

8. REPORT APPENDICES

The following document is to be published with this report and forms part of the report:

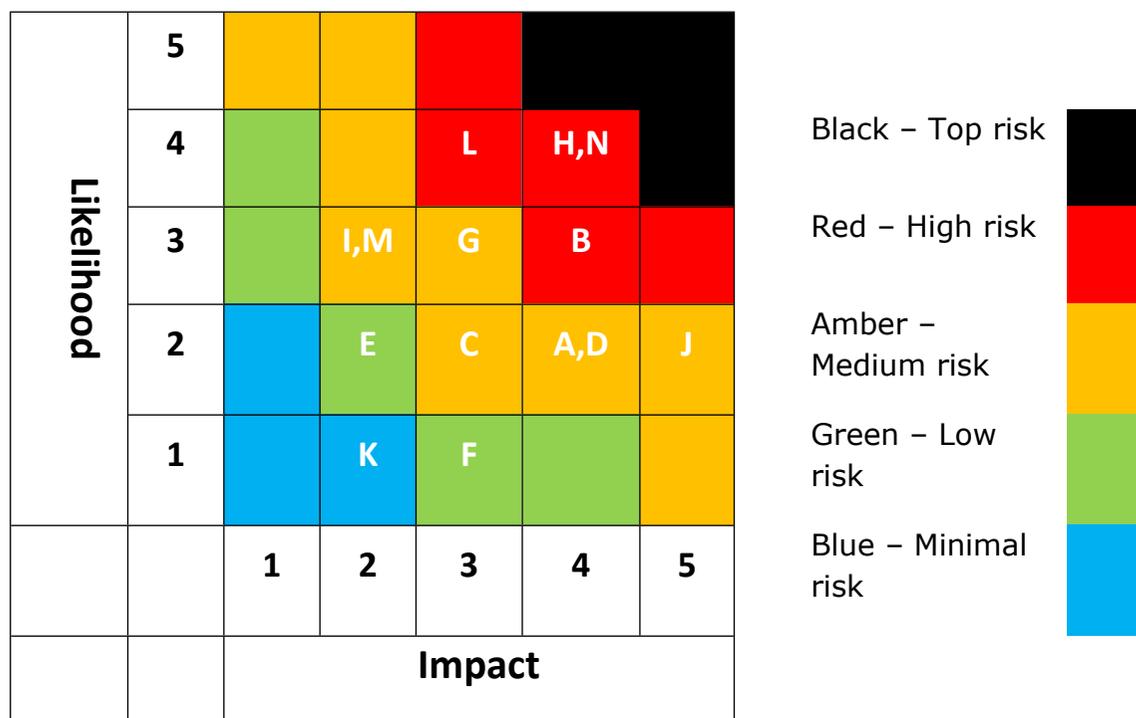
- Appendix A: Budget Strategy Risks
-

9. BACKGROUND PAPERS

None.

Budget Strategy Risks

The risk matrix below provides a summary of the key budget risks. The risk register that follows provides more detail.



88

A. Failure to contain expenditure within agreed budgets	H. Adverse impact from changes in local government funding
B. Fees and Charges fail to deliver sufficient income	I. Constraints on council tax increases
C. Commercialisation fails to deliver additional income	J. Capital programme cannot be funded
D. Planned savings are not delivered	K. Increased complexity of government regulation
E. Shared services fail to meet budget	L. Collection targets for Council Tax and Business Rates missed
F. Council holds insufficient balances	M. Business Rates pool fails to generate sufficient growth
G. Inflation rate predictions in MTFs are inaccurate	N. Adverse financial consequences from a disorderly Brexit

The budget risks may be ranked, based on the scores shown below, as follows:

Risk	Ranking	Financial impact (in any one financial year)				
		Lower £000	Upper £000	Mid- point £000	Likelihood %	Weighted £000
H. Adverse impact from changes in local government funding	1=	250	750	500	75	375
N. Adverse financial consequences from a disorderly Brexit	1=	250	750	500	75	375
J. Capital programme cannot be funded	3	500	1,500	1,000	25	250
B. Fees and Charges fail to deliver sufficient income	4	200	600	400	50	200
L. Collection targets for Council Tax and Business Rates missed	5	100	300	200	75	150
D. Planned savings are not delivered	6	250	750	500	25	125
A. Failure to contain expenditure within agreed budgets	7=	200	600	400	25	100
G. Inflation rate predictions in MTFs are inaccurate	7=	100	300	200	50	100
C. Commercialisation fails to deliver additional income	9=	100	300	200	25	50
I. Constraints on council tax increases	9=	100	300	200	25	50
M. Business Rates pool fails to generate sufficient growth	11	50	100	75	50	38
E. Shared services fail to meet budget	12	50	150	100	25	25
F. Council holds insufficient balances	13	100	300	200	5	10
K. Increased complexity of government regulation	14	50	150	100	5	5

Budget Strategy Risk Register 2019/20

The following risk register sets out the key risks to the budget strategy 2019/20 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
06	<p>A</p> <p>Failure to contain expenditure within agreed budgets 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 2019/20. - Strong controls over expenditure and established process for recovering from overspends 	4	2	8
	<p>B</p> <p>Fees & Charges fail to deliver sufficient income 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 around £20 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. 	4	3	12
	<p>C</p> <p>Commercialisation fails to deliver additional income The commercialisation strategy, which is now centred on housing and regeneration, does not deliver the expected level of income.</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> <p>Income generation from commercial activities supports the revenue budget and is required in</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 available to cover short term losses. - Individual risks associated with specific projects within commercialisation strategy 	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		ordered to pay back capital investment.	will be assessed, both as part of the project appraisal process and during the course of delivering the projects.			
D 91	<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>	<ul style="list-style-type: none"> - 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. - Savings proposals are separately identified and monitored in the Council's general ledger. - The ability to achieve the targeted savings is monitored quarterly in budget monitoring reports to the Corporate Leadership Team and to Service Committees. 	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
F	<p>Insufficient Balances</p> <p>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>	<ul style="list-style-type: none"> - The Council has set a lower limit below which General Fund balances cannot fall of £2 million. - At the beginning of the 2019/20 financial year usable reserves stood at £15.1 million. 	3	1	3
G	<p>Inflation rate predications in MTFS are inaccurate</p>	<p>Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its</p>	<ul style="list-style-type: none"> - Allowances for inflation are developed from three key threads: 	3	3	9

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	Actual levels are significantly above or below prediction	<p>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>	<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>			
H 92	<p>Adverse impact from changes in local government funding</p> <p>The financial implications of the new local government funding regime to be introduced in 2020/21 remain unclear.</p>	The Council no longer receives Revenue Support Grant (RSG), but the amount of Business Rates that it retains depends on the funding regime set by central government.	<p>- The Draft Medium Term Financial Strategy to 2023/24 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	4	16
I	<p>Constraints on council tax increases</p> <p>The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than 3% per annum.</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>- The budget for 2019/20 incorporates a Council Tax increase of 3%.</p> <p>- Budget planning is based around the assumption of a 2% increase in 2020/21.</p>	3	2	6
J	<p>Capital Programme cannot be funded</p> <p>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"> ○ Internal borrowing ○ PWLB borrowing ○ New Homes Bonus ○ Capital Grants ○ Developer contributions (S106) <p>A reduction in this funding will mean that future</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>	5	2	10

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		schemes cannot be delivered.	- 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.			
93 K	<p>Increased complexity of government regulation</p> <p>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 number of occasions, most recently with the introduction of GDPR, the financial consequences of government regulation have been 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</p> <p>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>Business rates amount to around £60 million in 2019/20 and Council Tax due amounts to around £110 million.</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 discounts, etc.</p> <p>- Nonetheless, increasingly difficult trading conditions for some businesses may lead to a deterioration in collection performance.</p>	3	4	12
M	<p>Business Rates pool</p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool 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 is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a whole is projected to be around £10m in 2019/20.</p> <p>- Provisions have been made when projecting</p>	2	3	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			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.			
N	Adverse financial consequences from a disorderly Brexit. The increased probability of no deal with the EU means that the adverse financial consequences from Brexit are likely to be correspondingly higher.	Short term - Increased costs in delivering services, eg arising from traffic congestion Medium term/ long term – Risk of recession, which could lead to a fall in business rates income, increasing pressure on homelessness budgets, and adverse central government funding settlements.	- Thorough preparation for Brexit, with an officer Brexit business continuity planning group to co-ordinate our response and liaise with other Kent authorities	4	4	16

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 (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 & Standards Committee

30th July 2019

Treasury Management Annual Review 2018/19

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Chris Hartgrove, Interim 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).

Council has delegated the role of considering these reports to the Audit, Governance and Standards Committee.

This report sets out the activities of the Treasury Management function for 2018/19 financial year.

This report makes the following recommendations to this Committee:

1. That the review of the financial year 2018/19 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators be noted.
2. That no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2018/19.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	30th July 2019

Treasury Management Annual Review 2018/19

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Treasury Management Function ensures the safeguarding of Council finances and the liquidity of funds when liabilities become due to support the strategic plan objectives.	Interim Head of Finance
Cross Cutting Objectives	The report recommendations support the achievements of all the cross cutting objectives as stated above.	Interim Head of Finance
Risk Management	Covered in the risk section of this report.	Interim 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 & Finance Team
Staffing	None.	Interim Head of Finance
Legal	The legal implications are detailed within the body of the report which is compliant with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities.	Team Leader (Corporate Governance), MKLS
Privacy and Data Protection	None.	Policy and Information Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Equalities and Corporate Policy Officer
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Public Health Officer
Crime and Disorder	None	Interim Head of Finance
Procurement	None	Interim Head of Finance Section 151 Officer

2. INTRODUCTION AND BACKGROUND

2.1 This report sets out the activities of the Treasury Management function for the 2018/19 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.

2.2 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.

2.3 The Authority's Treasury Management Strategy for 2018/19 was approved by full Council on 7th March 2018. The key elements of the Strategy are:

- to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to lower investment returns and high counterparty risk in the current economic climate;
- to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered. Greater use of Local Authority investments will be sought due to the high security of the borrower which enables investment over a longer period where funds are not required immediately.

2.4 Economic Overview of 2018/19

2.4.1 During financial year 2018/19 the following developments took place:

- After weak economic growth of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter 2 and to a particularly strong 0.7% in quarter 3, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. However, some recovery in the rate of growth is expected going forward. The annual growth in Q4 came in at 1.4% year on year confirming that the UK was the third fastest growing country in the G7 in quarter 4.
- After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, they have abstained from any further increases. It is unlikely that any further action will be seen from the MPC until the uncertainties over Brexit clear.
- The number of people in work increased by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975.
- CPI inflation has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February 2019

Bank of England Inflation Report, the latest forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

2.5 Treasury Investment Activity

2.5.1 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 2018/19.

2.5.2 The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19 the Authority's investment balances have ranged between £15m and £43m. The average investment balance for the year was £28.4m. The Council held investments totalling £15.014m as at 31st March 2018. A full list of these can be found within **Appendix I**.

2.5.3 Investment income for the year totalled £220k which exceeded the budget for 2018/19 of £100k. This was due to the fact that investment rates had risen slightly after the base rate rise and there were larger than expected sums available for investment. The average rate for investments for the year was 0.78%.

2.5.4 Nearly all investments during 2018/19 have been short term due to the evolving capital programme and the decision to use the Council's cash to fund these projects prior to borrowing. The exception is £2m of core cash invested with a local authority in May 2018 for a period of 2 years for an increase in yield with a highly secure organisation.

2.5.5 All investments during the year have been within the agreed limits of the Treasury Management Strategy 2018/19.

2.6 Non-Treasury Investments Activity

2.6.1 Investments which are outside the normal treasury function, i.e. investing surplus cash as a result of its day to day activities, are classed as non-treasury investments.

2.6.2 The Council made property purchases and regeneration works within the borough which are not classed as commercial but with the intention of supporting the local community, housing and regeneration objectives rather than for generating profits.

2.6.3 The Council has provided two service loans which were made to support local public services to other organisations. The two service loans are to Kent Savers for £25,000, paid in 2017/18, which is repayable in 2022/23 at an interest rate of 1% and to One Maidstone for £60,000 (BID loan) interest free repayable over 5 years.

2.6.4 A loan to Cobtree Manor Estates Trust has been agreed for £320,000 at an interest rate of 3% over 5 years which will be payable to the Trust in 2019/20.

2.7 Borrowing Activity

2.7.1 During 2018/19, the Council maintained an under-borrowed position, in other words, the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy is prudent as it reduces the cost of carry (ie the difference between interest payable and interest receivable) and minimises counterparty risk on placing investments.

2.7.2 As at 31st March 2019, the Authority did not hold any external debt. The Council's only borrowing requirements for 2018/19 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 £m	Rate (%)	Start	End
Rhondda Cynon Taff Superannuation Fund	2.5	0.35	22/05/2018	29/05/2018
Rhondda Cynon Taff General Account	2.6	0.35	25/05/2018	29/05/2018
Rhondda Cynon Taff General Account	3.94	0.35	22/06/2018	26/06/2018
Rhondda Cynon Taff General Account	3.5	0.35	26/06/2018	27/06/2018
Newport City Council	2.5	0.45	23/07/2018	27/07/2018

Total cost of this borrowing was £575.

2.7.3 The Council is expected to borrow externally in 2019/20 to fund the current capital programme which, with rates being very low and possibly even lower in future due to the uncertainty of Brexit, may be an opportune time to take advantage of debt. The Director of Finance & Business Improvement monitors interest rates to ensure when will be the most prudent time and if borrowing should be long or short term to minimise the risk of refinancing.

2.8 Prudential and Treasury Indicators

2.8.1 The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the indicators that must be set and monitored each year.

2.8.2 The Council has operated within its Prudential and Treasury Indicators set out in the Treasury Management Strategy 2018/19 and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **Appendix II**.

2.8.3 All limits have been complied with during the year.

2.9 Compliance Report

2.9.1 The Director of Finance & Business Improvement is pleased to report that all treasury management activities undertaken during 2018/19 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

3. AVAILABLE OPTIONS

- 3.1 The Audit, Governance and Standards Committee agrees that no amendments to the current procedures are necessary as a result of the review of activities in 2018/19.
- 3.2 The Audit, Governance and Standards Committee proposes changes to the current procedures as a result of the review of activities in 2018/19.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 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 2018/19 as there is no justification to make any changes.

5. RISK

- 5.1 Detailed risk management policies are included within the Treasury Management Practices to which the Council adheres to. A brief description of these risks along with the Council's actions to mitigate these risks are as follows:
- **Liquidity Risk** - Liquidity risk is the risk that cash may not be available when it is required. The Council has sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected occurrences. The Council also has an overdraft facility with Lloyds Bank of £500,000 plus the option of short term borrowing.
 - **Interest Rate Risk** - Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income that has been budgeted for. The Council will seek to minimise this risk by seeking expert advice on forecasts of interest rates from treasury management consultants and agreeing with them its strategy for the coming year for the investment and debt portfolios. It will also determine appropriate limits and trigger points which are set out in the annual Treasury Management Strategy Statement.
 - **Exchange Rate Risk** - Exchange rate risk is the risk that unexpected changes in exchange rates expose the Council to greater costs or a shortfall in the income that has been budgeted for. The Council has no

exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currencies for treasury management purposes.

- **Inflation Risk** - Inflation risk is the risk that unexpected changes in inflation expose the Council to greater costs or a shortfall in income than have been budgeted for. Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations
- **Credit and Counterparty Risk** - Credit and counter-party risk is the risk of failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially one due to deterioration in its creditworthiness, which causes the Council an unexpected burden on its capital or revenue resources. Treasury management staff will add or delete counterparties to/from the approved counterparty list in line with the policy on criteria for selection of counterparties. Due to volatility of the financial market, Treasury Management staff will use information from various sources, eg brokers, Treasury Management Consultants and other local Authority experience to determine the creditworthiness of an institution and to decide if funds are at risk and agree the best course of action with the Director of Finance & Business Improvement.
- **Refinancing Risk** - Refinancing risk is the risk that when loans or other forms of capital financing mature, they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets. The Council is currently debt-free, however it will soon be looking to borrow to fund its capital programme in the coming years. In considering the affordability of its capital plans, the Council will consider all the resources currently available/estimated for the future together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the two following years and the impact these will have on council tax. It will also take into account affordability in the longer term beyond this three year period.
- **Legal and Regulatory Risk** - Legal and regulatory risk is the risk that either the Council, or a third party which it is dealing with in its treasury management activities, acts outside of its legal powers or regulatory requirements and as a result the Council incurs loss. The treasury management activities of the Council comply fully with legal statute, guidance, Codes of Practice and the regulations of the Council. The Authority will provide written evidence of its powers and authorities to any counterparty that requests us to do so. Counterparties will also provide their details to the Authority as a matter of course.
- **Fraud, Error and Corruption Risk** - Fraud, error and corruption risk is the risk that the Council may fail to employ adequate systems, procedures and other arrangements which identify and prevent losses through such occurrences. The Council will seek to ensure an adequate division of responsibilities and maintenance at all times of an adequate level of internal checks which minimises such risks along with maintaining records of all treasury management transactions so that there is a full

audit trail and evidence of the appropriate checks being carried out. Delegated members of staff have the responsibility for the treasury management function for the Council and the Director of Finance & Business Improvement authorises who these are. The Council also has a Fidelity Guarantee insurance policy with Zurich Insurance which covers against loss of cash through fraud or dishonesty of employees. The treasury management function is subject to review by internal audit on a regular basis.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 None.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 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.

8. REPORT APPENDICES

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

- Appendix I: List of Investments as at 31st March 2019
 - Appendix II: Prudential and Treasury Indicators
-

9. BACKGROUND PAPERS

9.1 None

Maidstone Borough Council Investments as at 31st March 2019

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return	Arlingclose Credit Limits	
						Suggested Term	Maximum Deposit
Thurrock Borough Council	Fixed Term Deposit	2,000,000	15/11/2018	15/04/2019	0.87%	5 Years	£5,000,000
Lancashire County Council	Fixed Term Deposit	1,000,000	17/04/2018	16/04/2019	1.00%	5 Years	£5,000,000
Thurrock Borough Council	Fixed Term Deposit	2,000,000	27/09/2018	26/04/2019	0.92%	5 Years	£5,000,000
Suffolk County Council	Fixed Term Deposit	2,000,000	22/03/2019	28/05/2019	0.85%	5 Years	£5,000,000
Wigan MBC	Fixed Term Deposit	4,000,000	29/03/2019	29/05/2019	0.80%	5 Years	£5,000,000
Cherwell District Council	Fixed Term Deposit	2,000,000	15/10/2018	15/07/2019	1.05%	5 Years	£5,000,000
London Borough of Croydon	Fixed Term Deposit	2,000,000	01/05/2018	01/05/2020	1.05%	5 Years	£5,000,000
Lloyds Bank Plc	Notice Account Deposit	13,997			0.95%	6 months	£3,000,000
Svenska Handelsbanken	Notice Account Deposit	377			0.85%	13 months	£3,000,000

15,014,374

PRUDENTIAL INDICATORS

Capital Expenditure

2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
12,624	28,754	16,520

Capital has been financed previously by external sources, capital receipts/grants and MRP, however £9.5m worth of expenditure in 2018/19 was unfunded via these sources. This expenditure was funded by the Council's cash balances (internal borrowing).

Capital Financing Requirement

2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
-654	3,986	12,031

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The increase in CFR for 2018/19 represents the lack of funding resources where the Council's cash balances have been utilised.

Treasury Indicators

Authorised Limit for External Debt

	2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
Borrowing	3,650	13,986	3,940
Other Long Term Liabilities	4,033	3,526	3,526
Total	7,683	17,512	7,466

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.

Operational Limit for External Debt

	2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
Borrowing	3,650	3,986	3,940
Other Long Term Liabilities	4,033	3,526	3,526
Total	7,683	7,512	7,466

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. This limit acts as a warning but can be breached temporarily.

Maturity Structure of New Fixed Rate Borrowing

	Lower Limit %	Upper Limit %	2018/19 %
Under 12 months	0	0	0
12 months to under 24 months	0	0	0
24 months to under 5 years	0	0	0
5 years to under 10 years	0	0	0
10 years and over	0	0	0

There was no new fixed long term borrowing in 2018/19

Principal Invested for more than 364 Days

2017/18 Actual £,000	2018/19 Estimate £,000	2018/19 Actual £,000
5,000	5,000	2,000

This indicator shows the Council shows the level of investments which over 364 days to maturity. The Council has invested £2m for a period of 48 months from May 2018.

Audit Governance & Standards Committee

30 July 2019

Updated Capital Strategy

Final Decision-Maker	Council
Lead Head of Service	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Chris Hartgrove, Head of Finance
Classification	Public
Wards affected	All

Executive Summary

The latest version of CIPFA's Prudential Code, which governs the Council's capital investment and borrowing, introduced a new requirement in 2019/20 for a Capital Strategy. The Capital Strategy is intended to bring together all the Council's strategies and policies that relate to capital expenditure and how it is financed. This report proposes the adoption of an updated Capital Strategy which reflects developing best practice in the sector.

This report makes the following recommendations to this Committee:

That:

1. The Capital Strategy set out at Appendix A be recommended to Council.

Timetable

Meeting	Date
Policy & Resources Committee	23/07/2019
Audit Governance & Standards Committee	30/07/2019
Council	25/09/2019

Updated Capital Strategy

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the Capital Strategy express in financial terms the priorities set out in the strategic plan. Specifically, the Capital Strategy allows for investment in long term projects that support the strategic plan objectives.	Section 151 Officer & Finance Team
Cross Cutting Objectives	The report recommendations support the achievement(s) of the cross cutting objectives for the reasons set out above.	Section 151 Officer & Finance Team
Risk Management	Covered in the risk section.	Section 151 Officer & Finance Team
Financial	Set out in report.	Section 151 Officer & Finance Team
Staffing	No specific financial implications. Implementation of the Capital Strategy requires project management skills which, if not available from within the Council's own staff, will have to be sourced externally.	Section 151 Officer & Finance Team
Legal	<p>Under section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management, advising on the corporate financial position and providing financial information. The overarching Capital Strategy brings together the Strategic Plan, the Medium Term Financial and Treasury Management Strategies and the Asset Management Plan thereby demonstrating the Council's commitment to fulfilling it's duties under the Act.</p> <p>The Capital Strategy is in compliance with the</p>	Team Leader (Corporate Governance), MKLS

	CIPFA 's Prudential Code governing capital investment and borrowing.	
Privacy and Data Protection	Privacy and data protection are considered when developing capital projects for inclusion in the capital programme. There are no specific implications arising from this report.	Section 151 Officer & Finance Team
Equalities	The Equalities impacts will be identified at project level via an equalities impact assessment and appropriate actions considered.	Equalities and Corporate Policy Officer.
Public Health	We recognise the recommendations may have varying impacts on the health of the population or individuals within Maidstone.	Public Health Officer
Crime and Disorder	None.	Section 151 Officer & Finance Team
Procurement	Procurement of capital schemes will be in accordance with the procurement provisions within the Council's constitution.	Section 151 Officer & Finance Team

2. INTRODUCTION AND BACKGROUND

- 1.1 CIPFA's Prudential Code, which governs the Council's capital investment and borrowing, introduced a new requirement in 2019/20 for a Capital Strategy. The intention was to ensure that councils provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with a description of how associated risk is managed and the implications for future financial sustainability.
- 1.2 Accordingly, the Capital Strategy articulates in a single place a number of strategies and policies that the Council already addresses elsewhere: it is an overarching document linking the Strategic Plan, the Medium Term Financial Strategy, the Treasury Management Strategy and the Asset Management Plan.
- 1.3 Audit Governance & Standards Committee resolved at its meeting on 14 January 2019 to recommend a Capital Strategy to Council. The Capital Strategy was subsequently adopted by Council at its meeting on 27 February 2019. Since then, practice amongst councils in meeting the requirements of the Prudential Code for a Capital Strategy has evolved. Maidstone Borough Council has also started working with new treasury advisers, Link Asset Services. It is now worth the Council taking this opportunity to adopt some of the good practice that has been seen

elsewhere and to update its Capital Strategy. The draft updated Capital Strategy is included as Appendix A.

- 1.4 The Capital Strategy also incorporates an updated Capital Programme, shown at Table 1, which reflects (a) capital expenditure that has slipped from 2018/19 and (b) decisions made by Policy and Resources Committee to take advantage of new opportunities that have arisen.
-

3. AVAILABLE OPTIONS

- 3.1 Agree the capital strategy as set out in Appendix A.
 - 3.2 Amend the capital strategy, and agree any alternative wording.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The preferred option is that the Committee agree the capital strategy as set out in Appendix A.
-

5. RISK

- 5.1 The capital programme is a vital part of the Council's strategy for delivering its overall priorities and it is therefore of fundamental importance that the associated risks are managed actively. The Capital Strategy describes how risk will be managed in Section 8.
-

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 The Capital Strategy draws on a number of other strategies and policies, including the Strategic Plan and the Medium Term Financial Strategy, which have been subject to extensive consultation.
-

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 It is envisaged that the Capital Strategy will be submitted to Council for adoption at its meeting on 25 September 2019. If adopted, it will then serve to guide decisions about capital investment and financing.
- 7.2 The Capital Strategy will be subject to regular review as part of the annual budget setting process.

8. REPORT APPENDICES

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

- Appendix A: Capital Strategy

9. BACKGROUND PAPERS

None.

MAIDSTONE BOROUGH COUNCIL
CAPITAL STRATEGY

CONTENTS

1. Introduction	1
2. Capital Expenditure and links to other Corporate Strategies	2
3. Governance Framework	7
4. Financing the Capital Programme	10
5. Other Long Term Liabilities.....	14
6. Commercial Activities.....	15
7. Knowledge and Skills.....	16
8. Risk Management.....	17

1. INTRODUCTION

- 1.1 CIPFA's Prudential Code, which governs the Council's capital investment and borrowing, introduced a new requirement in 2019/20 for a Capital Strategy. The intention was to ensure that councils provide a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services, along with a description of how associated risk is managed and the implications for future financial sustainability.
- 1.2 Accordingly, the Capital Strategy articulates in a single place a number of strategies and policies that the Council already addresses elsewhere: it is an overarching document linking the Strategic Plan, the Medium Term Financial Strategy, the Treasury Management Strategy and the Asset Management Plan.

2. CAPITAL EXPENDITURE AND LINKS TO OTHER CORPORATE STRATEGIES

Strategic Plan

- 2.1 Capital expenditure at Maidstone Borough Council plays a vital part in the Council's Strategic Plan, since long term investment is required to deliver many of the objectives of the plan.
- 2.2 The current Strategic Plan originated in a detailed process of discussion and development over the period June – October 2018 and was approved by Council on 12 December 2018. It sets out four objectives, as follows:
- Embracing Growth and Enabling Infrastructure
 - Homes and Communities
 - A Thriving Place
 - Safe, Clean and Green.

The ways in which capital expenditure can support these priorities are described below.

Embracing Growth and Enabling Infrastructure

The Council has a vital role in leading and shaping our borough as it grows. This means being proactive in policy and master planning for key sites in the borough, and where appropriate, investing directly ourselves.

Separate objectives, set out below, address specifically the development of new housing, and other investments intended to make Maidstone a thriving place. As a first step, in order to enable these developments to take place, investment in infrastructure will be needed. In general, infrastructure schemes are funded from the benefits gained from the development. To address any potential funding gap, the Council will enable infrastructure spending, to the extent that it meets our strategic priorities.

Accordingly, £3.6 million has been set aside within the current capital programme to contribute towards provision of local infrastructure, and to indicate our intention to invest to unlock development and attract matching funding.

Homes and Communities

The Strategic Plan seeks to make Maidstone a place where people love to live and can afford to live. This means a range of different types of homes, including affordable housing.

The Council plans to develop new housing, providing a mixture of tenures, under the Housing Development and Regeneration Investment Plan agreed by Policy and Resources Committee in July 2017. Developments are under way at Brunswick Street and Union Street. Lenworth House was acquired in 2018/19 and further acquisitions are envisaged. Private sector rented accommodation will be managed by the Council's subsidiary, Maidstone Property Holdings Limited. The Council is seeking partnerships to enable further development to take place.

In total, £35.6 million has been provided in the capital programme for the Housing Development and Regeneration Investment Plan. This will be supplemented by grants, eg from Homes England, where additional resources are needed in order to ensure the financial viability of developments.

We aim, and are required by law, to address homelessness and rough sleeping. The Council has invested in temporary accommodation for homeless families, thereby ensuring a good standard of accommodation and providing a more cost-effective solution than is offered by the private sector. In 2018/19 we acquired 17 homes for use as temporary accommodation and we plan to buy a further 10 units in 2019/20, for which £3.2 million has been provided in the capital programme.

The Council also works with Kent County Council Social Services to deliver adaptations and facilities to enable disabled people to remain at home. This work forms part of the capital programme, although it is funded directly by central government grant. £4 million has been provided in the capital programme for Disabled Facilities Grants.

A Thriving Place

The Strategic Plan seeks to make Maidstone a borough that is open for business, attractive for visitors and is an enjoyable and prosperous place to live for our residents. This can be achieved through investment in the County town and rural service centres.

There are a number of ways in which the Council will take the lead, including working with partners and through direct investment ourselves. The Council has a successful track record of acquiring property as part of its Commercial Investment Strategy. These acquisitions both generate a financial return that supports the objective of making the Council financially resilient and self-sufficient, and contribute to making Maidstone a thriving place. We will continue to seek good quality investment opportunities.

Where appropriate, we will seek to achieve the necessary scale of investment by identifying joint venture partners. The amount available for direct investment by Maidstone Council is governed by the overall size of the capital programme, but we will adopt a flexible approach within this constraint in order to take advantage of investment opportunities that meet our criteria.

Specific projects that will contribute to a Thriving Place include Maidstone East, where the Council is working in partnership with Kent County Council to redevelop a key site next to the railway station, and the Kent Medical Campus, where the Council has secured external funding to match the Council's own funds to provide £10.5 million in total to create an Innovation Centre for growing businesses in the life science, healthcare and med-tech sectors.

The Council has already made a significant investment in improving the public realm in the Town Centre. The current capital programme includes a further investment of £1.5 million, including partner contributions, in the bus station to improve its efficiency and attractiveness to customers.

Safe, Clean and Green

The Council seeks to protect and where possible enhance our environment and to make sure our parks, green spaces, streets and public areas are of a high quality.

Recent investment has included a programme of developments in our flagship local park, Mote Park. An Adventure Zone opened in May 2019 and plans are under way for the construction of a new Visitor Centre. Mote Park Lake is effectively a reservoir, and we are required to reduce the risk of the lake overtopping the dam at its western end. The necessary work is due to take place in Summer 2020 and current estimates are that the total scheme cost will be around £2 million.

The floods of winter 2013/14 highlighted the risks faced by the borough generally. Maidstone Borough Council is part of the Medway Flood Partnership, which includes the Environment Agency and Kent County Council. The Partnership plans to spend at least £19 million over the next five years in the Medway catchment area, of which Maidstone is contributing £1 million.

Medium Term Financial Strategy

- 2.3 The overall context for the MTFS is one where the Council is increasingly dependent on locally-generated resources, whether from Council Tax or a range of other income streams, including parking income, planning fees and the Council's property portfolio. The MTFS supports the Council's need to become financially self-sufficient.
- 2.4 In drawing up the capital programme, there is therefore a focus on schemes that both meet strategic priorities and are self-funding. Specifically:
- the Commercial Investment Strategy builds on the Council's existing commercial investment property portfolio and assumes that we will continue to expand the portfolio, subject to opportunities arising that generate the required rate of return.
 - the Housing Development and Regeneration Investment Plan provides for the Council to develop housing ourselves, thereby addressing the need for new homes in the borough and generating long term revenue returns through developing homes for market rent.
- 2.5 In general, the capital programme is reviewed and developed so that investment is focused on strategic priorities. The capital programme, as set out in the current MTFS 2019/20 to 2023/24, with updates to reflect slippage from 2018/19 and recent investment decisions of Policy and Resources Committee, is shown below.

Table 1: Capital Programme 2019/20 to 2023/24

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	Total £000
Brunswick Street - Net Cost	3,441	-100				3,341
Union Street - Net Cost	2,085	-1,843				242
Indicative Schemes	4,124	5,426	3,750	3,750		17,050
Housing Delivery Partnership			3,750	3,750	7,500	15,000
<i>Sub-total Housing Development and Regeneration</i>	<i>9,650</i>	<i>3,483</i>	<i>7,500</i>	<i>7,500</i>	<i>7,500</i>	<i>35,633</i>
Disabled Facilities Grants	1,570	800	800	800	800	4,770
Temporary Accommodation	3,236					3,236
Housing Incentives	1,040	175	175	175	175	1,740
Gypsy Site Improvement Works	42					42
CCTV Upgrade and Relocation	150					150
Commercial Waste	180					180
Street Scene Investment	147	25				172
Flood Action Plan	1,000	63				1,063
Communities, Housing & Environment Total	17,015	4,546	8,475	8,475	8,475	46,986
Improvements to Play Areas	422					422
Crematorium and Cemetery Projects	140	130				270
Mote Park Improvements	374					374
Mote Park Visitor Centre	2,122					2,122
Mote Park Lake - Dam Works	267	1,650	100			2,017
Other Parks Improvements	100					100
Museum Development Plan	11	125	200	64		401
Economic Regeneration & Leisure Total	3,437	1,905	300	64		5,706
High Street Regeneration	547					547
Asset Management / Corporate Property	1,417	467	175	175	175	2,409
Feasibility Studies	113	50	50	50	50	313
Infrastructure Delivery	1,200	600	600	600	600	3,600
Software / PC Replacement	124	287				411
Digital Projects	20	20	20	20	20	100
Acquisition of Commercial Assets	24,850	2,500	2,500	2,500	2,500	34,850
Kent Medical Campus-Innovation Centre	649	8,250	1,500			10,399
Maidstone East	520					520
Policy & Resources Total	29,440	12,174	4,845	3,345	3,345	53,149
Mall Bus Station Redevelopment	1,540					1,540
Bridges Gyratory Scheme	121					121
Strategic Planning & Infrastructure Total	1,661					1,661
Sub-Total	51,553	18,625	13,620	11,884	11,820	107,502
Section 106 Contributions / CIL	201	280	63	754	60	1,358
TOTAL	51,754	18,905	13,683	12,638	11,880	108,860

Treasury Management Strategy

- 2.6 The Treasury Management Strategy sets out how the Council manages its investments and cash flows, including banking, money market and capital market transactions, and how optimum performance is assured whilst managing the risks associated with these activities.
- 2.7 The specific aspects of the Treasury Management Strategy that are relevant here are how it addresses the Council's capital expenditure plans and how borrowing needs are met. Capital expenditure is funded from the New Homes Bonus, internal resources, borrowing and third party contributions such as Section 106 or CIL payments on new developments. To date, the Council has relied primarily on New Homes Bonus and internal resources, but it is envisaged that this will change owing to the reduction in New Homes Bonus payments and the scale of the capital programme.
- 2.8 The current local authority funding regime does not set cash limits for borrowing. However, borrowing must be sustainable in terms of the Council's ability to fund interest payments and ultimately repayment of capital.
- 2.9 Further details are set out in Section 4.

Asset Management Plan

- 2.10 The longer term maintenance of the Council's capital assets is addressed by the Council's Asset Management Plan. The Asset Management Plan ensures that the Council's assets, as a resource, support the delivery of the Council's objectives by:-
- Providing a suitable standard of accommodation for services including those shared with other authorities
 - Maintaining commercial investment assets and ensuring that they deliver the required rate of return
 - Providing an asset management service to the property holding company
 - Meeting the needs of the local community by maintaining assets in parks and open spaces and other community assets
 - Safeguarding local heritage through ownership and preservation of historic and scheduled ancient monuments.

The current capital programme includes a provision of £2.4 million for Corporate Property Improvements, based on the requirements of the Asset Management Plan.

- 2.11 The Asset Management Plan is currently under review. An updated Plan is due to be considered by Policy and Resources Committee in late 2019.

3. GOVERNANCE FRAMEWORK

Background

- 3.1 Capital expenditure proposals are developed in response to the Council's strategic priorities, as described in the previous section. Individual schemes are incorporated in the capital programme, which is included within the Council's Medium Term Financial Strategy.
- 3.2 The MTFS states that capital schemes will be reviewed and developed so that investment is focused on strategic priorities. The MTFS is updated on an annual basis, as part of the annual budget cycle.
- 3.3 Subsequent to preparation of the MTFS and its approval by Council each year, capital estimates form part of the annual budget that is submitted to Council for approval.

Developing capital expenditure proposals

- 3.4 The development of capital expenditure proposals follows certain core principles for the inclusion of schemes within the capital programme. Schemes may be included in the capital programme if they fall within one of the four following categories:
 - (i) Required for statutory reasons, eg to ensure that Council property meets health and safety requirements;
 - (ii) Self-funding schemes focused on Strategic Plan priority outcomes;
 - (iii) Other schemes focused on Strategic Plan priority outcomes; and
 - (iv) Other priority schemes which will attract significant external funding.
- 3.5 All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must comply with the requirements of the Prudential Code and the following locally set principles:
 - (a) Where schemes fit within a specific strategy and resources are available within the capital programme for that strategy, such as the Asset Management Plan, the schemes would also be subject to appraisal and prioritisation against the objectives of that strategy. These schemes must be individually considered and approved by the relevant service committee.
 - b) Where schemes can be demonstrated to be commercial in nature and require the use of prudential borrowing, a business case must first be prepared.
- 3.6 Where schemes do not fit within the criteria above but an appropriate option appraisal has been completed, they may still be included within the programme if they fall within one of the four categories set out above.

- 3.7 If, following all considerations, there are a number of approved schemes that cannot be accommodated within the current programme, a prioritised list of schemes that can be added to the programme as future resources permit will be created and approved by Policy and Resources Committee, thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.
- 3.8 The MTFs requires the Council to identify actual funding before commencement of schemes. Accordingly, while schemes may be prioritised for the programme, ultimately commencement of any individual scheme can only occur once all the necessary resources have been identified and secured.
- 3.9 The MTFs principles require that the Council will maximise the resources available to finance capital expenditure, in line with the requirements of the Prudential Code, through:
- a) The use of external grants and contributions, subject to maintaining a focus on the priority outcomes of its own strategies;
 - b) Opportunities to obtain receipts from asset sales as identified in the Asset Management Plan and approved for sale by Policy and Resources Committee;
 - c) The approval of prudential borrowing when the following criteria also apply to the schemes funded by this method:
 - i. they are commercial in nature;
 - ii. the outcome returns a financial benefit at least equal to the cost incurred by borrowing to fund the schemes;
 - iii. after covering the cost of funding, a further financial or non-financial benefit accrues to the Council that directly or indirectly supports the objectives of the strategic plan or the medium term financial strategy.
 - d) The use of New Homes Bonus for capital purposes in line with the Council's strategic plan priorities;
 - e) The implementation of a community infrastructure levy (CIL) and the management of its use, along with other developer contributions (S106), to deliver the objectives of the infrastructure delivery plan.
- 3.10 Service managers submit proposals to include projects in the Council's capital programme. Bids are collated by Corporate Finance who calculate the financing cost (which can be nil if the project is fully externally financed). Each Committee appraises the proposals based on a comparison with corporate priorities. Policy & Resources Committee recommends the capital programme which is then presented to Council in March each year.
- 3.11 Prior to any capital commitment being entered into, a detailed report setting out a full project appraisal and detailed financial projections is considered by the relevant service committee.

- 3.12 All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). Further details are set out in section 4 of the Capital Strategy.

Performance Monitoring

- 3.13 The Council has a corporate project management framework that applies to most of the projects included within the capital programme. This provides for designation of a project manager and sponsor, and includes a mechanism for progress on corporate projects to be reported quarterly to a Corporate Projects Board.
- 3.14 Financial monitoring of capital projects is addressed by the Council's Financial Procedure Rules. Individual Member Service Committees receive quarterly reports on capital expenditure for the services for which they are responsible.

Capitalisation

- 3.15 Accounting principles govern what counts as capital expenditure. Broadly, it must yield 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 are charged directly to service revenue accounts.
- 3.16 The Council has adopted a minimum threshold of £10,000 for capitalisation.

Asset Disposals

- 3.17 The Council's policy for asset disposals is set out in a policy adopted by Policy and Resources Committee at its meeting on 25th July 2017.
- 3.18 The policy distinguishes between the following categories.
- Operational Property held and used by the Council for the direct delivery of services for which it has either a statutory or discretionary responsibility. Assets may be disposed of if they have reached the end of their economic or useful life.
 - Investment Property held by the Council for revenue generation purposes, which should be assessed by its potential for improved rates of return by either better asset management, or disposal and re-investment of the receipt.
 - Community assets such as open space. The Council will not usually dispose of areas of parks or other areas which are classed as public open space.
- 3.19 Certain schemes within the capital programme are partially funded through sale of some of the completed asset(s) to partner organisations. In this case, the capital scheme value is shown net of these receipts in the capital programme, as the receipt is ringfenced for this purpose.

4. FINANCING THE CAPITAL PROGRAMME

- 4.1 Typically, local authorities fund capital expenditure by borrowing from the Public Works Loan Board, which offers rates that are usually more competitive than those available in the commercial sector. Maidstone Borough Council has so far not borrowed to fund its capital programme, instead relying primarily on New Homes Bonus to fund the capital programme. Borrowing is however likely to be required in future.

Financing Requirement

All capital expenditure must be financed, either from external sources (government grants, including New Homes Bonus, and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and other long term liabilities). The planned financing of the expenditure set out in Table 1 is as follows:

Table 2: Capital Financing

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	Total £000
External sources	6,901	9,179	3,253	2,782	860	22,975
Own resources	15,185	1,082	1,277	1,485	1,682	20,712
Debt	29,667	8,644	9,153	8,371	9,338	65,173
TOTAL	51,754	18,905	13,683	12,638	11,880	108,860

- 4.2 Where capital expenditure is funded by borrowing, the cost is reflected in the Council's revenue account by a Minimum Revenue Provision (MRP). This provision allocates the cost over the asset's perceived useful life, which could typically be fifty years. Alternatively, proceeds from selling capital assets (capital receipts) may be used to fund capital expenditure, although currently no capital receipts are assumed.

Table 3: Replacement of debt finance

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000	Total £000
MRP	185	1,082	1,277	1,485	1,682	5,712
Capital receipts	0	0	0	0	0	0
TOTAL	185	1,082	1,277	1,485	1,682	5,712

- 4.3 The Council's Minimum Revenue Provision statement is included within the Treasury Management Strategy.
- 4.4 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £44.146m during 2019/20. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement

	19/20 £000	20/21 £000	21/22 £000	22/23 £000	23/24 £000
Brought forward	12,031	56,177	64,291	72,928	80,761
Capital Expenditure	51,754	18,905	13,683	12,638	11,880
External funding	-6,901	-9,179	-3,253	-2,782	-860
Own resources	-521	-530	-517	-537	-568
MRP	-185	-1,082	-1,277	-1,485	-1,682
TOTAL CFR	56,177	64,291	72,928	80,761	89,531

Borrowing Strategy

- 4.5 The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, so the Council will seek to strike a balance between cheap short-term loans (currently available at around 1%) and long-term fixed rate loans where the future cost is known but higher (currently 2% - 3%).
- 4.6 Projected levels of the Council's total outstanding debt (which comprises borrowing and other long-term liabilities) are shown below, compared with the capital financing requirement.

Table 5: Prudential Indicator: Gross Debt and the Capital Financing Requirement

	31.3.19 actual £000	31.3.20 forecast £000	31.3.21 budget £000	31.3.22 budget £000	31.3.23 budget £000	31.3.24 budget £000
Debt (excl. PFI & leases)	0	29,667	38,312	47,465	55,836	65,173
Capital Financing Requirement	12,031	56,177	64,291	72,928	80,761	89,531

- 4.7 Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 5, the Council expects to comply with this in the medium term.
- 4.8 Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances will be fully utilised to fund the capital programme. The Liability Benchmark is currently £4m above the net borrowing requirement, representing the balance of working capital used for short term purposes and the use of investment income.

Table 6: Borrowing and the Liability Benchmark

	31.3.19 actual £000	31.3.20 forecast £000	31.3.21 budget £000	31.3.22 budget £000	31.3.23 budget £000	31.3.24 budget £000
Outstanding borrowing	0	25,667	34,312	43,465	51,836	61,173
Liability benchmark	4,000	29,667	38,312	47,465	55,836	65,173

- 4.9 The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt

	2019/20 limit £000	2020/21 limit £000	2021/22 limit £000	2022/23 limit £000	2023/24 limit £000
Authorised limit – borrowing	43,853	53,579	64,009	73,865	84,885
Authorised limit – PFI and leases	3,057	2,527	2,010	1,473	905
Authorised limit – total external debt	46,910	56,106	66,019	75,338	85,790
Operational boundary – borrowing	33,853	43,579	54,009	63,865	74,885
Operational boundary – PFI and leases	3,057	2,527	2,010	1,473	905
Operational boundary – total external debt	36,910	46,106	56,019	65,338	75,790

- 4.10 Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 4.11 The Council’s policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the short term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares

and property, to balance the risk of loss against the risk of receiving returns below inflation. Both short-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments

	31.3.2019 actual £000	31.3.2020 forecast £000	31.3.2021 budget £000	31.3.2022 budget £000	31.3.2023 budget £000
Short-term investments	15,014	4,000	4,000	4,000	4,000
Longer-term investments	0	2,000	2,000	2,000	2,000
TOTAL	15,014	6,000	6,000	6,000	6,000

- 4.12 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance and Business Improvement and staff, who must act in line with the treasury management strategy approved by council. Quarterly reports on treasury management activity are included within the budget monitoring reports which are presented to the council Policy & Resources Committee with the half yearly and annual reviews which are scrutinised by Audit, Governance and Standards Committee then recommending to Full council. The Audit, Governance and Standards Committee is responsible for scrutinising treasury management decisions.

Revenue Budget Implications

- 4.13 Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
Financing costs (£000)	-220	243	868	1,120	1,373
Proportion of net revenue stream	-1.1%	1.2%	4.7%	6.2%	7.2%

- 4.14 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend beyond 5 years into the future. The Director of Finance and Business Improvement is satisfied that the proposed capital programme is prudent, affordable and sustainable.

5. OTHER LONG TERM LIABILITIES

- 5.1 This section deals with other long term liabilities to which the Council has committed itself in order to secure capital investment. 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.
- 5.2 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 Council's Balance Sheet, and will be written down annually by the amount of principal repaid. Interest paid on the loan is charged to revenue.

Investments for Service Purposes

- 5.3 The Council can make investments to assist local public services, including making loans to local service providers, local small businesses to promote economic growth, Charities and the Council's subsidiaries that provide services. In light of the public service objective, the Council is willing to take more risk than with treasury investments, however it still plans for such investments to provide value for money to the tax payer.
- 5.4 Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance and Business Improvement and relevant committee (where appropriate), and must meet the criteria and limits laid down in the investment strategy. Most loans are capital expenditure and purchases will therefore also be approved as part of the capital programme.

6. COMMERCIAL ACTIVITIES

- 6.1 The Council originally developed a Commercialisation Strategy in 2014, in response to the withdrawal of Revenue Support Grant and the freedoms and flexibilities offered to local authorities through the Localism Act. A review of the Strategy in November 2016 indicated that it had been successful in promoting a more business-like approach to the Council's revenue generating activities, but new initiatives had met with varying degrees of success.
- 6.2 It was decided by Policy and Resources Committee, on the basis of this review, to refocus the strategy on housing and regeneration, which provided the opportunity both to generate a financial return for the Council and to support its strategic priorities. As a result, a Housing Development and Regeneration Plan, to which reference has already been made here, was developed and adopted in July 2017. Similarly, the Council's Commercial Property Investment Strategy is intended to support the local economy and regeneration objectives, as well as to generate a financial return.
- 6.3 Accordingly, none of the Council's capital investment is undertaken for purely commercial purposes.

7. KNOWLEDGE AND SKILLS

- 7.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Director of Finance and Business improvement is a qualified accountant with over 15 years' experience in local government, the Corporate Property Manager and the team are experienced in Property Management and the Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury), and ACCA.
- 7.2 The Council currently employs Link Asset Services as treasury management advisers and a number of property consultants including Harrisons Property Surveyors Limited and Sibley Pares Limited. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.
- 7.3 The Council carries out consultation as part of the development of the MTFS in order to establish the wider community's priorities for budget spending. In addition, consultation is carried out each year on the detailed budget proposals with individual Service Committees about budget proposals relating to the services within their areas of responsibility.

8. RISK MANAGEMENT

- 8.1 The capital programme forms an increasingly important part of the Council's strategy for delivering its overall priorities. Accordingly, it is of fundamental importance that the associated risks are managed actively. The Council has a comprehensive risk management framework, through which risk in relation to capital investment is managed at all levels.

Corporate

- 8.2 Corporate risks are identified and reported on a quarterly basis to the Corporate Leadership Team and twice a year to the Policy and Resources Committee. Risks are owned by named Directors and controls developed to mitigate risk. Risks at this level may be generic, relating to a number of capital projects, although it is possible that a single capital project could pose a corporate risk.

Financial

- 8.3 A Budget risk register seeks to capture all known budget risks and to present them in a readily comprehensible way. The budget risk register is updated regularly and is reviewed by the Audit, Governance and Standards Committee at each meeting.
- 8.4 Typically, risks in this area would relate to funding of the capital programme and over/underspending on individual capital projects.
- 8.5 For all risks shown on the Budget Risk Register, appropriate controls have been identified and their effectiveness is monitored on a regular basis.

Service

- 8.6 Individual service areas maintain risk registers, with identified risk owners and details of controls to mitigate risk.

Project

- 8.7 The Council's project management framework requires managers to maintain risk registers at a project level.

Document History

Date	Description	Details of changes
28.06.19	First draft to Corporate Leadership Team	
23.07.19	Draft submitted to Policy and Resources Committee	Incorporates references to Maidstone Property Holdings, CIL and financial self-sufficiency as requested by CLT.
30.07.19	Draft submitted to Audit Governance and Standards Committee	Para 4.2 amended to provide clearer explanation of Minimum Revenue Provision.

External Audit Fee Letter 2019/20

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	Chris Hartgrove, 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 2019/20 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 2019/20 financial statements audit and value for money conclusion be noted.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	30 July 2019

External Audit Fee Letter 2019/20

1. 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
Cross Cutting Objectives	No material impact.	Head of Finance
Risk Management	There is risk that the council could incur additional fees if the 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.	Head of Finance
Financial	The proposed 2019/20 audit fee of £38,866 is the same as in 2018/19. Provision for the audit fee 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

2. INTRODUCTION AND BACKGROUND

Audit Fee 2019/20

- 2.1 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.
- 2.2 PSAA also have responsibility for prescribing audit fees for opted-in bodies. The planned fees for 2019/20 were published by PSAA in March 2019, and have set the fee for Maidstone Borough Council at £38,866 which is the same as in 2018/19.
- 2.3 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.
- 2.4 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'.
- 2.5 Further details regarding the scope of the audit fee and work planned for 2019/20 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.

3. AVAILABLE OPTIONS

- 3.1 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.
- 3.2 As the Council has a statutory obligation to have its accounts audited annually, the 'Do Nothing' option does not apply.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 As stated elsewhere in this report, Committee members are asked to note the planned audit fee of £38,866 for 2019/20.
- 4.2 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.

5. RISK

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

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 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.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 This is detailed within the letter attached at Appendix 1.

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 2019/20

Mark Green
Director of Finance and Business Improvement
Maidstone Borough Council
Maidstone House
King Street
Maidstone
ME15 6JQ

18 April 2019

Grant Thornton UK LLP
110 Bishopsgate
London
EC2N 4AY

T +44 (0)20 7383 5100
www.grant-thornton.co.uk

Dear Mark

Planned audit fee for 2019/20

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 had the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities also include setting fees and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

All grant work, including housing benefit certification, 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 2019/20 scale fees for opted-in bodies at the end of March 2019, following a consultation process. Individual scale fees have been maintained at the same level as in 2018/19, unless there were specific circumstances which required otherwise. Further details are set out on the [PSAA website](#). The Council's scale fee for 2019/20 has been set by PSAA at £38,866 which is the same as in 2018/19.

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 2019/20, 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 2019/20. 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 2019/20 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.

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 2019	9,717
December 2019	9,717
March 2020	9,716
June 2020	9,716
Total	38,866

Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2019 to March 2020. 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 2020 and work on the whole of government accounts return in July 2020.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2019 to March 2020	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 to July 2020	Audit Findings (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 2020 to July 2020	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2020	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	August 2020	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 2019/20 are:

	Name	Phone Number	E-mail
Key Audit Partner	Elizabeth Jackson	020 7728 3329	Elizabeth.L.Jackson@uk.gt.com
Engagement Manager	Tina James	020 7728 3307	Tina.james@uk.gt.com
In Charge Auditor	Louie Smith	020 7865 2486	Louie.J.Smith@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



Elizabeth Jackson
Key Audit Partner
Grant Thornton UK LLP

Audit, Governance and Standards Committee

30 July 2019

Annual Accounts 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	Paul Holland, Senior Finance Officer
Classification	Public
Wards affected	All

Executive Summary

This report sets out the findings of the external auditor’s work on the 2018/19 financial statements audit and value for money conclusion, and requests that the Committee approves the 2018/19 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 3** is approved.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	30 July 2019

Annual Accounts 2018/19

1. 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 in demonstrating accountability and value for money.	Director of Finance and Business Improvement
Cross Cutting Objectives	There is no specific implication, however sound financial management does support the delivery of the Council's cross cutting objectives.	Director of Finance and Business Improvement
Risk Management	This is detailed within section 5.	Director of Finance and Business Improvement
Financial	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2019, and details the council's assets, liabilities and reserves at this date.	Director of Finance and Business Improvement
Staffing	No implications identified.	Director of Finance and Business Improvement
Legal	No implications identified.	Director of Finance and Business Improvement
Privacy and Data Protection	No implications identified.	Director of Finance and Business Improvement
Equalities	No implications identified.	Director of Finance and Business Improvement

Public Health	No implications identified.	Director of Finance and Business Improvement
Crime and Disorder	No implications identified.	Director of Finance and Business Improvement
Procurement	No implications identified.	Director of Finance and Business Improvement

2. INTRODUCTION AND BACKGROUND

2.1 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.

2.2 The Statement of Accounts consists of:

Narrative Report – this summarises the Council’s performance over the financial year 2018/19 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 2019, 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 2019.

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.

- 2.3 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.
- 2.4 The draft accounts were produced by the deadline of 31 May in accordance with the revised timetable for this process which came into force last year. External audit work commenced on 24 June.
- 2.5 The audited version of the Statement proposed for approval at this meeting is attached at **Appendix 2**.
- 2.6 The accounts show that the balance of usable reserves has increased by £2.5m to £14.4m at the end of 2018/19. The increase arises primarily from the additional Business Rates growth retained as a result of the authority’s participation in the Government’s 100% Business Rates Retention Pilot. The additional growth has been earmarked for expenditure during the course of 2019/20.
- 2.7 Other headline messages from the Statement of Accounts can be summarised as follows:
 - The revenue outturn for the year was an underspend of £0.15m compared with the budget.
 - The value of long term assets has increased by £18.9m. This reflects a number of significant property acquisitions made during 2018/19, including 17 further temporary accommodation units, and the purchase of Lenworth House for conversion into apartments. It also includes the value of work to date on a number of significant projects including the Mote Park Adventure Zone and the housing developments at Union Street and Brunswick Street.
 - 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, particularly in relation to business rates where the Council is the lead authority for the pilot project.
 - Long term liabilities have decreased by £7.2m, 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.

- 2.8 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.
- 2.9 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. These were mainly to deal with rounding and consistency issues, and clarifying the new requirements around IFRS 15 which deals with recognition of revenue income.
- 2.10 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

- 2.11 The Letter of Representation attached at **Appendix 3** is written from the Council to the external auditor and will be signed by the Director of Finance and Business Improvement. [To follow]
- 2.12 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 2018/19 and applicable law.
- 2.13 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.
- 2.14 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 2019/20 onwards and the capital programme, asset management plan and medium term financial strategy for 2019/20 onwards consider only service efficiencies and growth in corporate or service objectives.

3. AVAILABLE OPTIONS

- 3.1 The recommendation being made to the Committee is to approve the Statement of Accounts for 2018/19, taking into consideration the work of the external auditor.
- 3.2 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.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 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 2019 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 2018/19; and
 - have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.
- 4.2 On this basis, it is considered appropriate for the Committee to approve the audit Statement of Accounts for 2018/19.
-

5. RISK

- 5.1 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.
-

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 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 12 July. To date, no enquiries have been received in relation to this.
-

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 The external auditor is required to issue the audit opinion by 31 July.
-

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 2018/19
 - Appendix 3: Letter of Representation (TO FOLLOW)
-

9. BACKGROUND PAPERS

None

NARRATIVE Report 2019

Appendix 2

PRIDE IN OUR BOROUGH
A Borough that works for everyone





Key Facts about Maidstone

POPULATION OF MAIDSTONE BOROUGH

2017	167,700
2016	165,700

GROSS VALUE ADDED IN BOROUGH

2016	£3.8 billion
2015	£3.6 billion

NUMBER OF ACTIVE BUSINESSES IN THE BOROUGH

2017	7,935
2016	7,755

BUSINESS RATES GENERATED

2018/19	£59.9 million
2017/18	£56.9 million

WEEKLY PAY FOR A FULL-TIME WORKER

2018	£589.50
2017	£562.90

COUNCIL GROSS REVENUE

2018/19	£97.2 million
2017/18	£95.5 million

COUNCIL REVENUE GENERATED LOCALLY

2018/19	93.3%
2014/15	82.3%

COUNCIL SURPLUS AGAINST BUDGET

2018/19	0.9%
2017/18	1.1%

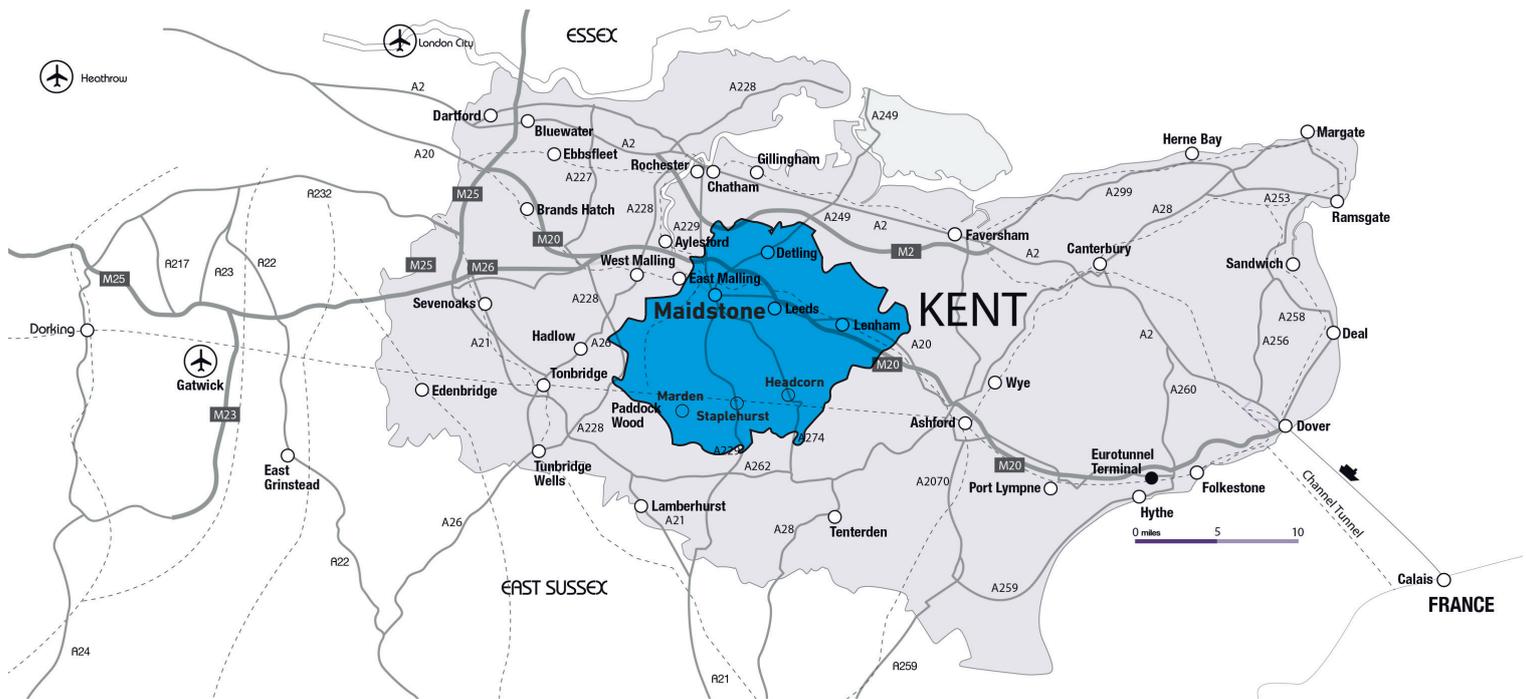
COUNCIL INVESTMENT IN LONG TERM ASSETS

2018/19	£116.9 million
2017/18	£98.0 million

COUNCIL'S USABLE RESERVES

2018/19	£15.1 million
2017/18	£12.4 million

About Maidstone

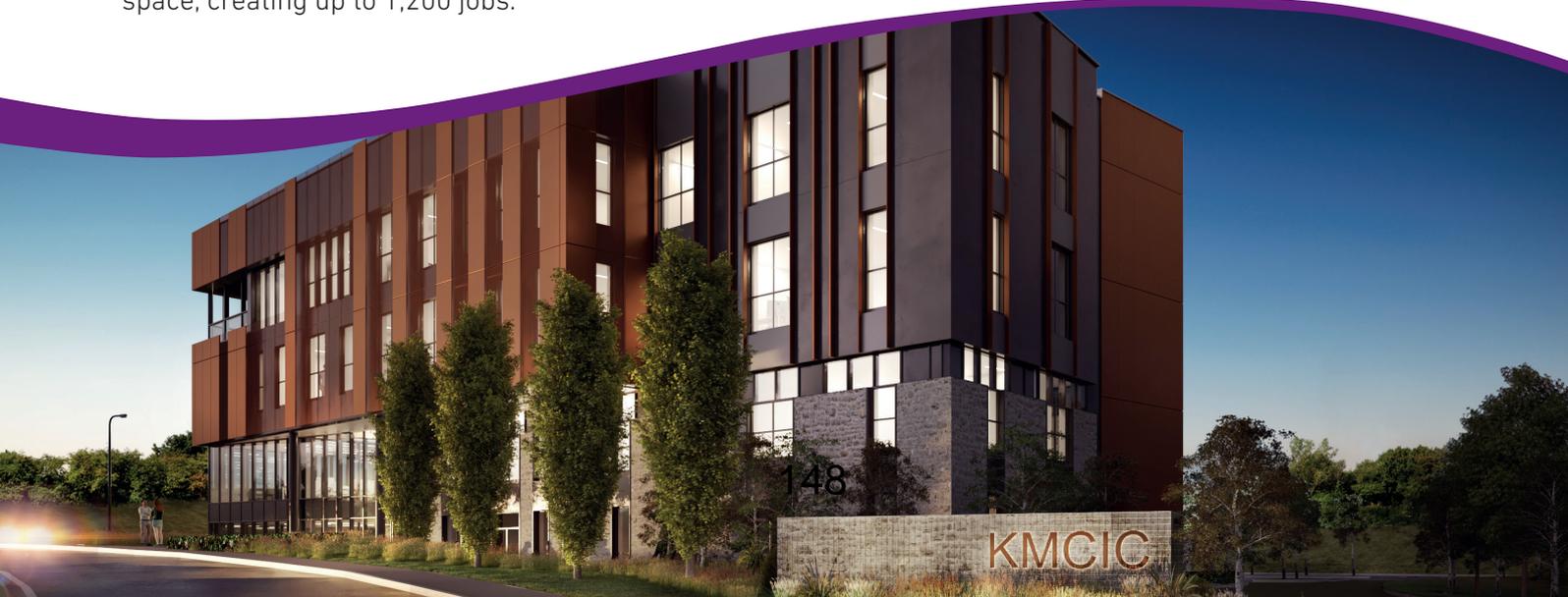


Maidstone is the largest borough council district in Kent, with an estimated 168,000 residents in mid-2017. Around 70% live in Maidstone, which is the County Town of Kent. In the surrounding rural area there are local service centres such as Staplehurst, Marden, Headcorn, Lenham, Harrietsham and many smaller villages.

Maidstone has the largest economy of any Kent borough, generating an estimated £3.8 billion Gross Value Added per annum. The borough has around 8,000 businesses covering a diverse range of sectors including life sciences, healthcare, ICT, construction and civil engineering, professional and business services, agriculture and horticulture, and education.

The M20 from London to the Kent coast runs through the borough, providing good transport links and the opportunity for further business growth. New developments along the M20 corridor include the following:

- The Kent Medical Campus, located just off Junction 7, is a 30-acre site designed to stimulate and support research-led health and life science businesses and clinical service providers, supported by universities and specialist training providers. Cygnet Hospital opened in late 2018 on the site, providing services for patients suffering from a variety of mental health problems. The Council is also building an Innovation Centre there, providing flexible office space, facilities and business support for businesses in the life science, healthcare and med-tech sectors, with a target opening date of summer 2021.
- Planning permission has been granted for a new commercial business park at Junction 8 of the M20, which will provide office, warehouse and light industrial space to serve the borough's growing economy. A new state-of-the-art commercial business park is planned which will deliver more than 47,500m² of employment space, creating up to 1,200 jobs.



- A strategic site south of the M20 at Junction 6 covering an area of 4,600m² will become an industrial park, comprising a local firm's head office and offering local employment opportunities to businesses looking to locate in the area.

The town of Maidstone is surrounded by a rural area that stretches from the Kent Downs Area of Outstanding Natural Beauty in the north to the Weald in the south. The borough has a rich historical heritage, with 2,000 listed buildings and 28 scheduled ancient monuments. The River Medway flows through the borough and the town centre and, together with its tributaries, is one of the borough's prime assets. All these natural and physical advantages help the borough attract around four million visitors each year.

About the Council

The Council is accountable to local residents through its 55 councillors, who are elected by thirds for terms of four years, such that elections are held in three years out of every four. Following the May 2019 Borough Elections, the political composition of the Council is:

Conservative	25
Liberal Democrat	20
Labour	4
Independent	4
Independent Maidstone	2

The Council operates a Committee system, with decisions being made by four main Committees: Policy and Resources; Communities, Housing and Environment; Economic Regeneration and Leisure; and Strategic Planning and Infrastructure. The Council elects a Leader each year, who is also Chairman of the Policy and Resources Committee. The current Leader of the Council is Martin Cox (Liberal Democrat).

The Council employed 526 people (489 full time equivalent) at 31 March 2019, based at the Council's administrative offices in Maidstone House, King Street, and at service locations including the Council's depot at Bircholt Road, Parkwood.

Maidstone's Strategic Plan

The Council has a Strategic Plan which is updated on an annual basis. 2018/19 was year four of the five year Strategic Plan adopted in 2015. A new long term Strategic Plan was agreed in December 2018, and is described in the 'Future Plans' section below.

The 2015 Strategic Plan identified 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 2018/19:

- **A Home for Everyone;**
- **Providing a Safe, Clean and Green environment; and**
- **Regenerating the Town Centre.**



Key achievements

Key achievements in the priorities from the Strategic Plan and progress against key performance indicators are set out below:



A HOME FOR EVERYONE

- **New housing developments**

Work is under way on two new housing developments in Maidstone town centre, at Union Street and Brunswick Street. 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.

- **Lenworth House**

The regeneration of Lenworth House on Ashford Road has transformed a derelict Georgian building into 14 new apartments, which have been let to private sector tenants through the Council's housing company. The Council acquired Lenworth House in 2017 as part of its commitment to deliver high-quality housing to the borough.

- **Temporary accommodation**

The Council dealt with 1,212 homelessness applications in 2018/19 and has provided temporary accommodation to an average of over 100 households at any one time. In order to provide good quality, affordable temporary accommodation, the Council has continued its programme of acquiring suitable properties. In 2018/19 it bought a further 17 units, making a total of 76.



A CLEAN, SAFE AND GREEN ENVIRONMENT

- **Mote Park**

Mote Park is Maidstone's 'jewel in the crown', a Grade 2 listed 460 acre park, 10 minutes walk from the Town Centre. It attracts thousands of visitors and hosts a range of events throughout the year. The Council is investing in the park to provide even more attractions. A new play area and an Adventure Zone, offering high ropes, mini adventure golf, climbing walls and a skate park opened in Spring 2019.

- **Reducing flytipping**

The Council has continued to make progress in reducing flytipping. It has pursued enforcement action vigorously, with 83% of fly-tips where there is evidence available leading to enforcement action. 94% of fly-tips are cleared within two working days.

- **Go Green Go Wild**

Go Green Go Wild is an exciting new project that is intended to encourage people to look after the nature that is on their doorstep. We want to help residents create wildlife corridors, encourage native species and provide habitats so that wildlife can thrive throughout Maidstone. The initiative provides advice and information, promotes local wildlife groups and is leading the creation of new wildflower meadows to increase biodiversity.



REGENERATING THE TOWN CENTRE

- **Public Realm**

Maidstone town centre is the largest traditional high street in Kent and a thriving location for retail businesses. A major programme of works to improve the public realm in the town centre was completed in Spring 2019, making it more pedestrian friendly by removing kerbs and street clutter and introducing new seating, trees and wayfinding signage. Key features of the works included patterns in the paving to create distinctive squares along the length of the road, and text engraved in the paving to highlight key historic events.

- **Maidstone East redevelopment**

Maidstone Borough Council and Kent County Council own the old Post Office Sorting Office next to Maidstone East railway station and are bringing forward ambitious plans to redevelop the area, including the adjacent commuter car park and Cantium House. A new square, linked to the public realm improvements to the north end of Week Street, will be created, alongside an extended and refurbished station ticket office. This multi-million-pound landmark regeneration project will be crucial to transforming this key gateway to the County Town.

- **Business Improvement District**

Working with One Maidstone, the Borough Council has supported the creation of a Business Improvement District. Businesses in the town centre have overwhelmingly voted to support the establishment of a BID which will generate over £2 million in additional revenue, to be spent on tackling anti-social behaviour, enhanced street cleansing, floral displays, more events, marketing and christmas lights.

- **Opportunity areas**

The Council has identified five areas in the town centre that provide the opportunity for distinctive developments. It has liaised with the landowners and prepared planning guidance to demonstrate the Council's ambition for the sites and help unlock funding for development. Where appropriate the Council will lead the master-planning process and co-ordinate land assembly.



KEY PERFORMANCE INDICATORS

Key Performance Indicators are set for each Council priority in consultation with the relevant Service Committee. Performance against targets is set out below.

PRIORITY: A Home for Everyone

Performance Indicator	Service	Value	Target	Status	Last Year
Processing of planning applications: major applications (NI 157a)	Development Management	96.33%	88.00%		
Processing of planning applications: minor applications (NI 157b)	Development Management	94.49%	80.00%		
Processing of planning applications: other applications (NI 157c)	Development Management	97.04%	90.00%		
Number of affordable homes delivered (gross)	Economic Development	205	180		
Number of households living in temporary accommodation last night of the month (NI 156 & SDL 009-00)	Housing & Health	113			
Number of households living in nightly paid temporary accommodation last night of the month	Housing & Health	58			
Number of applications where Prevention Duty has ended as applicant has suitable accommodation for at least six months	Housing & Health	189	300		N/A
Number of households housed through housing register	Housing & Health	578	600		

PRIORITY: Providing a Clean, Safe and Green Environment

Performance Indicator	Service	Value	Target	Status	Last Year
The percentage of land and highways with acceptable levels of litter	Depot Services	98.17%	94.00%		
The percentage of land and highways with acceptable levels of detritus	Depot Services	95.25%	94.00%		
Percentage of report of littering attended to	Depot Services	48.77%			N/A
Percentage of fly tips resulting in enforcement action	Environmental Crime Team	83.3%	50.0%		
Percentage of fly-tips cleared or assessed within two working days	Environmental Crime Team	93.99%	89.00%		
Percentage of fly-tips clear or assessed within four working days	Environmental Crime Team	101%	94%		N/A
Percentage of household waste sent for reuse, recycling and composting (NI 192)	Waste & Recycling	51.40%	52.50%		

Data only indicator - reported for information but no target set

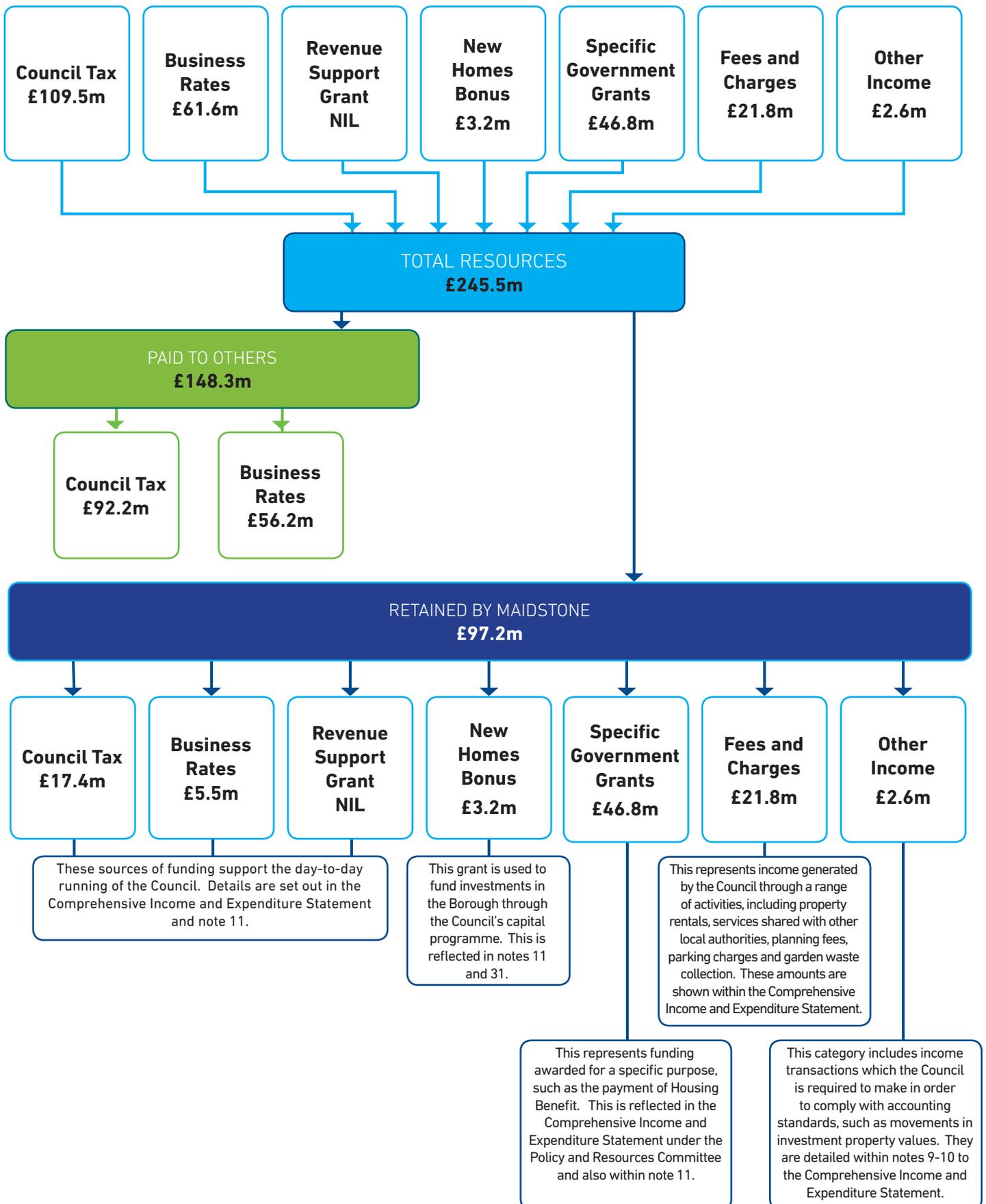
PRIORITY: Regenerating the Town Centre

Performance Indicator	Service	Value	Target	Status	Last Year
Percentage of vacant retail units in town centre	Economic Development	12.13%	11%	?	?
Footfall on the High Street	Economic Development	11,719,223	10,600,000	✓	↓
Business Rates income from the Town Centre	Revenues & Benefits	£23,531,680.79			↓



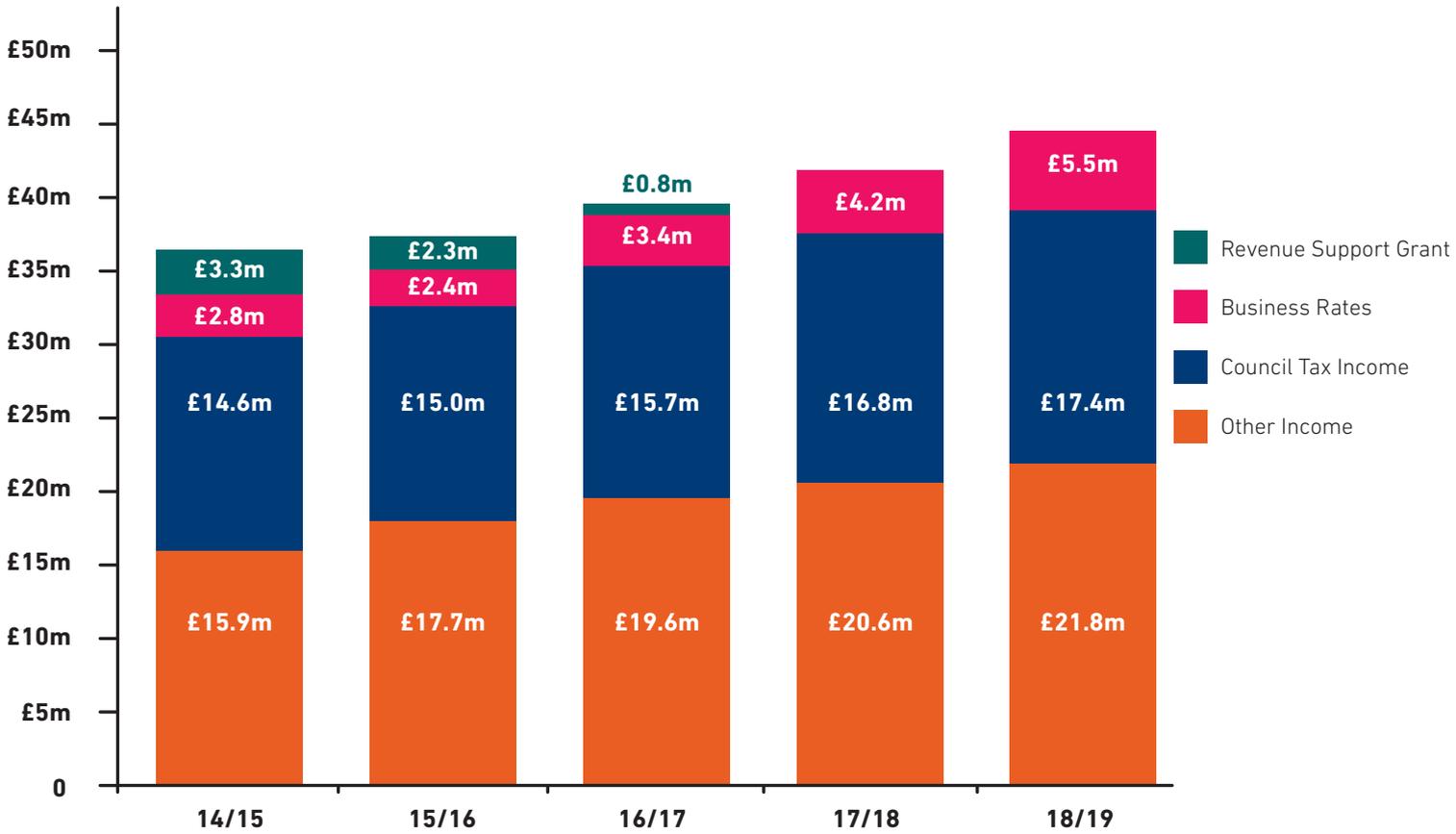
Financial Performance

Maidstone Council's financial turnover, including Council Tax and Business Rates collected on behalf of other local authorities and government, amounted to £246 million in 2018/19 (£234 million in 2017/18). The table below shows the flows of income and expenditure.



Income

The Council no longer receives Revenue Support Grant from central government. It depends on income generated locally in Maidstone, comprising Council Tax, our share of Business Rates, and Fees and Charges for the services that we provide.



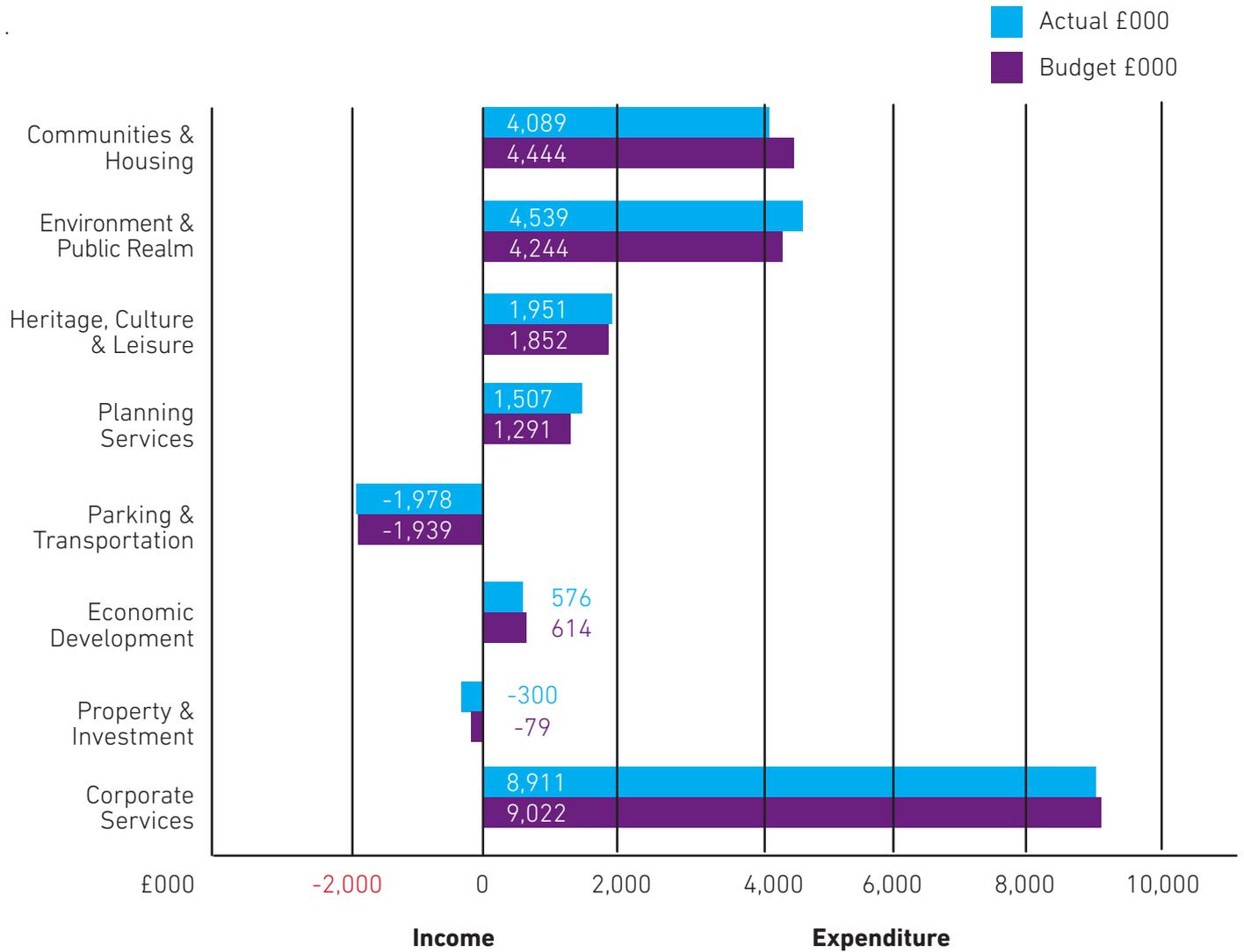
These sources of income are shown in note 11 to the Statement of Accounts, **Taxation & Non-Specific Grant Income**, and in the income totals for the relevant Committee in the **Comprehensive Income and Expenditure Statement**.



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 2018/19.



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 £27.4 million to £46.8 million, mainly because of upward revaluations of the Council's property assets and growth in pension fund assets managed by Kent County Council.

2017/18 £000		2018/19 £000
67,145	Property, Plant & Equipment	82,307
10,393	Heritage Assets	10,393
19,976	Investment Properties	23,014
516	Other Long Term Assets	2,649
31,646	Money owed to the Council	33,610
-20,089	Money owed by the Council	-30,216
-82,207	Long Term Liabilities	-74,983
27,380	Net Assets	46,774
12,446	Usable Reserves	15,050
14,934	Unusable Reserves	31,724
27,380	Total Reserves	46,774

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.

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. £4.6 million of New Homes Bonus has been used in this way during the year (17/18 - £9.8 million).

Unusable Reserves will only become available at some future date, for example if assets are sold. Unusable reserves rose, reflecting the revaluations and change in pension liabilities described above.

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

Capital Expenditure

During the year, £16.1 million was spent on delivering the projects identified within the Council's capital programme.

These projects include:

- Expenditure on new housing developments at Union Street and Brunswick Street
- Acquisition of Lenworth House to provide private sector rented accommodation
- Purchase of properties for use as temporary accommodation for homeless people
- Construction of an Adventure Zone and new Play Area at Mote Park
- Public realm improvements in the Town Centre

The Council has an ambitious capital programme for the coming five years, totalling £80 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
	18/19	19/20	20/21	21/22	22/23	23/24	
	£000	£000	£000	£000	£000	£000	£000
Housing Development and Regeneration	4,142	8,965	3,658	7,675	7,675	7,675	35,648
Temporary Accommodation	4,446	3,000					3,000
Disabled Facilities Grants	578	800	800	800	800	800	4,000
Flood Action Plan	67	1,000	63				1,063
Mote Park Improvements	2,501	2,290	1,650	100			4,040
Town Centre Regeneration	2,283						0
Property Investment Strategy	5	2,500	2,500	2,500	2,500	2,500	12,500
Kent Medical Campus Innovation Centre	251	750	8,250	1,500			10,500
Infrastructure delivery	0	600	600	600	600	600	3,000
Corporate Property Improvements	542	1,115	467	175	175	175	2,107
Mail Bus Station Redevelopment	0	1,500					1,500
Section 106 Contributions	376	201	280	63	754	60	1,358
Other	937	401	637	270	134	70	1,513
	16,128	23,122	18,906	13,683	12,638	11,880	80,229

FUTURE PLANS

The Council agreed a new long term Strategic Plan in December 2018, setting out its aspirations through to 2045. Our vision is for Maidstone to be a vibrant, prosperous, urban and rural community at the heart of Kent, where everyone can realise their potential. Within the overall Strategic Plan, we have defined four Strategic priorities: embracing growth and enabling infrastructure; making Maidstone safe, clean and green; providing homes and supporting communities; and making the borough a thriving place.

At the same time as it agreed its Strategic Plan, the Council approved a new five year Medium Term Financial Strategy. This sets out how our strategic priorities will be delivered, given the financial resources available to the Council. Resources depend first of all on the overall economic environment. The combination of relatively slow economic growth and pressure on government expenditure from other areas of the public sector mean that the Council cannot rely on government support to increase spending, and in the worst case may have to cut back. The Council is already very largely self-sufficient, with most of its income coming from Council Tax and other local sources, including parking, planning fees and property income.

The Council plans to invest through its capital programme. Any such investment must be sustainable in terms of the Council's ability to fund interest payments and ultimately repayment of capital. The capital programme is intended to support local public services and to help the Council achieve its strategic priorities for the borough.

The main financial risk to the Council arises from continued uncertainty about the shape of local government funding arrangements 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 this 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.





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

Ranking	Risk description	Risk rating	
		Inherent risk	After planned mitigations
1	Housing pressures increasing	20	12
2=	Major project failure	16	12
2=	Financial restrictions	16	12
4	Poor partner relationships	16	9
5	Impact of Brexit	12	12
6=	Contraction in retail and leisure sectors	12	8
6=	Significant control failure	12	8
8=	Failure to implement Local Plan	9	9
8=	Environmental damage	9	9
10=	Governance failures	8	8
10=	IT security failure	8	8
12	Loss of community engagement	6	6
13	Workforce capacity and skills	4	4

160





STATEMENT OF ACCOUNTS 2018/19

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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 2019.

Signed:

Mark Green, Director of Finance & Business Improvement

Date: 30th July 2019

PRIMARY STATEMENTS

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

For the years ending 31st March 2018 & 2019

	2017/18			Committee	2018/19		
	Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
	59,368	(52,702)	6,666	Policy & Resources	62,187	(52,830)	9,357
	14,207	(3,966)	10,241	Communities, Housing & Environment	15,817	(4,324)	11,492
	9,796	(4,319)	5,477	Heritage, Culture & Leisure	9,525	(4,353)	5,172
	8,286	(7,178)	1,108	Strategic Planning, Sustainability & Transportation	6,774	(7,075)	(301)
	91,657	(68,165)	23,492	Cost Of Services	94,302	(68,582)	25,720
			936	Other Operating Expenditure (Note 9)	1,927	(698)	1,229
			1,609	Financing and Investment Income and Expenditure (Note 10)	2,040	(1,871)	169
		(25,752)		Taxation and Non-Specific Grant Income and Expenditure (Note 11)		(26,043)	(26,043)
		285		(Surplus) or Deficit on Provision of Services			1,075
				Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services			
		(1,350)		(Surplus) or deficit on revaluation of property, plant & equipment assets			(7,831)
		(7,567)		Remeasurement of the Net Defined Benefit Liability			(9,438)
		(8,917)		Other Comprehensive Income and Expenditure			(17,269)
		(8,632)		Total Comprehensive Income and Expenditure			(16,194)

MOVEMENT IN RESERVES STATEMENT

For the years ending 31st March 2018 & 2019

Current Year	General Fund Balance Unallocated £000	Earmarked GF Balances £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 1st April 2018	9,021	2,899	523	3	12,446	14,934	27,380
Movement in Reserves during 2018/19							
Total Comprehensive Income and Expenditure	(1,075)	0	0	0	(1,075)	17,269	16,194
Adjustments between accounting basis & funding basis under regulation (Note 6)	1,809	(1,404)	75	0	480	(480)	0
Movements between Reserves	(1,135)	4,333	0	0	3,198		3,198
Increase or Decrease in 2018/19	(401)	2,929	75	0	2,603	16,789	19,392
Balance at 31st March 2019	8,620	5,828	598	3	15,051	31,723	46,774

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 1st April 2017	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

BALANCE SHEET**As at 31st March 2018 & 2019**

31st March 2018 £000		Notes	31st March 2019 £000
67,145	Property, Plant & Equipment	18	82,307
19,976	Investment Property	19	23,014
10,393	Heritage Assets	20	10,393
477	Intangible Assets		564
0	Long Term Investments	21	2,000
40	Long Term Debtors		84
98,031	Long Term Assets		118,362
7,000	Short Term Investments	21	2,000
110	Inventories		98
14,291	Short Term Debtors	23	20,328
10,244	Cash & Cash Equivalents	24	11,184
31,645	Current Assets		33,610
14,233	Short Term Creditors	25	23,413
959	Provision for Business Rate Appeals	26	1,179
296	Other Provisions	26	380
521	Deferred Liability	28	521
4,080	Capital Grants Receipts in Advance	16	4,723
20,089	Current Liabilities		30,216
1,348	Provision for Business Rate Appeals	26	707
184	Other Provisions		259
3,057	Deferred Liability	28	2,536
77,618	Other Long Term Liabilities	32	71,481
82,207	Long Term Liabilities		74,983
27,380	Net Assets		46,774
12,446	Usable Reserves		15,050
14,934	Unusable Reserves	30	31,724
27,380	Total Reserves		46,774

CASH FLOW STATEMENT

2017/18		Notes	2018/19
£000			£000
285	Net (surplus) or deficit on the provision of services		1,075
(8,846)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	36	(11,632)
2,433	Adjustments for items included in the net surplus or deficit on the provision of services that are investing & financing activities	37	2,179
(6,128)	Net cash flows from Operating activities		(8,378)
11,104	Investing Activities	38	5,822
(3,609)	Financing Activities	39	1,616
1,367	Net increase or decrease in cash & cash equivalents		(940)
(11,611)	Cash & cash equivalents at the beginning of the reporting period		(10,244)
(10,244)	Cash & cash equivalents at the end of the reporting period		(11,184)

NOTES TO THE ACCOUNTS

1 – EXPENDITURE & FUNDING ANALYSIS

For the years ending 31st March 2018 & 2019

Net Expenditure Chargeable to the General Fund (Restated) £000	2017/18		Committee	2018/19		Net Expenditure in the Comprehensive Income & Expenditure Statement £000
	Adjustments (Restated) £000	Net Expenditure in the Comprehensive Income & Expenditure Statement £000		Net Expenditure Chargeable to the General Fund £000	Adjustments £000	
7,415	(749)	6,666	Policy & Resources	8,047	1,310	9,357
7,588	2,653	10,241	Communities, Housing & Environment	8,627	2,864	11,491
1,777	3,701	5,477	Heritage, Culture & Leisure	1,951	3,221	5,173
(1,091)	2,199	1,108	Strategic Planning, Sustainability & Transportation	(471)	170	(301)
15,688	7,804	23,492	Net Cost Of Services	18,154	7,565	25,720
7,544	(30,750)	(23,207)	Other Income & Expenditure	2,952	(27,597)	(24,645)
23,232	(22,946)	285	(Surplus) or Deficit	21,107	(20,032)	1,075
		17,343	Opening General Fund Balance			11,920
		0	Movements between Reserves			3,198
		(5,138)	Less/Plus (Surplus) or Deficit on General Fund Balance in Year			405
		11,920	Closing General Fund Balance at 31st March			14,448

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's service committees. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

NOTE TO THE EXPENDITURE & FUNDING ANALYSIS

Adjustments between Funding & Accounting Basis 2018/19				
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 Adjustments (Note iii)	Total Adjustments 2018/19
Policy & Resources	3,175	3,301	(5,166)	1,310
Communities, Housing & Environment	1,522		1,343	2,864
Heritage, Culture & Leisure	1,811		1,410	3,221
Strategic Planning, Sustainability &	(1,506)		1,676	170
Net Cost of Services	5,002	3,301	(738)	7,565
Other income and expenditure from the Expenditure & Funding Analysis	(1,124)		(26,473)	(27,597)
Difference between General Fund surplus or deficit and Comprehensive Income & Expenditure Statement Surplus or Deficit on the Provision of Services	3,878	3,301	(27,211)	(20,032)

Adjustments between Funding & Accounting Basis 2017/18

Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	Adjustments for Capital Purposes (Restated) (Note i)	Net Change for Pensions Adjustments (Restated) (Note ii)	Other Differences (Restated) (Note iii)	Total Adjustments 2017/18 (Restated)
Policy & Resources	1,220	3,651	(5,620)	(749)
Communities, Housing & Environment	1,436		1,217	2,653
Heritage, Culture & Leisure	2,374		1,327	3,701
Strategic Planning, Sustainability & Transportation	254		1,945	2,199
Net Cost of Services	5,284	3,651	(1,131)	7,804
Other income and expenditure from the Expenditure & Funding Analysis	(419)		(30,331)	(30,750)
Difference between General Fund surplus or deficit and Comprehensive Income & Expenditure Statement Surplus or Deficit on the Provision of Services	4,865	3,651	(31,462)	(22,946)

The 2017/18 figures have been amended to more accurately reflect the reporting of management accounts figures to Members during the year.

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

	2017/18 (Restated) £000	2018/19 £000
Expenditure		
Employee Benefit Expenses	20,836	22,062
Other Services Expenses	85,904	88,771
Depreciation, Amortisation, Impairment	7,301	6,547
Interest Payments	125	110
Precepts & Levies	1,666	1,811
Gain/(Loss) on the Disposal of Assets	(1,389)	(1,446)
Total Expenditure	114,443	117,855
Income		
Fees, Charges & Other Service Income	(22,638)	(23,771)
Interest & Investment Income	(120)	(220)
Income from Council Tax & NDR	(38,741)	(42,753)
Government Grants & Contributions	(52,660)	(50,036)
Total Income	(114,158)	(116,780)
(Surplus) or Deficit on the Provision of Services	285	1,075

The 2017/18 figures have been restated to remove the impact of internal recharges.

2 - ACCOUNTING POLICIES

General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31st March 2019. 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 2018/19, 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.

Revenue Recognition

In accordance with IFRS 15, revenue is accounted for at the point at which services are delivered to service recipients, not necessarily when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 Movement in Reserves Statement 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.

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 2018/19. 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 2018/19 and accounted for within the Policy & Resources Committee line on the Comprehensive Income & Expenditure Statement.

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.

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 was undertaken at the end of 2017/18 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 2019 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 £6.5m.</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</p>

Balance	Source of Uncertainty	Effect if actual results differ from assumptions
		falls. It is estimated that the annual depreciation charge for buildings would increase by £1.0m for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Barnett Waddingham) is engaged to provide the Council with expert advice about the assumptions to be applied.	The effect on the net pension 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 £3.260m. 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 £6.676m.
Arrears	At 31st March 2019 the Council had a balance of sundry debtors for £15.904m. A review of significant balances suggested that an impairment allowance for bad debts of £3.630m was appropriate. There is uncertainty as to whether or not such an allowance is sufficient.	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.
Non-Domestic Rates Appeals	The Collection Fund is liable for potential losses arising from appeals against the rateable value of business premises. A provision of £4.715m has therefore been created to recognise current and backdated appeals. The council's share of the provision of £1.886m is reflected on the balance sheet. This is deemed to be appropriate as it	If the yield losses from successful appeals were to increase by 10%, an additional provision of £0.471m would be required overall, and the council's share of the provision would increase by £0.188m.

Balance	Source of Uncertainty	Effect if actual results differ from assumptions
	<p>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>	
Brexit	<p>The planned deadline for Britain's exit from the EU has been extended to 31 October 2019. The exact timing and nature of Britain's departure from the EU remain uncertain. Current assumptions underlying asset valuations and pensions liability assume no significant impact from Brexit.</p>	<p>Depending on the circumstances of Britain's departure from the EU, it is possible that asset values may fall and/or that assumptions underlying the assessment of pensions liabilities may alter.</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:

Amendments to IAS 40 Investment Property: Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact

IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to whom this will apply.

At the present time we are unable to quantify the financial impact of these standards.

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.

2018/19	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)	(3,301)		
Council Tax and NDR (transfers to or from the Collection Fund Adjustment Account)	1,101		
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)	(6,855)		
Total Adjustments to Revenue Resources	(9,050)	0	0
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	698	0	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	521		
Capital expenditure finance from revenue balances (transfer to the Capital Adjustment Account)	3,749		
Total Adjustments between Revenue and Capital Resources	4,968	0	0
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure		0	
Application of capital grants to finance capital expenditure	1,368		
Total Adjustments to Capital Resources	1,368	0	0
Total Adjustments	(2,714)	0	0

2017/18 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)	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)

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 £14.448m at the end of the year the Council maintains a number of Earmarked Reserves for specific purposes as follows:

	31st March 2018 £000	Contributions to/from Balances £000	31st March 2019 £000
New Homes Bonus funding for Capital	1,404	(1,404)	(0)
Local Plan Review	200		200
Neighbourhood Planning	70	(6)	64
Planning Appeals	0	300	300
Trading Accounts	51	(20)	31
Civil Parking Enforcement	482	(63)	419
Future Capital Expenditure	0	431	431
Housing Prevention & Temporary Accommodation	0	700	700
Business Rates Growth	692	2,990	3,682
Total Earmarked Reserves	2,899	2,928	5,828
Unallocated Balances	9,021	(401)	8,620
Total General Fund Reserves	11,920	2,527	14,448

The figures at 31st March 2018 have been restated to reflect the establishment of the Civil Parking Enforcement Reserve. The balance had previously been held within Unallocated Balances.

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 Review – this is funding set aside to support the review of the Local Plan, due to be completed in 2022.

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.

Civil Parking Enforcement – These are ring-fenced surpluses from the on-street parking for re-investment within parking services

Housing Prevention & Temporary Accommodation – These are government grants will be used to fund homelessness prevention initiatives and a sinking fund for temporary accommodation repairs and maintenance.

Future Capital Expenditure – These are funds set-aside from balances for use on future capital projects.

Business Rates Growth – these are locally retained rates from the Business Rates Pool and Pilot that the Council has participated in during 2018/19, which will be used to support local 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.

	2017/18	2018/19
	£000	£000
Parish Council precepts	1,666	1,811
Levies	109	116
(Gains)/losses on the disposal of non-current assets	(839)	(698)
	936	1,229

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.

	2017/18	2018/19
	£000	£000
Interest payable and similar charges	157	105
Net Interest on the Net Defined Benefit Liability	2,157	1,935
Interest receivable and similar income	(121)	(221)
Income & Expenditure in relation to investment properties and changes in their fair value	(584)	(1,649)
	1,609	169

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		
	2017/18	2018/19
	£000	£000
Council tax income	16,839	17,354
Income from Retained Business Rates	22,386	24,192
Tariff Payable	(18,060)	(18,602)
Levy Payable	(91)	(120)
Non-ringfenced Government Grants	4,678	3,219
Total	25,752	26,043
Credited to Services		
Housing Benefit Subsidy	45,760	45,834
Non-Domestic Rates - Cost of Collection	204	206
Council Tax Administration	158	152
New Legislation	322	0
Other Grants	1,083	591
Total	47,527	46,784

In 2018/19 Income from Retained Business Rates has benefited from the Council's participation in the Government's 100% Business Rates Retention Pilot, as explained in note 2 to the Collection Fund Statement.

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 of 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	2017/18	2018/19		(Surplus)/ Deficit £000
	(Surplus)/ Deficit £000	Income £000	Expenditure £000	
Market	96	(297)	423	126
Parkwood Industrial Estate	(305)	(316)	15	(301)
Mote Park Café	136	(115)	250	135
Commercial Waste	75	(232)	342	110
Debt Recovery	(32)	(907)	1,043	136
Pay & Display Car Parking	(1,731)	(2,477)	(845)	(3,322)
On-Street Car Parking	(168)	(767)	583	(184)
Direct Services	38	(562)	481	(81)
Net (Surplus)/Deficit	(1,891)	(5,673)	2,292	(3,381)

13 - MEMBERS' ALLOWANCES

The amount of Members Allowances paid during 2018/19 totalled £355,578. (£348,573 in 2017/18).

The Council also produces 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:

http://www.maidstone.gov.uk/home/primary-services/council-and-democracy/additional-areas/budgets-and-spending/tier-3/councillor-allowances#councillor_allowances

14 – OFFICERS REMUNERATION

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

2018/19	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	127	9	136	19	155
Director of Finance & Business Improvement	102	1	103	14	117
Director of Regeneration & Place	102	2	104	14	118
Director of Mid-Kent Services	90	1	91	13	104

2017/18	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	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

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 (£34,000).

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	2018/19 No.of employees
£50,000 - £54,999	5	5
£55,000 - £59,999	5	7
£60,000 - £64,999	3	4
£65,000 - £69,999	1	3
£70,000 - £74,999	2	1
£75,000 - £79,999	1	0
£80,000 - £84,999	2	3
£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	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18 £000	2018/19 £000
£0 - £20,000	0	0	0	0	0	0	0	0
£20,001 - £79,999	0	1	0	2	0	3	0	121
£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	1	0	2	0	3	0	121

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.

	2017/18 £000	2018/19 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	48	38
Rebate from Public Sector Audit Appointments Ltd.	(8)	0
Fees payable for the certification of grant claims and returns during the year	14	9
Total	54	47

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:

	2017/18	2018/19
	£000	£000
Balance at start of year:	3,592	4,080
Grants Received	2,333	2,010
Transfers to/from Grants Unapplied	(63)	
Other Transfers	(13)	
Funding used for capital expenditure	(1,769)	(1,367)
Balance at end of year:	4,080	4,723

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 & 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 2018/19 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 Ltd, which is a wholly owned subsidiary of the Council. The Balance Sheet as at 31st March 2019, reflects £75,313 which is payable from Maidstone Property Holdings to Maidstone Borough Council, relating to income and expenditure for the 2018/19 financial year.

18 - PROPERTY, PLANT & EQUIPMENT**Movements on Balances**

	Infrastructure Assets £000	Land & Buildings £000	Plant, Machinery & Equipment £000	Vehicles £000	IT & Office Equipment £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Movements in 2018/19								
Cost or Valuations								
At 1st April 2018	4,321	53,253	14,465	1,724	4,802	3,241	4,454	86,260
Additions	33	5,287	300	216	69	222	4,479	10,606
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	7,004	0	0	0	0	0	7,004
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(422)	0	0	0	0	0	(422)
Derecognition of assets	0	(40)	(902)	(359)	(46)	(30)	0	(1,377)
Other movements in cost or valuation	0	0	36	(36)	0	0	0	0
At 31st March 2019	4,354	65,082	13,899	1,545	4,825	3,433	8,933	102,071
Accumulated Depreciation & Impairment								
At 1st April 2018	(3,147)	(4,988)	(6,856)	(1,174)	(2,951)	0	0	(19,115)
Depreciation charge	(228)	(2,518)	(868)	(209)	(410)	0	0	(4,233)
Depreciation written out to the Revaluation Reserve	0	2,381	0	0	0	0	0	2,381
Derecognition of assets	0	0	886	277	40	0	0	1,203
At 31st March 2019	(3,375)	(5,125)	(6,838)	(1,106)	(3,321)	0	0	(19,764)
Net Book Value								
At 31st March 2019	979	59,957	7,061	439	1,504	3,433	8,933	82,307
At 31st March 2018	1,174	48,264	7,558	550	1,903	3,241	4,454	67,145

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)
Transfers between categories	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
Transfers between categories	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

Additions for 2018/19 include the acquisition of a number of properties, the most significant of which are as follows:

- Seventeen houses to be used to accommodate temporarily homeless families.
- The purchase of Lenworth House, to let out the apartments at market rental

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 2018/19	Car Parks	Cemetery & Crematorium	Depots, Workshops & Toolsheds	Halls	Housing	Land	Leisure Centres & Pools	Markets	Museums & Galleries	Parks & Open Spaces	Public Conveniences	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 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
Additions	13	557	22	11	4,437	0	0	9	22	0	0	0	212	7	5,290
Revaluation increases/(decreases) recognised in the Revaluation Reserve	6,325	0	0	0	0	0	461	0	0	105	0	0	113	0	7,004
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	(422)	0	0	0	0	0	0	0	0	0	(422)
Derecognition of Assets	0	(14)	0	0	(12)	0	0	0	(14)	0	0	0	0	0	(40)
Other movements in cost or valuation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
At 31st March 2019	13,512	2,182	1,855	3,452	9,515	207	8,561	1,059	12,299	748	1,680	4,673	4,285	1,057	65,085
Accumulated Depreciation & Impairment															
At 1st April 2018	12	(202)	(60)	(368)	(990)	(39)	(1,515)	(54)	(579)	(118)	(203)	(657)	(175)	(42)	(4,988)
Depreciation charge	0	(67)	(91)	(361)	(618)	0	(66)	(53)	(583)	(19)	(101)	(489)	(29)	(41)	(2,518)
Depreciation written out to the Revaluation Reserve	0	0	0	0	0	0	1,845	0	0	214	0	0	322	0	2,381
Other movements in cost or valuation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
At 31st March 2019	12	(269)	(151)	(729)	(1,609)	(39)	264	(107)	(1,162)	76	(304)	(1,146)	118	(83)	(5,126)
Net Book Value															
At 31st March 2019	13,524	1,913	1,704	2,723	7,906	168	8,824	952	11,137	824	1,376	3,526	4,403	974	59,957
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

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 Conveniences	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)	(4,989)
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

Community Assets have all previously been revalued at £1 each, in accordance with the accounting policy set out below. 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 on the previous page.

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 2019 the Council had the following capital commitments:

Project	£000
Brunswick Street housing development	4,370
Union Street housing development	1,242

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 Harrisons 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 31st January 2019 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	4,354	3,433	1,024	13,899	1,545	4,825	8,933	38,013
Valued at current value as at:								
31st March 2015			1,573					1,573
31st March 2016			1,592					1,592
31st March 2017			5,058					5,058
31st March 2018			29,650					29,650
31st March 2019			26,185					26,185
Total Cost or Valuation	4,354	3,433	65,082	13,899	1,545	4,825	8,933	102,071

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:

	2017/18	2018/19
	£000	£000
Balance at start of the year	16,346	19,976
Additions	3,659	2,439
Net gains/losses from fair value adjustments	(29)	599
Balance at end of year	19,976	23,014

During the year the Council purchased Lenworth House in Maidstone town centre which has been converted into apartments for private rental at market prices.

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 2018	9,090	480	515	308	10,393
Additions					0
Disposals					0
31st March 2019	9,090	480	515	308	10,393
1st April 2017	9,090	480	515	308	10,393
Additions					0
Disposals					0
31st March 2018	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 2018 £000	31st March 2019 £000	31st March 2018 £000	31st March 2019 £000
Treasury Investments				
Financial Assets at Amortised Cost	0	2,000	0	13,014
Loans & Receivables	0	0	17,400	0
	0	2,000	17,400	13,014
Non-Treasury Investments				
Service Loans	0	61	0	12
Debtors				
Financial assets at amortised cost	40	84	9,560	12,573
Creditors				
Financial liabilities at amortised cost	0	0	5,578	11,473
Other Long Term Liabilities				
Finance Lease Liabilities at amortised cost	3,057	2,527	521	520

On the face of the Balance Sheet Financial Assets at Amortised Cost are split in Current Assets between Short Term Investments and Cash & Cash Equivalents. £13m short term investments treasury investments are invested in local authorities with a small amount of cash with highly rated banks. Long term investments is another £2m with a local authority. The Non-Treasury Investments consist of two service loans to third parties, Kent Savers £25k and One Maidstone £48k (Business Improvement District Levy). 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.

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

Income & Expense

	Long-term		Short-Term	
	31st March 2018 £000	31st March 2019 £000	31st March 2018 £000	31st March 2019 £000
Income:				
Financial Assets at Amortised Cost	0	19	86	201
Available-for-sale Financial Assets	0	0	34	0
Other Interest	0	0	1	0
Total	0	19	122	201

Adoption of IFRS 9

The adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting came into effect for financial year 2018/19. The effects of reclassification of financial assets following the adaptation of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting are shown in the table below:

	Carrying Amount B/fwd as at 1 April 2018 £000	Fair Value Through Profit and Loss £000	Amortised Cost £000	Fair Value through other comprehensive income £000	£000
Treasury Investments	17,400	0	17,400	0	
Net Trade Debtors	9,600	0	9,600	0	
Reclassified amounts as at 1 April 2018		0	27,000	0	
Remeasurements at 1 April 2018		0	27,000	0	
Remeasured carrying amounts at 1 April 2018		0	27,000	0	
Impact on General Fund Balance					0
Impact on Financial Instruments Revaluation Reserve					0

IFRS 9 requires an authority to review its financial assets for impairment due to the risk of non settlement. As stated in the previous section, the Council has two service loans which are classified as solely payments of principal and interest and the business model is to collect contractual cash flows which is classified under the definition of the code paragraph 7.1.5 and are valued at amortised cost. These require assessment to determine the credit risk since initial recognition, however materiality comes into effect as per the Code. These loans being at very low values (£48k and £25k) are below the materiality threshold for the Council, therefore no impairment is required.

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:

The Council regularly holds the following financial instruments at amortised cost:

- Deposits with financial institutions and local authorities

- Money Market Funds; and
- Service Loans.

The Council also maintains a continuously 'rolling' portfolio of Debtors (also held at amortised cost).

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

The Council considers the potential for credit losses on financial assets held at amortised cost either on a 12-month or lifetime basis (Simplified model - Debtors only). An exception is:

- Deposits with local authorities – credit losses are not recognised for deposits held with central Government or other local authorities due to statutory provisions (the Local Government Act 2003), which prevent default.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default (triggering a credit loss) on their obligations.

With regard to Debtors, an Impairment Allowance for Bad Debts (IABD) is applied annually based on a set of assumptions on the collectability of external debts based on past experience and future expectations.

Fair Value

Inputs to the measurement 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 – fair value is only derived from quoted prices in active markets for identical assets or liabilities
- Level 2 – fair value is calculated from inputs other than those quoted prices, that are observable for the asset or liability
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

All valuations on Council's investments uses level 2.

The accounts are required to show the fair value of the financial assets held by the Council. Fair value is defined as the amount for which an asset could be exchanged assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell

at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

The fair value of investments is shown in the table below with the level in the fair value hierarchy.

	31st March 2018		Fair Value Level	31st March 2019	
	Book Value £000	Fair Value £000		Book Value £000	Fair Value £000
Long Term Investments	0	0	2	2,019	2,018
Short Term Investments (less than 1 yr)	17,521	17,521	2	13,050	13,050
Total	17,521	17,521		15,069	15,068

22 - NATURE & EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The council has adopted the Treasury Management in Public Services: Code of Practice 2011 Edition ('the Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Its 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, under policies approved by the Council on 7 March 2018 in the Annual Treasury Management Strategy, which can be viewed on the Council's website – <http://www.maidstone.gov.uk> A summary of the main points of the 2018/19 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 2018/19

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

- 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;
- to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered. Greater use of Local Authority investments will be sought due to the high security of the borrower which enables

investment over a longer period where funds are not required immediately.

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 2019 investments were held with the following institutions:

	31st March 2018 £000	31st March 2019 £000
AAA rated Institutions	1,400	0
AA+ rated Institutions	0	0
AA rated Institutions	0	0
AA- rated Institutions	3,000	0
A+ rated Institutions	6,000	0
A rated Institutions	0	14
A- rated Institutions	0	0
BBB+ rated Institutions	0	0
Unrated Local Authorities	7,000	15,000
UK Government	0	0
Total	17,400	15,014

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 £14m (£10m 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 2018/19, 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 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 2018 £000	31st March 2019 £000
Notice Accounts/Money Market Funds	10,400	14
Financial Assets at Amortised Cost	7,000	15,000
Total	17,400	15,014

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

	2017/18 £000	2018/19 £000
Central government bodies	1,106	5,385
Other local authorities	4,159	3,303
Other entities and individuals	12,736	15,904
Total	18,001	24,592

The movement in the balances for Central Government and other local authorities is a reflection of the Council's membership of the Kent and Medway Business Rates Pilot for 2018/19.

Allowance for Bad Debts

	2017/18 £000	2018/19 £000
Excess Charges Impairment Allowance	625	635
Sundry Bad Debts Impairment Allowance	3,085	3,630
Total	3,710	4,265

The figure on the balance sheet represents Debtors less Provision for Bad Debts, which totals £20.328m.

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

	2017/18	2018/19
	£000	£000
Council Tax payers	948	1,050
Business Rate payers	1,358	1,603
Capital debtors	491	23
General debtors	8,280	11,609
Payments in Advance	696	678
Other miscellaneous amounts	963	941
Total	12,736	15,904

24 - CASH & CASH EQUIVALENTS

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

	2017/18	2018/19
	£000	£000
Cash held by the Council	14	12
Bank current accounts	(170)	157
Short-term deposits	10,400	11,014
Total	10,244	11,184

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

	2017/18	2018/19
	£000	£000
Central government bodies	1,593	657
Other local authorities	5,127	8,812
Other entities and individuals	7,513	13,944
Total	14,233	23,413

The movement in the balance for other local authorities is a reflection of the Council's membership of the Kent and Medway Business Rates Pilot 2018/19.

The movement in other entities and individuals reflects an increase in Section 106 monies received from developers that will be passed onto other organisations, primarily Kent County Council and the NHS.

Other entities and individuals are broken down as follows:

	2017/18	2018/19
	£000	£000
General creditors	2,322	3,953
Capital creditors	462	1,583
Council tax payers	179	180
Business Rate payers	750	408
Receipts in advance	944	1,716
Deposits	2,785	5,936
Retentions	71	168
Total	7,513	13,944

Receipts in advance includes a contract liability of £0.341m (2017/18 Nil) in relation to contracts with garden waste collection service recipients. Income from garden waste collection contracts was £0.533m (2017/18 £0.859m)

26 - PROVISIONS

Provision for Appeals

	2017/18	2018/19
	£000	£000
Business Rates Appeals - Current	959	1,179
Business Rates Appeals - Backdated	1,348	707
Planning Appeals	296	380
Total	2,603	2,266

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

A provision has also been established to allow for costs that could arise from potential planning 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 2019 are summarised in the following table. The figures for 2017/18 are the audited figures, which differ from those in the 2017/18 Statement of Accounts, as the audit took place after that was published.

	2017/18	2018/19
	£000	£000
Fixed Assets:		
Intangible Assets	13	0
Tangible Assets	2,509	2,533
Investment Property	825	825
Investments	856	863
	4,203	4,221
Current Assets	223	110
Current Liabilities	97	284
Total assets less current liabilities	4,329	4,047
Total Charitable Funds	4,329	4,047

Gross expenditure in 2018/19 totalled £673,262 (£611,150 in 2017/18). Gross income in 2018/19 totalled £613,578 (£547,797 in 2017/18).

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

	2017/18 £000	2018/19 £000
Balance outstanding at start of year	4,232	3,578
Repayment of principal	(654)	(521)
Balance outstanding at end of year	3,578	3,057

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.

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 2018 £000	31st March 2019 £000
Balance at 1st April	437	523
Capital Receipts Received	897	815
Capital Receipts Applied	(811)	(741)
Balance at 31st March	523	598

30 - UNUSABLE RESERVES

	31st March 2018 £000	31st March 2019 £000
Revaluation Reserve	28,035	35,684
Capital Adjustment Account	66,726	68,629
Deferred Capital Receipts Reserve	11	5
Pensions Reserve	(77,618)	(71,481)
Collection Fund Adjustment Account	(2,037)	(935)
Accumulated Absences Account	(184)	(179)
Total Unusable Reserves	14,934	31,724

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 2018 £000	31st March 2019 £000
Balance at 1st April	26,751	28,036
Upward revaluation of assets	1,538	7,831
Downward revaluation of assets	(188)	
Additions and Disposals	(4)	
Difference between fair value depreciation and historical cost depreciation	(61)	(184)
Balance at 31st March	28,036	35,684

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.

	31st March 2018 £000	31st March 2019 £000
Balance at 1st April	60,768	66,726
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
Charges for depreciation of non-current assets	(4,880)	(4,233)
Amortisation of intangible assets	(114)	(124)
Prior Year Adjustments	(58)	
Revaluation Gains/Losses on Property, Plant & Equipment	0	(115)
Revenue expenditure funded from capital under statute	(1,109)	(3,247)
Write-off of non-enhancing capital expenditure	(195)	(75)
	(6,356)	(7,794)
Adjusting amounts written out of the Revaluation Reserve	(935)	1,318
Net written out amount of the cost of non-current assets consumed in the year	(7,291)	(6,477)
Capital financing applied in the year:		
Sums set aside for Debt Repayment	654	521
Use of the Capital Receipts Reserve to finance new capital expenditure	811	741
Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	1,541	1,367
Capital expenditure charged against the General Fund balance	10,272	5,153
	13,278	7,782
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	(29)	599
Balance at 31st March	66,726	68,629

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.

	2017/18	2018/19
	£000	£000
Opening balance at 1 April	81,534	77,618
Remeasurements of the net defined liability	(7,567)	(9,438)
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	7,013	6,865
Employer's pensions contributions	(3,362)	(3,564)
Closing balance at 31 March	77,618	71,481

d) Collection Fund Adjustment Account

	31st March 2018 £000	31st March 2019 £000
Balance at 1st April	4,912	2,037
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	(388)	205
- Non-domestic Rates	(2,487)	(1,307)
Balance at 31st March	2,037	935

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.

	2017/18	2018/19
	£000	£000
Opening Capital Finance Requirement	3,227	3,227
Capital Investment		
Property, Plant & Equipment	7,521	10,538
Investment Properties	3,657	2,443
Intangible Assets	142	217
Non-enhancing capital expenditure	195	76
Revenue Expenditure Funded from Capital Under Statute	1,109	3,247
	12,624	16,521
Sources of Finance		
Capital receipts	(811)	(741)
Government grants & other contributions	(1,541)	(1,367)
New Homes Bonus	(9,815)	(4,623)
Other Revenue Contributions	(457)	(530)
	(12,624)	(7,262)
Increase in Capital Financing Requirement	0	9,260
Closing Capital Finance Requirement	3,227	12,487

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. In this instance the funding will come from internal borrowing using existing cash balances, in accordance with the agreed Treasury Management Strategy for 2018/19.

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 (LGPS), 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:

	2017/18	2018/19
	£000	£000
Comprehensive Income & Expenditure Statement (CI&ES)		
Cost of Services:		
Service cost comprising:		
- Current service cost	4,856	4,913
- Past service costs including curtailments	0	17
Financing and Investment Income & Expenditure:		
- Net interest expense	2,157	1,935
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	7,013	6,865
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)	717	5,508
- Actuarial gains and losses arising on changes in financial assumptions	6,850	(6,661)
- Actuarial gains and losses arising on changes in demographic assumptions	0	10,591
- Experience gains and losses on defined benefit obligation	0	0
- Other actuarial gains and losses	0	0
Total Post Employment Benefit Charged to the CI&ES	14,580	16,303
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	7,013	6,865
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers' contributions payable to the scheme	(3,362)	(3,564)

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 (2017/18 £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:

	2017/18 £000	2018/19 £000
Present value of funded obligation	182,032	183,242
Fair value of plan assets	(106,524)	(113,698)
Contributions by scheme participants	75,508	69,544
Present value of unfunded obligation	2,110	1,937
Net liability arising from defined benefit obligation	77,618	71,481

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	2017/18 £000	2018/19 £000
Opening fair value of Scheme assets	104,482	106,524
Interest on assets	2,801	2,703
Return on assets less interest	769	5,561
Administration expenses	(52)	(53)
Contributions by employer including unfunded	3,362	3,547
Contributions paid by scheme participants	829	885
Estimated benefits paid plus unfunded net of transfers in	(5,667)	(5,469)
Closing fair value of Scheme assets	106,524	113,698

Reconciliation of Present Value of Scheme Liabilities (Defined Benefit Obligation)

	2017/18	2018/19
	£000	£000
Opening balance at 1 April	186,016	184,142
Current Service cost	4,856	4,896
Interest cost	4,958	4,638
Remeasurement (gains) and losses		
- Change in financial assumptions	(6,850)	6,661
Changes in demographic assumptions	0	(10,591)
Past service costs, including curtailments	0	17
Estimated benefits paid net of transfers in	(5,498)	(5,314)
Contributions by Scheme participants	829	885
Unfunded pension payments	(169)	(155)
Closing balance at 31 March	184,142	185,179

Local Government Pension Scheme Assets

	31st March 2018		31st March 2019	
	£000	%	£000	%
Equities	71,083	67%	77,963	68%
Gilts	815	1%	748	1%
Other Bonds	10,185	10%	10,353	9%
Property	13,394	13%	13,656	12%
Cash	3,530	3%	1,984	2%
Absolute return fund	7,517	7%	8,994	8%
Total	106,524	100%	113,698	100%

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:

	2017/18	2018/19
Long-term expected rate of return of assets in the scheme		
Mortality Assumptions		
Longevity at 65 for current pensioners		
- Men	23.1	22.0
- Women	25.2	24.0
Longevity at 65 for future pensioners		
- Men	25.3	23.7
- Women	27.5	25.8
Financial Assumptions		
RPI increases	3.35%	3.40%
CPI increases	2.35%	2.40%
Salary increases	3.85%	3.90%
Pension increases	2.35%	2.40%
Discount Rate	2.55%	2.40%

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	181,919	185,179	188,500
- Projected Service Cost	4,700	4,821	4,945
Adjustment to long-term salary increase	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	185,518	185,719	184,842
- Projected Service Cost	4,821	4,821	4,821
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	188,157	185,179	182,253
- Projected Service Cost	4,945	4,821	4,700
Adjustment to life expectancy assumptions	+1 Year	None	-1 Year
- Present Value of Total Obligation	191,855	185,179	178,735
- Projected Service Cost	4,987	4,821	4,661

Transitional Protections:

There have been wide ranging changes to public sector pension schemes in recent years, including the LGPS. The LGPS was fundamentally reformed in 2013, with the final salary arrangement being replaced by a career average scheme. The changes included some protections for scheme members closer to retirement age. However, the principle of protecting older members – without offering the same protections to younger members – has recently been the subject of legal challenge.

In December 2018, the Court of Appeal ruled that the transitional protections for older members built into the Judges' Pension Scheme when the scheme changed, breached age discrimination rules (there was also a similar case in the Firefighters' Scheme).

Whilst the transitional protections in the LGPS and other public service schemes are slightly different, there is the possibility that they too could be deemed to have breached age discrimination rules, which would mean that all public service schemes would need to be amended and would most likely mean an improvement in benefits.

Barnett Waddingham have estimated the impact of the court of appeal judgement on the disclosures set out in these accounts. The impact is immaterial so no adjustment has been made to the accounts.

Scheme History

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Present value of defined benefit obligation in the Local Government Pension Scheme	(155,811)	(149,896)	(183,756)	(182,032)	(183,242)
Fair value of assets in the Local Government Pension Scheme	87,531	87,447	104,482	106,524	113,698
Present value of unfunded obligation	(2,400)	(2,192)	(2,260)	(2,110)	(1,937)
Surplus/(Deficit) in the scheme	(70,680)	(64,641)	(81,534)	(77,618)	(71,481)

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £71.481m 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 2020 are £3.382m.

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, including vehicles and the operation of the leisure centre.

The future minimum payments due under these arrangements in future years are:

	31st March 2018 £000	31st March 2019 £000
Not more than 1 year	694	642
Later than 1 year and not later than 5 years	2,815	2,527
Later than 5 years	309	0
	3,818	3,169

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 – CONTINGENT LIABILITY

Business Rates: Automated Teller Machines (ATMs):

In accordance with Government requirements, external ('hole in the wall') ATMs located in supermarkets and shops have been assessed separately for Business Rates purposes since 2013 (with resulting liabilities backdated to 2010). However, in November 2018, the Court of Appeal ruled that ATMs should not be assessed separately for Business Rates, refusing the Valuation Office Agency (VOA) leave to appeal to the Supreme Court.

The verdict means that retailers could potentially be in line for significant Business Rate refunds. But the VOA has subsequently petitioned the Supreme Court for leave to appeal the Court of Appeal's decision and the Supreme Court are not expected to deliver their verdict until circa 2021.

Given the ongoing uncertainty in this case, it would not be appropriate to make financial provision for potential future ATM refunds at this stage. The financial risk – including back-dated refunds – to Maidstone Borough Council is £477,085 as at 31st March 2019.

The Council continues to closely monitor the ATM legal dispute, keeping its current accounting treatment under review.

Accounting Policy – Contingent Liabilities

A Contingent Liability is a possible liability that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council

35 – EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Director of Finance & Business Improvement on 31st May 2019. 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 2019 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.

36 – CASH FLOW STATEMENT - ADJUSTMENTS MADE TO NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

	2017/18	2018/19
	£000	£000
Depreciation	(4,881)	(4,233)
Revaluation Gains & Losses	(1,002)	1,021
Amortisation of Intangible Assets	(114)	(124)
Movement in Creditors	(862)	(7,903)
Movement in Debtors	1,240	5,253
Movement in Inventories	10	(12)
Movement in Pension Liabilities	(3,651)	(3,301)
Other Non-Cash items	414	(2,333)
	(8,846)	(11,632)

37 – CASH FLOW STATEMENT - ADJUSTMENTS FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING & FINANCING ACTIVITIES

	2017/18	2018/19
	£000	£000
Capital Grants credited to surplus or deficit on the provision of services	1,541	1,367
Proceeds from sale of Property, Plant & Equipment	892	812
	2,433	2,179

38 - CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2017/18	2018/19
	£000	£000
Purchase of property, plant & equipment, investment property and intangible assets	11,346	12,068
Purchase of short-term and long-term investments	11,000	3,000
Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(896)	(816)
Proceeds from short-term and long-term investments	(8,000)	(6,000)
Other payments for investing activities	25	48
Other receipts for investing activities (Grants)	(2,371)	(2,478)
Net cash flows from investing activities	11,104	5,822

39 - CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2017/18	2018/19
	£000	£000
Repayments of short & long-term borrowing	655	521
Other payments for financing activities	(4,264)	1,095
Net cash flows from financing activities	(3,609)	1,616

COLLECTION FUND STATEMENT & NOTES

2017/18		2018/19
£000		£000
	INCOME	
102,372	Income From Council Tax	109,505
56,877	Income From Business Rates (Note 2)	61,636
	Transfers from General Fund	
159,249	Total Income	171,141
	EXPENDITURE	
70,477	Precepts and Demands - Council Tax Kent County Council	76,387
9,396	Kent Police & Crime Commissioner	10,436
16,361	Maidstone Borough Council	17,447
4,386	Kent Fire & Rescue Authority	4,661
24,756	Shares of Business Rates Central Government	33,407
4,466	Kent County Council	22,649
19,943	Maidstone Borough Council	566
496	Kent Fire & Rescue Authority	
2,356	Transitional Protection Payments - Business Rates	1,508
	Disregarded Amounts (Renewable Energy) - Business Rates	33
254	Impairment of Debts - Council Tax Write offs of uncollectable amounts	195
(904)	Additional / (Reduced) Impairment of Aged Debt	1,639
645	Impairment of Debts/Appeals - Business Rates Write offs of uncollectable amounts	427
(255)	Additional / (Reduced) Impairment of Aged Debt	708
(2,857)	Losses on appeal	(519)
1,008	Additional / (Reduced) Provision For Appeals	(531)
204	Cost of Collection Allowance - Business Rates	206
150,731	Total Expenditure	169,219
8,518	Surplus/(Deficit) For Year	1,922
(11,571)	Surplus/(Deficit) Brought Forward From Previous Years	(3,040)
3,601	Surplus/(Deficit) on Council Tax	2,340
(6,641)	Surplus/(Deficit) on Business Rates	(3,458)
(3,040)	Surplus/(Deficit) as at 31st March 2019	(1,118)

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, 1st 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: 60,921.6 for 2018/19 (59,439.3 for 2017/18) (see table below.) This basic amount of Council Tax for a Band D property, £1,735.24 for 2018/19 (£1,654.93 for 2017/18), 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)	-13	5/9	-7.2
Band A	2,502	6/9	1,668.1
Band B	6,160	7/9	4,791.4
Band C	15,103	8/9	13,425.0
Band D	15,903	9/9	15,902.6
Band E	8,706	11/9	10,640.2
Band F	5,078	13/9	7,334.9
Band G	3,781	15/9	6,301.6
Band H	334	18/9	668.6
Other			196.4
			60,921.6

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 49.3p / £ Rateable Value (47.9p in 2017/18)
- Small Business Multiplier 48.0p / £ Rateable Value (46.6p in 2017/18)

The rateable value at 31st March 2019 was £145.864m (£145.132m at 31st March 2018).

For 2018/19, it was calculated that the Council would receive £22.649m in business rates (£22.716m in 2017/18).

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 (£18.602m in 2018/19, £18.059m in 2017/18) is subsequently 'top-sliced' and returned to the Government 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.

Since April 2013, the Council has participated in a pooled arrangement with Kent County Council, Kent Fire and Rescue Authority and nine other district councils in Kent in order to minimise the levy payment due to Central Government and thereby maximise the retention of locally generated Business Rates. However, in 2018/19 the pooling arrangement was extended and accepted by Government as part of a pilot ("100% retention") scheme. The pilot also included Medway Council and the remaining two district councils in Kent and there was no requirement to make a levy payment.

Maidstone Borough Council's share of Business Rates as part of the Kent and Medway pilot was 40%, with the remainder distributed to Kent County Council (59%) and Kent Fire & Rescue Authority (1%).

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 follow