AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 18 January 2021
Time: 6.30 p.m.
Venue: Remote Meeting - The public proceedings of the meeting will be broadcast live and recorded for playback on the Maidstone Borough Council website

Membership:

Councillors Adkinson (Vice-Chairman), Brindle, Coulling (Parish Representative), Cox, Cuming, Daley, Fissenden, Harvey (Chairman), 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.

Issued on Friday 8 January 2021 **Continued Over/:**

Alison Broom

Alison Broom, Chief Executive

MAIDSTONE Borough Council

INFORMATION FOR THE PUBLIC

In order to ask a question at this remote meeting, please call **01622 602899** or email **committee@maidstone.gov.uk** by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Thursday 14 January 2021). You will need to provide the full text in writing.

If your question is accepted, you will be provided with instructions as to how you can access the meeting.

In order to make a statement in relation to an item on the agenda, please call **01622 602899** or email **committee@maidstone.gov.uk** by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Thursday 14 January 2021). You will need to tell us which agenda item you wish to comment on.

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

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 REMOTE MEETING HELD ON 16 NOVEMBER 2020

Present:	**Councillor Harvey (Chairman) and Councillors Adkinson, Brindle, Coulling (Parish Representative), Cox, Cuming, Daley, Fissenden, Garten, Perry, Round and Titchener (Parish Representative)**
Also Present:	**Mr Paul Dossett and Ms Tina James of Grant Thornton (External Auditor)**

135. APOLOGIES FOR ABSENCE

It was noted that Councillor Perry would be late in arriving at the meeting.

136. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Garten would be substituting for Councillor Perry until his arrival.

137. URGENT ITEMS

There were no urgent items.

138. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

139. DISCLOSURES BY MEMBERS AND OFFICERS

With regard to agenda item 15 (External Audit Update November 2020), Councillor Cuming said that his son worked for PricewaterhouseCoopers who Grant Thornton, the External Auditor, had consulted as auditor’s expert on actuary figures. However, his son did not work in the department involved.

140. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

141. EXEMPT ITEMS

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

142. MINUTES OF THE MEETING HELD ON 14 SEPTEMBER 2020

RESOLVED: That the Minutes of the meeting held on 14 September 2020 be approved as a correct record and signed.

143. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

144. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members to the Chairman.

145. COMMITTEE WORK PROGRAMME

The Committee considered its work programme for the period 18 January 2021 to 31 March 2021. In response to questions:

The Head of Audit Partnership said that:

- He could assure Members that the Internal Audit team was working through the updated Internal Audit and Assurance Plan 2020/21 agreed by the Committee in September 2020. He did not anticipate that the team would undertake a specific piece of work on contract management, but it would form part of other reviews and information would be gathered as the Plan was completed. Similarly revised working practices due to COVID-19 would form part of each review undertaken. A report would be submitted to the meeting of the Committee in January 2021 summarising the progress made in delivering the Internal Audit and Assurance Plan 2020/21 and the findings of the audit work undertaken.

- The waste management contract was one that might be affected by current issues such as Brexit and COVID-19. The Internal Audit team was undertaking a piece of work looking specifically at waste contract management.

The Director of Finance and Business Improvement said that:

- The risks relating to Brexit were included in the Budget Strategy Risk Register reported to the Audit, Governance and Standards Committee and the Corporate Risk Register which was reported to the Policy and Resources Committee. There were, therefore, mechanisms in place for monitoring, for example, the risk that the UK could leave the EU without a trade agreement in December 2020. In the circumstances, he was not convinced that a separate report was needed on this subject, but he would discuss with the Member who had raised the issue how his concerns might be addressed.

RESOLVED: That the Committee work programme be noted.

At the conclusion of this item, it was noted that Councillors Daley and Fissenden had joined the meeting. Both Members indicated that they had no disclosures of interest or lobbying.

146. ANNUAL GOVERNANCE STATEMENT UPDATE

The Head of Policy, Communications and Governance presented her report which provided an update on the progress made against the Action Plan for 2020/21 contained in the Annual Governance Statement for 2019/20 which was approved by the Committee in July 2020. It was noted that:

- The annual review of the Council's governance arrangements had identified nine areas where additional action was required to ensure that good standards of governance are maintained. These included managing the financial risk arising from the impact of COVID-19, short-term Brexit impacts and the capacity to deliver the investment and regeneration programme.

- Progress had been made across all areas. For example:

  The financial impact of COVID-19 was being monitored in parallel with regular monthly financial reporting and monthly reports were submitted to the Ministry of Housing, Communities and Local Government (MHCLG) setting out the impact of COVID-19 on the Council's financial position. The impact of COVID-19 was specifically addressed in the quarterly financial performance monitoring reports to Members.

  Officers with emergency planning responsibilities were now meeting regularly to plan for any short-term impacts arising from a disorderly Brexit. The Council was part of the Kent Resilience Forum and participated in its regular tactical and strategic co-ordination groups to plan for the transition. Individual service area contingency plans had been reviewed and updated considering potential threats arising from the transition.

  The capacity to deliver the investment and regeneration programme was a priority for the Director of Regeneration and Place. The Regeneration and Economic Development team was leading on this work with additional staffing resources, specialist training and support from external consultants when needed.

In response to questions:

The Director of Finance and Business Improvement advised the Committee that:

- In terms of managing the financial impact of COVID-19, the Council did not publish its monthly report to the MHCLG, but details of the key issues were included in the quarterly financial performance monitoring reports to the Policy and Resources Committee. The Local Government Association also provided summaries of local authority monthly reports to the MHCLG where copies were submitted to them and this gave a flavour of how local authorities across the country were addressing the short and longer-term impacts of COVID-19.

- The Council had a Contract Management Toolkit and contract managers were encouraged to have regard to the quality of contract delivery as well as financial performance as part of their monitoring. The suggestion that the Toolkit should include guidance to the effect that every contract for products and services should include criteria by which the quality of the product or service will be judged together with a degree of financial recompense if the supplier falls short was noted.

The Head of Policy, Communications and Governance advised the Committee that:

- As part of the work to ensure compliance with the requirements of the Data Protection legislation, a review was undertaken of the Council's CCTV (body worn cameras and CCTV equipment which the Council maintained, managed or was responsible for). The review was completed in February 2020 and a number of actions were identified. Some actions were implemented at that time, but the redeployment of resources during the pandemic had impacted on the delivery of the remaining actions and these were now being addressed.

- When making the Council's CCTV footage available to a third party, a full data protection impact assessment would be undertaken, appropriate risk mitigations identified, and legal contracts put in place. That is what happened with the new CCTV contracts bringing in external support as the Council did not have the resources in-house.

RESOLVED: That the update on the progress made against the Annual Governance Statement Action Plan for 2020/21 be noted.

147. DATA PROTECTION ACTION PLAN - PROGRESS UPDATE

The Policy and Information Manager introduced her report providing an update on the progress made against the Action Plan originally put in place in 2017 in preparation for the General Data Protection Regulation (GDPR) and the Data Protection Act 2018. The report also included an update on the Council's preparations for data protection after the EU exit transition period; examples of the Information Commissioner's Office (ICO) applying its powers; details of the ICO's Accountability Framework; and a new Action Plan which had been developed incorporating areas outstanding from the old Action Plan and areas identified from an accountability self-assessment. It was noted that:

- The Council had received guidance from the Ministry of Housing, Communities and Local Government on preparing for data protection after the EU exit transition period ends. Most of the work had been completed and no major risks had been identified. There were a few areas where further work was required to ensure that systems are solely based in the UK, but these were not high risk and would be resolved by the end of the year.

- Accountability was one of the key principles in data protection. It required organisations to comply and be able to demonstrate compliance with the legislation. The ICO had produced a framework including an "accountability tracker" to enable organisations to review their own arrangements and create plans to improve. The framework had ten themes with a range of actions which an organisation complying with accountability and demonstrating best practice would evidence. When completing the self-assessment, the organisation would rank itself as fully meeting, partially meeting, or not meeting expectations.

- A self-assessment of Maidstone's arrangements and compliance had been undertaken. To summarise, most of the actions were in place or partially in place. Those that were partially in place might need updating, formalising, or expanding to meet the ICO's expectations. The lowest scoring area focussed on privacy notices and information and how the Council informed people it was using their data. The Council was fully or partially meeting most of the requirements and the rest were being addressed. Overall, only 9% of the actions did not meet expectations. None of these were high risk areas and could be mitigated. The only area which had limited mitigation was the ability of the organisation to deal with any increase in requests or reduction in staffing levels. Over the next year, more members of the Policy and Information and Executive Support teams would receive training on some aspects of data protection to provide resilience, but resources were limited.

- A new Action Plan had been developed incorporating areas outstanding from the old Action Plan and areas identified from the accountability self-assessment as not or partially meeting expectations. It also included the remaining work to ensure compliance should the UK not receive adequacy status when the EU exit transition period ends. Delivery of the Action Plan would be overseen by the Information Management Board.

In response to questions, the Policy and Information Manager advised the Committee that:

- There were several pages on the Council's website relating to data protection such as the Council's Data Protection Policy and Privacy Notices. This was necessary to comply with the legislation, but the website would be updated to include additional information such as risk assessments completed before new systems were implemented or changes in processes.

- The Council was compliant with the legislation but there were things it could do to improve. The ICO was fining organisations that did not recognise their accountability or take data protection issues seriously. By having an Action Plan in place, regular reporting to the Committee and Member involvement in the Information Management Board, the Council could demonstrate that it was taking the issues seriously. The Action Plan would be checked to ensure that it was up to date and forward looking.

- The Record of Processing Activity (ROPA) was a requirement of the ICO. The organisation was required to document very clearly what information it collects, the legal basis for collecting that information, how it ensures that the information is securely kept and who has access to it such as a third party. Two reviews had been undertaken since the ROPA was introduced and following the self-assessment it would be reviewed again to make sure that it is fully refined.

- Although a lot of work was done in relation to procurement initially, there was not a lot of guidance from the ICO so some work was required to ensure that data protection is clearly embedded in the procurement process.

- In terms of back office systems, some work was required to ensure that logs of system access are as well documented and controlled as within ICT for consistency across the Council.

- Work had commenced on some of the actions but there were some concerns about delivering the Action Plan within the timeframes. The team was multi-functional and might be called upon to provide support in other areas such as the Community Hub. The timeframes were ambitious, and it might be necessary to review some of the dates if other priorities were identified.

- For clarity, a review of the Council's website would be undertaken with the Digital and Transformation team as it was recognised that people used the terms Data Protection Act and General Data Protection Regulation interchangeably.

RESOLVED: That the report be noted.

Councillor Perry joined the meeting during consideration of this item (7.19 p.m.). Councillor Perry said that he had no disclosures of interest or lobbying. Councillor Garten who had been substituting for Councillor Perry until his arrival then left the meeting.

148. TREASURY MANAGEMENT MID YEAR REVIEW 2020/21

The Finance Manager presented his report setting out the activities of the Treasury Management function for the first six months of the 2020/21 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. The Finance Manager advised the Committee that:

- The Treasury Management Strategy for 2020/21 was approved by the Council in February 2020 and the key aim was to keep investments short term and to use cash balances to fund the Capital Programme in the short term due to low investment returns and high counterparty risk in the current economic climate. All investments so far this year had been kept within money market funds and notice accounts which could be called upon immediately or with a short notice period.

- As at 30 September 2020, the Council held £10.43m of investments (£11.025m at the start of the year) and the investment portfolio yield for the first six months of the year was 0.33%.

- As at 30 September 2020, the Council also had short-term external borrowing of £9m from other local authorities. This was likely to increase throughout the year due to the escalation of the Capital Programme.

- The Council's borrowing had been kept under review during the first half of the year to see whether it would be prudent to lock in long-term borrowing to spread the risk of refinancing and to lock in a long-term low rate. It had been decided to wait for the results of the Government's consultation on revised PWLB lending terms before committing to anything long term. In the meantime, given current interest rate forecasts, the risk of losing the opportunity to borrow at low rates by waiting appeared to be low.

- During the first six months of the financial year 2020/21, the Council had operated within the prudential and treasury indicators set out in the Treasury Management Strategy Statement and in compliance with its Treasury Management Practices.

In response to questions, the Finance Manager advised the Committee that:

- Short-term borrowing was anything less than one year and was used to help fund the Capital Programme, but consideration was being given to locking in some longer-term rates to coincide with the length of projects within the Capital Programme to spread the risk of refinancing.

- Investments fluctuated throughout the month as a result of the Council's role as billing authority in the collection of Business Rates and Council Tax, fluctuations in cash balances from these sources, payments being due to preceptors, funding of the Capital Programme and other expenditure. It was the Council's strategy to use cash balances where possible.

- The Council had borrowed from North Yorkshire County Council to coincide with the acquisition of the Lockmeadow Leisure Complex. The rate was locked in at 0.97% which was favourable at the time. The maturity date was 20 November 2020, but the loan had been rolled over for a further six months at 0.12%. The Council would be looking at locking in longer-term borrowing very soon.

RESOLVED:

1. That the position regarding the Treasury Management Strategy as at 30 September 2020 be noted.

2. That no amendments to the current procedures are necessary as a result of the review of activities during the first six months of 2020/21.

149. EXTERNAL AUDIT UPDATE NOVEMBER 2020

The Committee considered the report of the Head of Finance providing (a) an update from Grant Thornton, the External Auditor, on the progress towards the completion of the audit of the 2019/20 financial statements and value for money conclusion and (b) a sector update from the External Auditor on some of the emerging national issues and developments that might impact on the Council.

It was noted that the external audit work was now substantially complete, and the anticipated outcome was an unqualified audit report opinion including an Emphasis of Matter paragraph highlighting Property Plant and Equipment (PPE) valuation material uncertainties for both the Council property and its share of assets included in the IAS 19 Pension Fund actuarial position arising from potential impacts of the COVID-19 pandemic on these figures.

Ms Tina James of Grant Thornton advised the Committee that the External Auditor had completed work on the PPE valuations by the time the report was produced and there was nothing further to report on that. In terms of the items that were outstanding at the time the report was produced, the assurance letter from the Kent Pension Fund auditor had now been received and provided sufficient assurance, so no further work was required on that.

In response to questions, Ms James explained that:

- The External Auditor would be producing an updated Audit Findings Report and an Annual Audit Letter summarising the financial position and overall conclusion and confirming that sufficient assurance had been obtained in relation to, for example, the valuation of the Pension Fund net liability to reach that conclusion.

- In terms of the net pension liability, key assumptions such as life expectancy were assessed by the actuary and then reviewed by the External Auditor using PricewaterhouseCoopers as an auditor’s expert.

- Typographical errors in the External Auditor’s Audit Findings Report identified during the discussion would be corrected in the final version of the document.

RESOLVED:

1. That the updated Audit Findings Report from the External Auditor, attached as Appendix 1 to the report of the Head of Finance, be noted.

2. That the Audit Progress Report and Sector Update from the External Auditor, attached as Appendix 2 to the report of the Head of Finance, be noted.

150. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Director of Finance and Business Improvement introduced his report providing an update on the budget risks facing the Council.

The Director of Finance and Business Improvement advised the Committee that:

- The main challenge was the financial impact of COVID-19 which had led to a very significant overspend against the original budget in the current financial year. The deficit had been mitigated by Government grants and actions that the Council had taken at its own initiative but based on the current figures this would not be sufficient to cover all the additional expenditure and loss of income. The Council did, however, have reserves it could draw on to cover the likely shortfall this year. COVID-19 would have an ongoing financial impact. Current projections indicated that, given neutral forecasts, the Council would face a £2m-£3m budget gap in 2021/22.

- Since the situation was not improving, he had reviewed the Budget Risk Register and amended some of the risks. For example, the risk levels relating to fees and charges failing to deliver sufficient income, commercialisation failing to deliver additional income and Business Rates and Council Tax collection failing to achieve target had been increased due to the difficult economic environment.

In response to questions, the Director of Finance and Business Improvement explained that:

- There was a revenue impact associated with capital expenditure: (a) the cost of borrowing and (b) the provision made for the repayment of borrowing. However, this mitigated the Council's deficit to an extent because some capital expenditure had been deferred and borrowing costs had been lower than anticipated. The Capital Programme would still be delivered but it would be delivered over a longer period. Some schemes had been deferred to ease the pressure on the revenue budget.

- The risks associated with major contractor failure were now included in the Corporate Risk Register and would be mirrored in the Budget Risk Register.

During the discussion it was suggested that the Council should not just be looking at the "top risks" as summarised in the risk matrix. The relative changes in others such as commercialisation failing to deliver additional income should also warrant attention.

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.

151. DURATION OF MEETING

6.30 p.m. to 8.10 p.m.

10

2020/21 WORK PROGRAMME

	Committee	Month	Origin	CLT to clear	Lead	Report Author
Housing Benefit Grant Claim	AGS	15-Mar-21	Governance	No	Sheila Coburn	Liz Norris
Annual Risk Management Report	AGS	15-Mar-21	Governance	Yes	Rich Clarke	Alison Blake
Budget Strategy Risk Assessment Update	AGS	15-Mar-21	Officer Update	No	Mark Green	Mark Green
Code of Conduct Matters - Six Month Update	AGS	15-Mar-21	Officer Update	No	Patricia Narebor	Jayne Bolas
External Audit Plan 2020/21 and External Audit Fee Letter	AGS	15-Mar-21	Governance	No	Mark Green	Ellie Dunnet
External Auditor's Progress Report and Sector Update March 2021	AGS	15-Mar-21	Governance	No	Mark Green	Ellie Dunnet
Fraud and Compliance Team Update	AGS	15-Mar-21	Officer Update	No	Sheila Coburn	Sheila Coburn
Information Management and DPA 2018 Action Plan Update	AGS	15-Mar-21	Officer Update	No	Angela Woodhouse	Anna Collier
Internal Audit and Assurance Plan 2021/22	AGS	15-Mar-21	Governance	No	Rich Clarke	Rich Clarke
Update on Draft Model Code of Conduct	AGS	TBC	Officer Update	No	Patricia Narebor	Jayne Bolas
Review of MBC Code of Conduct and Arrangements for Dealing with Alleged Breaches	AGS	TBC	Governance	No	Patricia Narebor	Jayne Bolas

Agenda Item 12

Audit, Governance and Standards Committee	18 January 2021

Annual Complaints Report 2019/20

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Angela Woodhouse, Head of Policy, Communication and Governance, and Patricia Narebor, Head of Legal Partnership
Lead Officer and Report Author	Anna Collier, Policy and Information Manager, Orla Sweeney, Equalities and Corporate Policy Officer, and Lauren Connett, Policy Support Officer
Classification	Public
Wards affected	All

Executive Summary

To provide Audit, Governance and Standards Committee with an overview of how the Council has performed in responding to complaints in 2019/20 and the Local Government and Social Care Ombudsman's annual complaints review letter.

This report makes the following recommendations to this Committee:

1. That the Council's performance on complaint management in 2019/20 and the Local Government and Social Care Ombudsman's review letter be noted.

Timetable	
Meeting	***Date***
CLT	5 January 2021
Audit, Governance and Standards Committee	18 January 2021

Annual Complaints Report 2019/20

1. INTRODUCTION AND BACKGROUND

1.1 A complaint is a formal expression of dissatisfaction or disquiet with the quality of a service, a failure to provide a previously agreed service, a policy or a decision made, a technical issue, a lack of communication or customer service, or the attitude or behaviour of a member of staff.

1.2 Complaints are managed and monitored by the Policy and Information team. Complaints recorded under the formal procedure do not include first-time representations that were requests for service. In the event a service request was not handled correctly and created a form of dissatisfaction, a complaint would then be raised.

1.3 The Council's formal complaints procedure has three stages with the following response timescales:

- Stage 1 within 10 working days;
- Assessment within 5 working days; and
- Stage 2 within 20 working days.

1.4 Stage one complaints are dealt with by the service manager. If a complaint is about staff conduct; the complaint is dealt with by the individual's line manager. Stage two complaints are investigated by the Head of Policy, Communications and Governance. A pre-assessment is conducted by a member of the Policy and Information team.

1.5 The Policy and Information team reviewed the complaints process in Quarter 2 and Quarter 3 of 2019 and made the decision to introduce a new stage to the process. This is called the assessment stage and it is triggered when a customer expresses dissatisfaction with the stage 1 response or the way their complaint has been handled. The assessment is made by a Member of the Policy and information team and is fully documented. The purpose of the assessment is to determine whether a stage 2 investigation could add anything of value to the original stage 1 response. This helps prevent complaints being investigated at stage 2 that cannot provide any further remedy or outcome to the complaint, for example cancelling a parking ticket.

1.6 Following the completion of stage two of the complaint's process, dissatisfied complainants have the opportunity to refer their complaint to the Local Government and Social Care Ombudsman (LGSCO).

1.7 The Council's complaints policy can be found here: https://www.maidstone.gov.uk/home/other-services/find-and-contact-us/additional-areas/our-complaints-policy

---

2019/20 Performance Summary

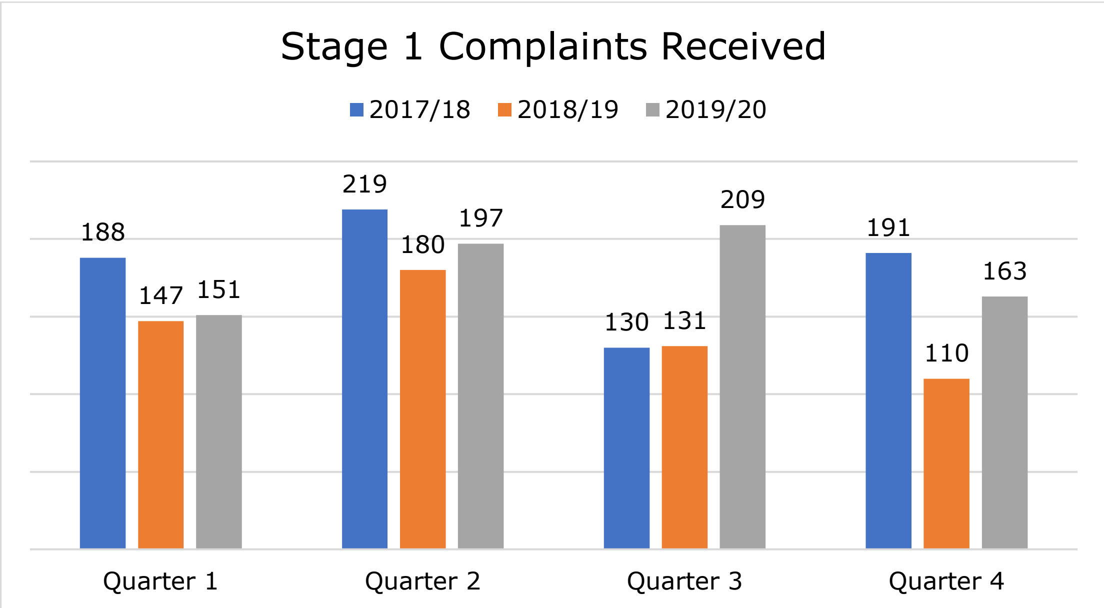
Stage 1 and 2 Complaints

Stage 1 Complaints

1.8 The Council received 720 stage 1 complaints in 2019/20 compared to 568 in the previous year. This is an increase of 26.8%.

1.9 The increase was caused almost entirely by an increase in waste complaints (295, compared to 110 in 2018/19).

1.10 During 2019/20, the Waste Contractor experienced persistent and pervasive problems with its vehicle fleet. However, the Waste Contract Manager worked with the Waste Contractor to find resolutions to these issues. The progress was closely monitored by the Policy and Information team who ensured that this was communicated to customers via Customer Services. Additionally, in March 2020 the contractor experienced access issues with an increased volume of parked cars with more people working from home. Again, the Policy and Information team monitored this situation and communicated the action being taken to alleviate the problem.



1.11 The number of complaints by service can be found at appendix 1.

1.12 The number of stage 1 complaints received by the Council accounts for 0.28% of the total volume of calls and online forms received in 2019/20 (254,861).

1.13 Stage 1 complaints for 2019/20 were analysed in two ways: categorisation of complaints received, and the number of upheld complaints.

The categorisation of complaints received

1.14 Complaints are categorised in the following way:

- **Policy & Decision:** This usually relates to an outcome of an assessment or a service request that has not been agreed (e.g. our decision to change the bin collection schedule).

- **Failure:** We have a responsibility for delivering a service. What started as a service request and was not completed properly may turn into a service failure.

- **Quality:** A data breach, incorrect information provided, quality of letters/responses, poor handling (e.g. broken bins due to our poor handling).

- **Technical:** Complaints about the website, cyber incidents, the telephone system, or other automated systems we use such as apps/parking machines.

- **Staff Conduct:** Complaints about the conduct of members of staff.

- **Customer Service:** The level of service the customer has received when they were dealing with a Council Officer that ultimately resulted in their complaint.

- **Communication:** Typically relating to telephone calls, messages, and emails not being responded to appropriately, or a general lack of communication.

1.15 The following table displays the number of complaints received within each category for the year. It is important to note that the overall number of stage 1 complaints received (720), will not match the reason for each complaint as there may be multiple reasons for dissatisfaction.

Reason for Complaint	Total Number	Percentage
Policy & Decision	279	33.86%
Failure	275	33.37%
Customer Service	104	12.62%
Communication	70	8.5%
Staff Conduct	41	4.98%
Quality	39	4.73%
Technical	16	1.94%

<u>The number of upheld complaints</u>

1.16 An upheld complaint is one that is considered confirmed or supported.

1.17 Of the 720 stage 1 complaints, 29.72% (214) were upheld.

<u>Assessments</u>

1.18 Of the 720 stage 1 complaints received in 2019/20, 29 were escalated to the assessment stage of the Council's complaints process.

1.19 The assessment stage was introduced in 2019/20, so there is no previous data to compare against.

1.20 The first assessment was conducted in November 2019, therefore all complaints that were escalated before this date were not assessed and were escalated straight to stage 2.

1.21 An upheld assessment is one that is considered confirmed or supported. The original complaint and stage 1 response are revisited, and an assessment is made on whether the decision at stage 1 was correct and whether there is any value to the complainant or outcome that can be achieved in undertaking a stage 2 investigation. The assessment is fully documented as part of the complaints process.

1.22 Of the 29 assessments conducted, 69% (20) were upheld. This is a high percentage; however, it is important to note that 17 out of the 20 upheld assessments were for Waste complaints.

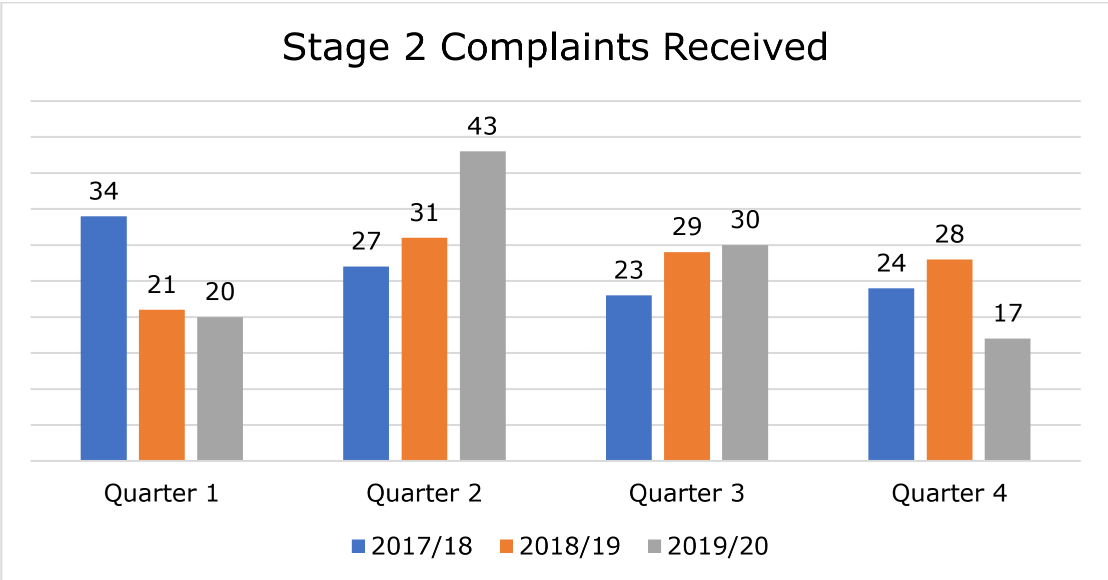
The number of justified assessments

1.23 A justified complaint occurs when a customer has a valid concern regarding how their stage 1 complaint was handled and/or the decision that was made.

1.24 72.4% (21) of assessments concluded that the customer was justified in their reason for complaining. This is a high percentage, however, as with the upheld decisions, 17 out of the 21 justified decisions were for Waste complaints.

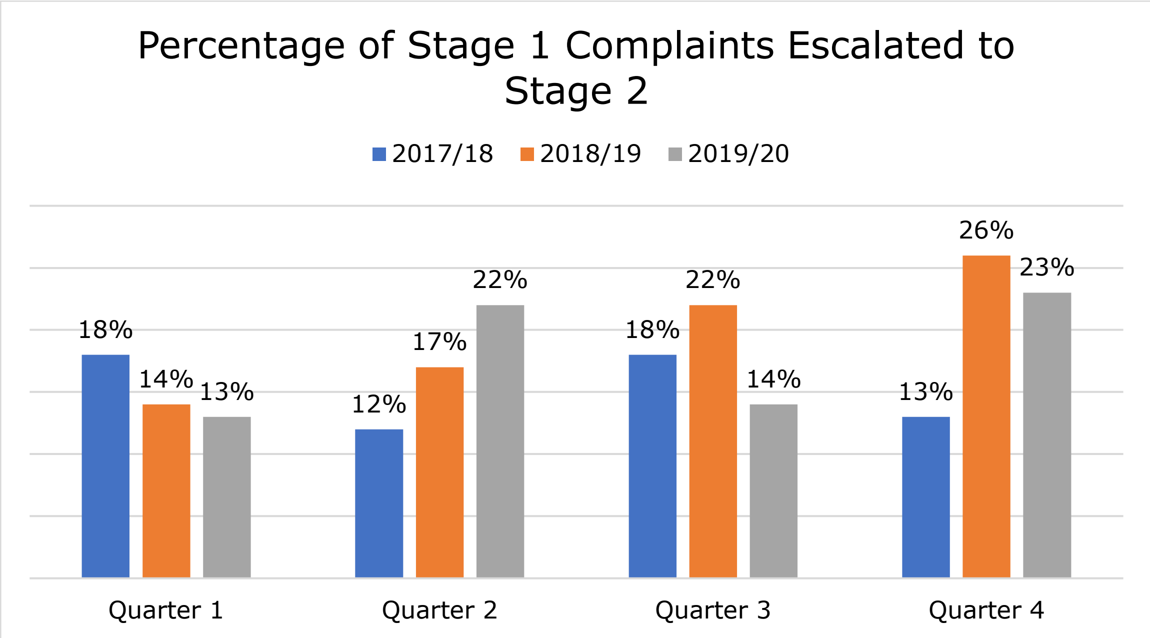
Stage 2 Complaints

1.25 Of the 720 stage 1 complaints received in 2019/20, 110 were escalated to the second stage of the Council's complaints process.



1.26 This is an escalation rate of 15.3%, compared to 19.2% in 2018/19. This has decreased from the previous year and is only slightly higher than the performance target of 15%.

1.27 It is important to note that the total number of stage 2 complaints include those that were assessed and upheld, and consequently escalated.



1.28 A full list of complaints by service can be found at appendix 2.

1.29 Stage 2 complaints for 2019/20 were analysed in three ways: categorisation of complaints received, the number of upheld complaints, and the number of justified complaints.

1.30 The following table displays the number of complaints received within each category for the year. It is important to note that the overall number of stage 2 complaints received (110) will not match the reason for each complaint as there may be multiple reasons for dissatisfaction.

Reason for Complaint	Total Number	Percentage
Policy & Decision	50	36.23%
Failure	41	29.71%
Customer Service	24	17.39%
Quality	16	11.59%
Staff Conduct	4	2.9%
Communication	2	1.45%
Technical	1	0.72%

The number of upheld complaints

1.31 An upheld complaint is one that is considered confirmed or supported.

1.32 Of the 110 stage 2 complaints, 10.9% (12) were upheld. This represents a small number of wrongly determined stage 1 decisions.

1.33 Even when a complaint is upheld at assessment stage, it may not be upheld at stage 2. For example, an assessment may conclude that the escalation of the complaint is upheld because the customer reports that the issue has not been resolved, but the stage 2 investigation may determine that the current problem was not caused by the Council and so the complaint is not upheld.

The number of justified complaints

1.34 A justified complaint occurs when a customer has a valid concern regarding how their stage 1 complaint was handled and/or the decision that was made.

1.35 Stage 2 complaints can have a combination of reasonings and outcomes in terms of whether it was upheld/not upheld or justified/unjustified. For example, a complaint could be justified in the reason for escalation because the response may not have been sufficiently detailed, but still not upheld as the stage 1 decision was correct.

1.36 44.5% (49) of stage 2 complaints were justified in their reason for complaining. This is an increase from 31.2% in 2018/19. A complaint can be justified but not upheld as the stage 1 response may not address all the points raised or create further concerns for the customer. The stage 2 investigation may not uphold these points, even though the escalation was justified.

Time taken to respond

1.37 The Council's policy on responding to a stage 1 complaint is within 10 working days of receipt of the complaint request. 693 (96.25%) stage 1 complaints were responded within this timescale.

1.38 The average length of time taken to provide a formal response to all stage 1 complaints was 6.7 days. This is an increase in response time from 2018/19 when the average time taken was 4.5 days, however the percentage responded to in time has increased by 1.05%. If a complaint is going to be late, the complaints lead in the team will contact the customer to advise and provide a reason for the delay and a confirmed timescale.

1.39 When a customer expresses dissatisfaction with the way their complaint has been handled, the Policy and Information team aim to conduct an assessment within 5 working days. Against this target, 25 (86.2%) assessments were conducted in time.

1.40 The average length of time taken to conduct an assessment in 2019/20 was 5 days. The assessment stage was introduced in 2019/20, so there is no previous data to compare against.

1.41 When a complaint is escalated to stage 2, an investigation is conducted by the Head of Policy, Communications and Governance and a response is provided within 20 working days. Against this target, 104 (94.5%) stage 2 complaints were responded to in time.

1.42 The average length of time taken to provide a formal response to all stage 2 complaints was 19.8 days. This is a slight increase compared to average of 19.3 days for 2018/19, however the percentage responded to in time has increased by 3.7%. As with stage 1, if a complaint is going to be late, the complaints lead will contact the customer to advise them and provide a reason for the delay and a confirmed time scale.

Summary of Overall Performance

1.43 The services with the highest volume of stage 1 complaints were Waste (41%), Development Management (9.7%), and Parking (8.9%), a combined total of 59.6% of all stage 1 complaints received. However, as a percentage of overall contact received by the Council, this is still very low (see paragraph 1.12).

1.44 Despite the extremely high volume of complaints received, Waste Services responded to all 295 stage 1 complaints within 10 working days.

1.45 The services with the highest stage 2 escalation rates were Waste (43.6%), Parking (9%) and Benefits (6.4%). For all these services, with the exception of Benefits, this is not unexpected given the number of stage 1 complaints received. Benefits complaints tend to arise when a customer disagrees with the decision the Council has made on a Benefits application; this is unlikely to be resolved in the Stage 1 response because there is a legal appeals process, therefore we tend to see these issues escalated. As detailed at paragraph 1.32 in this report, only 10.9% (12) of stage 1 complaints were upheld when escalated to stage 2.

Next Steps

1.46 It is important that lessons are learned from the Complaints process and recommendations for improvements are identified which improve the Council's overall service. The following themes have been identified in the stage 2 complaints process as areas of focus for the management and handling of complaints:

1. Ensure every point raised within the complaint is addressed in the response.
2. Acknowledge the perceived failure or the way a complainant felt about the service received. This does not admit fault but can go a significant way to ameliorate the complainant's concerns to reduce the likelihood of stage 2 complaints.
3. The tone adopted in the response can be as important as the information contained, especially as quoting legislation and technical matters can seem defensive, even if that is not the intention.
4. Keep in contact with the complainant while the complaint is being investigated, if possible. Especially if more time will be required to fully investigate, or if more information is required.
5. Provide clear timescales to manage expectations following a complaint to stop the complaint being raised again.

1.47 The Policy and Information Team will be reviewing the Complaints process including the new assessment stage in early 2021. The team will look for ways in which to streamline the process now that this additional stage has been embedded. It will also be looking at what further training and guidance can be provided to service managers dealing with complaints as a means of reducing the escalation rate. Training will focus on areas where refreshing knowledge will be useful, such as identifying unreasonably persistent behaviours.

Local Government and Social Care Ombudsman Annual Review Letter (Maidstone Borough Council) 2019/20 and Local Government and Social Care Ombudsman Review of Local Government Complaints 2019/20

1.48 Each year, this report and review letter is released to local authorities countrywide to feedback statistics from the complaints made to the LGSCO and comment on their performance in responding to investigations. The LGSCO's Annual Review Letter can be seen at Appendix 4 and the report can be viewed here: https://www.lgo.org.uk/information-centre/reports/annual-review-reports/local-government-complaint-reviews

1.49 The 2019 Annual Review Letter is positive for the Council, there is no comment or critique of its complaints handling and the LGSCO did not issue any public reports in 2019/20.

1.50 The LGSCO reviewed 49 complaints and made decisions on 43 complaints in 2019/20. This represents an increase of 6 decisions made from 2018/19. Compared to 2018/19, the upheld rate has increased by 31%. The table below shows the LGSCO decision on each of these:

Decision Category	2018/19 Number	2019/20 Number	Explanation
Closed After Initial Enquiries	19	19	On the basis of the complainant's referral the LGSCO have decided not to investigate
Referred back to Council	9	6	The complaint hasn't gone through the Council's official complaint process and it is referred back to the Council
Advice given	0	1	The LGSCO provided early advice or explained where to go for the right help
Invalid/not enough information	0	6	The LGSCO was unable to progress the complaint
Not Upheld	6	4	Following explanation the LGSCO agrees with the Council's decision
Upheld	3	7	The LGSCO doesn't agree with the Council's decision and finds

			in favour or partial favour with the complainant
Upheld Rate	33%	64%	

1.51 The number of complaints referred to the LGSCO (49) accounts for 5.9% of the total number of stage 1 and 2 complaints received in 2019/20 (830).

1.52 While the Council would strive to have no complaints upheld by the LGSCO, the performance overall has been good in relation to the number of complaints escalated to the LGSCO and the number investigated. The number of upheld complaints has increased, however, for all seven of these complaints, the LGSCO's recommendation was implemented (100% compliance rate).

1.53 A full list of LGSCO complaints by service can be found at appendix 3.

1.54 Maidstone Borough Council was not listed in the Public Interest section of the LGSCO's annual report.

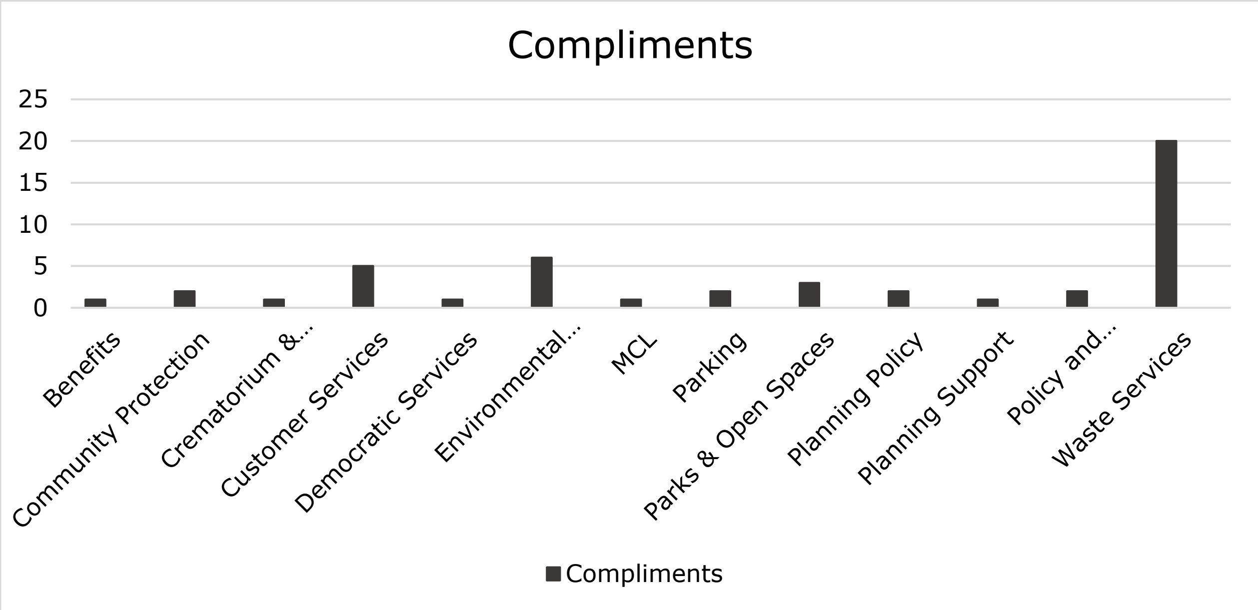
Compliments

1.55 A compliment is an expression of praise for an interaction, a service or a product. Compliments are logged from members of the public as they help identify good practice, recognise those members of staff who provide a high quality of service, and learn from customers' feedback.

1.56 The Council received 47 written compliments in 2019/20. Of these, the services with noticeable volumes of compliments were:

- Waste Services
- Environmental Services (Depot)

- Customer Services



2. REASONS FOR RECOMMENDATIONS

2.1 It is best practice and an internal audit requirement that statistics are reported to the Audit, Governance and Standards Committee on an annual basis in relation to performance in the processing of complaints.

3. RISK

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

4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

None.

5. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

None.

6. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	Good complaints management ensures that the Council learns from customer experience and develops services to deliver both priorities	Head of Policy, Communications and Governance
Risk Management	This report is presented for information only and has no risk management implications.	Head of Policy, Communications and Governance
Financial	The process of responding to and dealing with complaints as described in this report has been managed within existing budgets.	Section 151 Officer & Finance Team
Staffing	None Identified	Head of Policy, Communications and Governance
Legal	This report provides a review of complaints received and an update on the Council's complaint handling. If any complaint raises issues that may have legal implications or consequences, the Head of Legal Partnership should be consulted. There is no statutory duty to report regularly to Committee on the Council's performance. However, under Section 3 of the Local Government Act 1999 (as amended) a best value authority has a statutory duty to secure continuous improvement in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness. Regular reports on the Council's performance in responding to complaints assist in demonstrating best value and compliance with the statutory duty.	Team Leader (Corporate Governance), MKLS
Privacy and Data Protection	The recommendations will not have an impact on the processing of personal data, and there is no need for a Data Protection Impact Assessment.	Information & Corporate Policy Officer

Equalities	The complaints process is extremely valued. It can help identify where changes to policy or improvements to service delivery may be required. When a change is proposed an Equalities Impact Assessment is undertaken to ensure that there is no detrimental impact on individuals with a protected characteristic. All complaints with an identified equality issue are investigated by the Equalities and Corporate Policy Officer to ensure that equalities concerns are investigated appropriately.	Equalities and Corporate Policy Officer
Public Health	None Identified	Senior Public Health Officer
Crime and Disorder	None Identified	Head of Policy, Communications and Governance
Procurement	None Identified	Head of Policy, Communications and Governance & Section 151 Officer

6. REPORT APPENDICES

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

- Appendix 1: 2019/20 Stage 1 Complaint Volume Summary
- Appendix 2: 2019/20 Stage 2 Complaint Volume Summary
- Appendix 3: 2019/20 LGO Complaints by Service
- Appendix 4: Local Government and Social Care Ombudsman Annual Review Letter 2020

7. BACKGROUND PAPERS

None.

2019/20 Stage 1 Complaint Volume Summary:

The number of complaints received can be broken down across the services as follows:

Service Area	Stage 1	% of overall stage 1 received	No. Responded Late	% Late
Benefits	26	3.6%	2	7.7%
Building Control	6	0.8%	1	16.7%
Cobtree Estates	2	0.3%	0	-
Communications	0	-	-	-
Community Protection	10	1.4%	1	10%
Council Tax	43	6%	2	4.7%
Crematorium & Cemetery	0	-	-	-
Customer Services	23	3.2%	0	-
Democratic Services	3	0.4%	0	-
Development Management (Planning)	70	9.7%	5	7.1%
Digital Services	8	1.1%	0	-
Economic Development	0	-	-	-
Environmental Health	1	0.1%	-	-
Environmental Services (Depot)	29	4%	1	3.4%
Facilities Management	0	-	-	-
Finance	2	0.3%	0	-
Heritage Landscape & Design	1	0.1%	0	-
Housing & Health	1	0.1%	0	-
Housing Homelessness	20	2.8%	6	30%
Housing Register	22	3.1%	0	-
ICT	1	0.1%	0	-
Legal	0	-	-	-
Licensing	1	0.1%	0	-
Market	0	-	-	-
Maidstone Culture and Leisure (Events, Leisure Centre, Hazlitt)	35	4.9%	1	2.9%
Mid Kent Enforcement	10	1.4%	1	10%
Museums	2	0.3%	0	-
NNDR	2	0.3%	0	-
Parking	64	8.9%	1	1.6%
Parks & Open Spaces	9	1.3%	0	-
Planning Enforcement	13	1.8%	5	38.5%

Appendix 1: 2019/20 Complaint Volume Summary

Service Area	Stage 1	% of overall stage 1 received	No. Responded Late	% Late
Planning Policy	7	1%	0	-
Planning Support	4	0.6%	0	-
Policy and Information	3	0.4%	0	-
Property and Procurement	1	0.1%	0	-
Registration Services	6	0.8%	1	16.7%
Waste	295	41%	0	-
Total	**720**			

2019/20 Stage 2 Complaint Volume Summary:

The number of complaints received can be broken down across the services as follows:

By service:

Service Area	Stage 2	% of overall stage 2 received
Benefits	7	6.4%
Building Control	3	2.7%
Cobtree Estates	1	0.9%
Communications	0	-
Community Protection	1	0.9%
Council Tax	8	7.3%
Crematorium & Cemetery	0	-
Customer Services	0	-
Democratic Services	1	0.9%
Development Management (Planning)	5	4.5%
Digital Services	1	0.9%
Economic Development	0	-
Environmental Health	0	-
Environmental Services (Depot)	1	0.9%
Facilities Management	0	-
Finance	0	-
HLD	0	-
Housing & Health	0	-
Housing Homelessness	2	1.8%
Housing Register	5	4.5%
ICT	1	0.9%
Legal	1	0.9%
Licensing	0	-
Market	0	-
MCL (Events, Leisure Centre, Hazlitt)	3	2.7%
Mid Kent Enforcement	3	2.7%
Museums	0	-
NNDR	0	-
Parking	10	9%
Parks & Open Spaces	0	-
Planning Enforcement	5	4.5%

Appendix 2: 2019/20 Stage 2 Complaint Volume Summary

Service Area	Stage 2	% of overall stage 2 received
Planning Policy	1	0.9%
Planning Support	2	1.8%
Policy and Information	1	0.9%
Property and Procurement	0	-
Registration Services	0	-
Waste	48	43.6%
Total	**110**	

Appendix 3: 2019/20 LGCSO Complaint Volume Summary

2019/20 LGCSO Complaint Volume Summary:

The number of complaints received can be broken down across the services as follows:

LGCSO Complaint Description	Service Areas	No. of stage 1 complaints	No. of Stage 2 Complaints	No. received by the LGCSO	Number Upheld
Adult Care Services	N/A	-	-	-	-
Benefits and Tax	Benefits Council Tax NNDR	71	15	12	0
Corporate and Other Services	Communications Customer Services Democratic Services Digital Services Economic Development Facilities Management Finance ICT Legal Licensing Market MCL MidKent Enforcement Museums Policy and Information Property and Procurement Registration Services	95	11	2	0
Education and Children's Services	N/A	-	-	-	-

Appendix 3: 2019/20 LGCSO Complaint Volume Summary

Environment Services	Cobtree Estates Community Protection Crematorium & Cemetery Environmental Health Environmental Services (depot) Parks and Open Spaces Waste	346	51	5	1
Highways and Transport	Parking	64	10	4	1
Housing	Housing & Health Housing Homelessness Housing Register	43	7	4	2
Planning and Development	Building Control Development Management HLD Planning Enforcement Planning Policy Planning Support	101	16	18	3
Other				4	

(Please note that 43 of 49 complaints were investigated by the LGSCO as detailed at paragraph 6.3 of the report)

Local Government &
Social Care
OMBUDSMAN

22 July 2020

By email

Ms Broom
Chief Executive
Maidstone Borough Council

Dear Ms Broom

Annual Review letter 2020

I write to you with our annual summary of statistics on the decisions made by the Local Government and Social Care Ombudsman about your authority for the year ending 31 March 2020. Given the exceptional pressures under which local authorities have been working over recent months, I thought carefully about whether it was still appropriate to send you this annual update. However, now, more than ever, I believe that it is essential that the public experience of local services is at the heart of our thinking. So, I hope that this feedback, which provides unique insight into the lived experience of your Council's services, will be useful as you continue to deal with the current situation and plan for the future.

Complaint statistics

This year, we continue to place our focus on the outcomes of complaints and what can be learned from them. We want to provide you with the most insightful information we can and have made several changes over recent years to improve the data we capture and report. We focus our statistics on these three key areas:

Complaints upheld - We uphold complaints when we find some form of fault in an authority's actions, including where the authority accepted fault before we investigated. A focus on how often things go wrong, rather than simple volumes of complaints provides a clearer indicator of performance.

Compliance with recommendations - We recommend ways for authorities to put things right when faults have caused injustice. Our recommendations try to put people back in the position they were before the fault and we monitor authorities to ensure they comply with our recommendations. Failure to comply with our recommendations is rare. An authority with a compliance rate below 100% should scrutinise those complaints where it failed to comply and identify any learning.

Satisfactory remedies provided by the authority - We want to encourage the early resolution of complaints and to credit authorities that have a positive and open approach to resolving complaints. We recognise cases where an authority has taken steps to put things right before the complaint came to us. The authority upheld the complaint and we agreed with how it offered to put things right.

Finally, we compare the three key annual statistics for your authority with similar types of authorities to work out an average level of performance. We do this for County Councils, District Councils, Metropolitan Boroughs, Unitary Councils, and London Boroughs.

This data will be uploaded to our interactive map, Your council's performance, along with a copy of this letter on 29 July 2020, and our Review of Local Government Complaints. For further information on how to interpret our statistics, please visit our website.

Resources to help you get it right

There are a range of resources available that can support you to place the learning from complaints, about your authority and others, at the heart of your system of corporate governance. Your council's performance launched last year and puts our data and information about councils in one place. Again, the emphasis is on learning, not numbers. You can find the decisions we have made, public reports we have issued, and the service improvements your Council has agreed to make as a result of our investigations, as well as previous annual review letters.

I would encourage you to share the tool with colleagues and elected members; the information can provide valuable insights into service areas, early warning signs of problems and is a key source of information for governance, audit, risk and scrutiny functions.

Earlier this year, we held our link officer seminars in London, Bristol, Leeds and Birmingham. Attended by 178 delegates from 143 local authorities, we focused on maximising the impact of complaints, making sure the right person is involved with complaints at the right time, and how to overcome common challenges.

We have a well-established and successful training programme supporting local authorities and independent care providers to help improve local complaint handling. During the year, we delivered 118 courses, training more than 1,400 people. This is 47 more courses than we delivered last year and included more training to adult social care providers than ever before. To find out more visit www.lgo.org.uk/training.

Yours sincerely,

Michael King
Local Government and Social Care Ombudsman
Chair, Commission for Local Administration in England

Complaints upheld

64%

64% of complaints we investigated were upheld.

This compares to an average of **45%** in similar authorities.

7
upheld decisions

Statistics are based on a total of 11 detailed investigations for the period between 1 April 2019 to 31 March 2020

Compliance with Ombudsman recommendations

100%

In **100%** of cases we were satisfied the authority had successfully implemented our recommendations.

This compares to an average of **99%** in similar authorities.

Statistics are based on a total of 6 compliance outcomes for the period between 1 April 2019 to 31 March 2020

- Failure to comply with our recommendations is rare. An authority with a compliance rate below 100% should scrutinise those complaints where it failed to comply and identify any learning.

Satisfactory remedies provided by the authority

14%

In **14%** of upheld cases we found the authority had provided a satisfactory remedy before the complaint reached the Ombudsman.

This compares to an average of **20%** in similar authorities.

1
satisfactory remedy decision

Statistics are based on a total of 11 detailed investigations for the period between 1 April 2019 to 31 March 2020

Agenda Item 13

AUDIT, GOVERNANCE & STANDARDS COMMITTEE	**18 January 2021**

Internal Audit Interim Report 2020/21

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

A summary for Member information of progress so far towards fulfilling the Audit & Assurance Plan agreed by this Committee in September 2020, and intentions for completing the plan by June 2021.

Purpose of Report

Noting

This report makes the following recommendations to this Committee:

1. Note progress so far on completing the 2020/21 Audit & Assurance Plan.
2. Note the Head of Audit Partnership's view that he currently holds sufficient resource to complete the plan and that he will inform the Committee Chair promptly should that situation change.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	18 January 2021

Internal Audit Interim Report 2020/21

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The recommendations will support the Council's overall achievement of its aims by promoting good governance.	Rich Clarke Head of Audit Partnership 4 January 2021
Cross Cutting Objectives		
Risk Management	No additional implications	
Financial	The plan references agreed additional resources to provide backfill capacity where audit staff are redeployed to support Covid-related service delivery. We have agreed this additional resource with the relevant Director. It will not draw on existing Council resources.	
Staffing	We will continue towards delivering the plan within agreed staffing levels.	Rich Clarke Head of Audit Partnership 4 January 2021
Legal	The progress so far towards fulfilling the Audit & Assurance Plan previously agreed by this Committee will support the Council in meeting its obligations under the Accounts & Audit Regulations 2015.	Gina Clarke Corporate Governance Lawyer
Privacy and Data Protection	The report mentions that, for the first time, some of our audit work will be completed by contractors based overseas. We have discussed and agreed our approach to handling any relevant data protection issues with the Maidstone Data Protection Team. Principally, we will place reliance on the contractual clauses that already exist with our supplier (a major accounting firm).	Rich Clarke Head of Audit Partnership 4 January 2021
Equalities	No implications identified as a result of this update report.	
Public Health	No new implications.	

Issue	Implications	Sign-off
Crime and Disorder	No new implications.	Rich Clarke Head of Audit Partnership 4 January 2021
Procurement	We have procured contract auditor support through a well-established framework arrangement with more than 20 councils as co-signatories. The framework agreement was let in full compliance with relevant procurement rules, as confirmed at the time in discussion with the Council's procurement team.	

2. INTRODUCTION AND BACKGROUND

2.1 This Committee approved the original 2020/21 Audit and Assurance Plan in March 2020 at its last face to face meeting before Covid restrictions. In recognition of the vast changes to Council risks and priorities that followed, Members agreed a revised plan in September 2020. This report summarises progress towards delivering the plan up to the beginning of December. It also provides an update on the approach to completing the plan culminating in a Head of Audit Opinion in July 2021.

2.2 The report also references new instruction for local government internal audit issued by CIPFA in December 2020. This changes slightly the responsibilities of Chief Audit Executives in situations where they believe they may lack sufficient evidence to support a year end opinion. In particular, it directs early communication with Senior Officers and Members.

2.3 The report confirms the current view of the Head of Audit Partnership that the service holds sufficient resource to accumulate enough evidence to support a year end opinion. Noting that view depends on agreed backfill support to allow audit staff to help with Covid-related grant service delivery. The Head of Audit Partnership will update Senior Management and Members promptly should any concerns arise.

---

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 We present the report for Member information and for noting.

---

4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

4.1 The format and information presented in the report builds on Committee feedback to previous audit summary reports.

---

5. REPORT APPENDICES

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

- Appendix 1: Internal Audit Interim Report 2020/21.

---

6. BACKGROUND PAPERS

Various referenced background papers and guidance documents are included as hyperlinks within appendix 1.

MID KENT AUDIT

Interim Internal Audit & Assurance Report

January 2021
Maidstone Borough Council

MAIDSTONE Borough Council

MID KENT AUDIT

Introduction

1. The Institute of Internal Audit 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 reporting:

2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the *Code of Ethics* and the *Standards.* Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

Interpretation:

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the *Code of Ethics* and the *Standards*, and action plans to address any significant conformance issues.
- Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.

Audit Charter

3. This Committee approved our *Audit Charter* in **September 2019** and it remains in place through the audit year.

Independence of internal audit

4. 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.

5. Within Maidstone BC during 2020/21 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.

6. I confirm we have worked with full independence as defined in our Audit Charter and Standard 1100.

Management response to risk

7. We include the results of our work in the year so far later in this report. In our work we often raise recommendations for management action. During the year so far management have agreed to act on all recommendations we have raised. We report on progress towards implementation in the section titled *Agreed Actions Follow Up Results*.

8. There are no risks we have identified in our work that we believe management have unreasonably accepted.

Resource Need

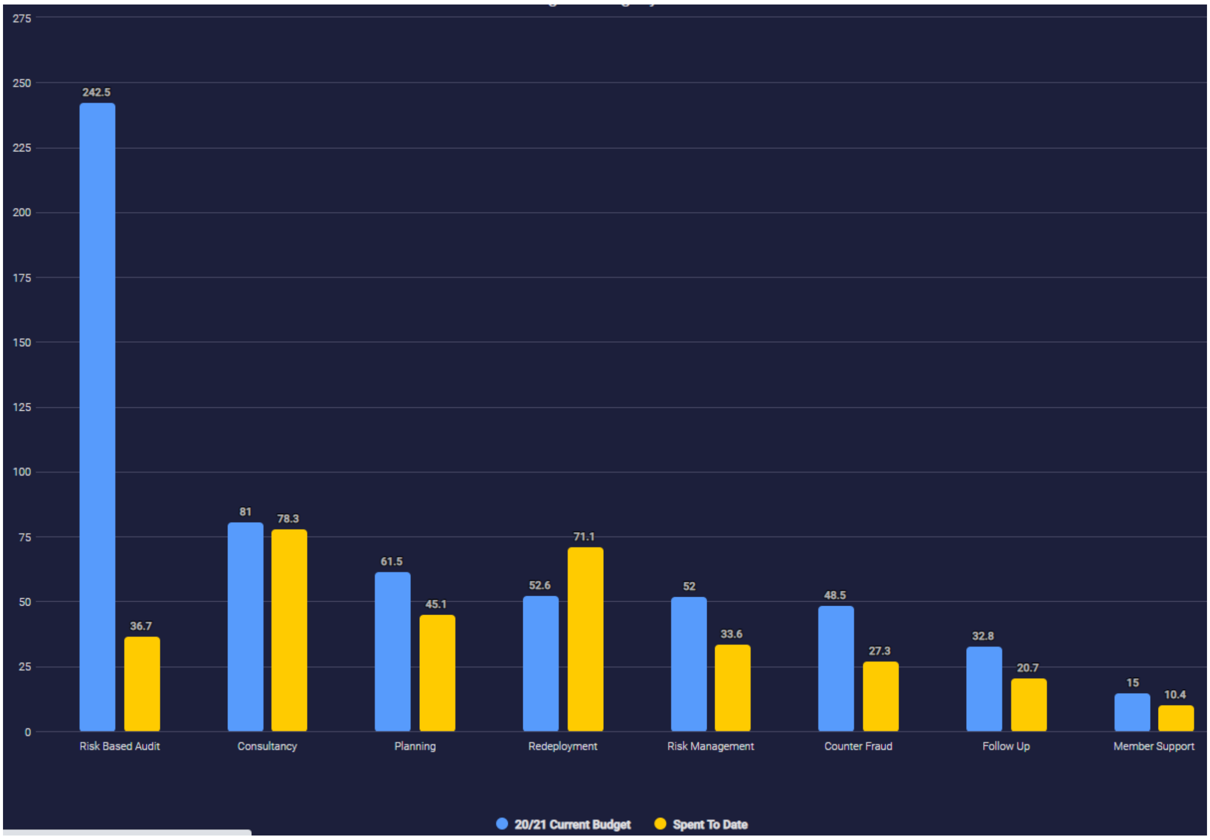
9. We reported in our plan presented to this Committee in March 2020 an assessment on the resources available to the audit partnership for completing work at the Council. That review decided:

   …we believe we have enough resource to deliver the 2020/21 plan

10. Since that plan we, and everyone else, have seen significant disruption from the Covid-19 pandemic. We set out a changed plan to this Committee in **September** which included updated resource need.

11. Since then CIPFA have published guidance on "limitation of scope" opinions. These apply where an audit service reaches year end having been unable to gather enough information to support a definitive opinion. This includes the sensible guidance that Heads of Audit should quickly communicate such a possibility.

12. The graph below shows the number of audit days dedicated to various types of work across Maidstone and Shared Services for the audit period to date 2021/21 (June to early December 2020). Note the graph will not reconcile direct to the table later in this report, as the chart takes Shared Services days in full whereas the table apportions them between partners (so, for example, we allocate ⅓ day to Maidstone for projects examining the shared ICT service).



13. The chart demonstrates the pressures which have focussed our attention away from audit work so far. In particular, in response to requests from Senior Management, we have devoted around 100 more days to this point than expected towards consultancy and redeployment support than our budgets anticipated. Since the summer, that work has focused on supporting the Revenues & Benefits service in conducting fraud and error checks on grants to support local businesses suffering financial loss during lockdown. This has inevitably delayed the full beginning of programmed audit work; I include a summary below of what progress we have made so far.

14. I have raised this matter with Maidstone Corporate Leadership Team through the Mid Kent Services Director. I'm pleased to report to Members we have agreed for backfill funding not drawn from existing Council resources.

15. This funding will enable us to both continue supporting business grant payments and progress our audit programme to conclusion. It will mean a significantly larger proportion of our work than usual goes to external contractors, including some working overseas.

16. However, we have good contacts and strong contractual relationships with our suppliers so I remain confident we can deliver the work efficiently and effectively.

17. On that basis, I continue to believe we have enough resources available to us to deliver the 2020/21 audit plan and provide a robust opinion at year end. I will, following the guidance, report quickly to Senior Management and Members if I have any concerns that forecast will change.

Audit Plan Progress: Closing 2019/20

18. In July, there were a few audit engagements approaching completion that did not finish in time for Committee deadlines. For three of these (Noise Nuisance, Planning Discharge Conditions and Waste Crime Team) I was able to set out conclusions based on our issued draft reports. I can confirm to Members that the now issued final reports made no changes to the reported findings.

19. We had one report (Members Allowances) that had not reached draft report stage. We set out below our summary findings for that remaining work. As expected, none produced significant concerns that would alter the opinion or demand separate reporting.

Members' Allowances (November 2020)

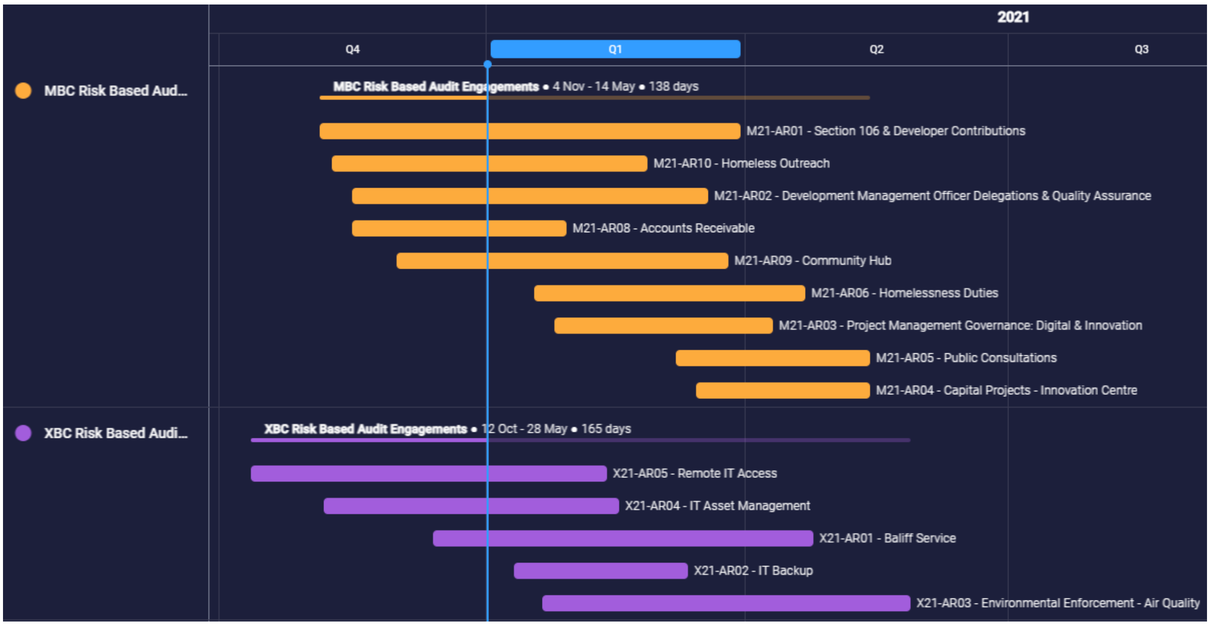
20. The Council's Members Allowance Scheme (the Scheme) is set out at Part 5 of the Council's Constitution and gives a clear description of what expenses are eligible to be claimed. Members are also given guidance on how to claim expenses upon induction to the Council and a standardised claim form is available.

21. We found that 7 of the 10 claims we tested were appropriately completed, supported by evidence of expenditure and eligible for the scheme. The remaining 3 had a combination of errors such as claiming for expenses not included in the scheme, not providing evidence of the expenditure or no signed declaration. The total amount paid as a result of these claims was less than £100.

- **Finding Summary:** 2 x Low priority

Audit Plan Progress: Beginning 2020/21

22. We have made a start on the plan approved in September, making progress towards delivering the opinion by year end. The chart below shows expected progress:



23. The table below also summarises (up to beginning of December) current days on audit plan progress, with forecast position later in the year.

Plan Area	Plan Days	Actual to Dec-20	Forecast to May-21
Risk Based Audits	218	58	228
Governance	112	60	96
Consultancy	80	69	72
Total	**410**	**187**	**396**
Redeployment	0	71	105
Total MKA Time	**410**	**288**	**501**

24. We will keep these forecasts and plans under review, especially if there need to be any further redeployment demands on the audit team.

Agreed Actions Follow Up Results

25. Our approach to agreed actions is that we follow up each as it falls due in line with the plan agreed with management when we finish our reporting. We report progress on implementation to Corporate Leadership Team each quarter. This includes noting any matters of continuing concern and where we have revisited an assurance rating (typically after addressing key actions). In total, we summarise in the table below the current position on following up agreed actions:

Project	Total	High Priority	Medium Priority	Low Priority
Actions brought into 2020/21	34	3	11	20
New actions agreed in 2020/21	45	5	11	29
Total Actions Agreed	**79**	**8**	**22**	**49**
Fulfilled by 30 November 2020	54	3	15	36
Actions cfwd past 30 November 2020	**25**	**5**	**7**	**13**
Not Yet Due	14	2	3	9
Delayed but no extra risk	11	3	4	4
Delayed with risk exposure	0	0	0	0

Audit Quality and Improvement

Code of Ethics

26. This Code applies specifically to internal auditors, though individuals within the team must comply with similar Codes for their own professional bodies. The Standards also direct auditors in the public sector to consider the Committee on Standards in Public Life's *Seven Principles of Public Life* (the "Nolan Principles").

27. We have included the Code within our Audit Manual and training for some years. We also have policies and guidance in place on certain specifics, such as managing and reporting conflicts of interest.

28. We can report to Members we remain in conformance with the Code.

Public Sector Internal Audit Standards & External Quality Assessment

29. In July we reported to Members we had achieved a second successive **fully conforming** conclusion in an External Quality Assessment. The Assessment included a few recommendations for us to consider. The table below summarises our progress:

Recommendation	Current Position
Statement limiting distribution and use of audit reports	We've included a statement (wording agreed with CIPA) on our standard 20/21 reporting template. **Complete**
Conforms to IPPF Statement	Template amended as above. **Complete**
Enhance declaration of interest forms for audit staff	New form completed, rolled out to team in January 2021. **Complete**
Expand use of data analytics	Have identified possible approaches in 20/21 plan and opened discussions with tool suppliers. **In progress**
Provide greater comparative insight for clients	Have identified joint audits for 20/21 and will look to publish cross-partnership reports on select topics. **In progress**
Renew collaboration agreement	Have re-started discussions among partners and Director to clarify expectations of new agreement. **In progress**

Assurance Ratings Consultation

30. During our Assessment we had reviewed our *Quality Assurance and Improvement Plan*. A core part of this is that we periodically revisit features of how we work to consider whether they remain effective or could bear improvement.

31. This consideration includes, currently, our assurance rating structure. We have had the current structure in place since 2014/15 and so, after seven years in service, we believe a review of possible alternatives is timely.

32. We have a survey available to complete at this link and welcome views on what people want to see from our reporting. We are working towards bringing forward a new proposal (or reaffirming the current approach) as part of our 2021/22 audit plan next spring.

Acknowledgements and Qualifications

33. 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.

34. 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.

35. In particular we continue to support our staff in gaining professional qualifications.

36. In August, one of our Senior Auditors, Andy Billingham passed the final exam required to become a Certified Internal Auditor (CIA). Additionally, our two apprentices continue to make good progress on their qualifications. Cath Byford has passed a further Birmingham City University (BCU) exam and Katie Bucklow has passed both a BCU exam and part 1 of the CIA program.

37. I'm also pleased to confirm last month, Maidstone's audit manager Jen Warrillow was successful at the final stage of the Chartered Internal Auditor qualification and is now eligible to apply as a Chartered Member of the Institute of Internal Audit. Through her hard work and perseverance Jen was able to finish the year with the qualification having begun it with promotion to a manager role.

38. Jen's success means that all four members of the Management Team hold Chartered qualifications that enable them to act as Chief Audit Executives under the Standards.

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

AUDIT, GOVERNANCE & STANDARDS COMMITTEE	18th January 2021

Treasury Management, Investment and Capital Strategies 2021/22

Final Decision-Maker	Council
Lead Head of Service	Ellie Dunnet – Head of Finance
Lead Officer and Report Author	John Owen – Finance Manager
Classification	Public
Wards affected	All

Executive Summary

This report sets out the draft Treasury Management Strategy, Investment Strategy and Capital Strategy for 2021/22 for consideration by the Audit, Governance & Standards Committee and recommendation to Council for adoption. The strategies are attached as Appendices A-C to this report.

Purpose of Report

This report requires discussion from the Committee.

This report makes the following recommendations to this Committee:

1. That the Treasury Management Strategy for 2021/22 attached as Appendix A to this report is agreed and recommended to Council for adoption, along with increased counterparty limits, subject to any amendments arising from consideration of the Capital Programme by Policy and Resources Committee at its meeting on 20th January 2021.
2. That the Investment Strategy for 2021/22 attached as Appendix B to this report is agreed and recommended to Council for adoption.
3. That the Capital Strategy for 2021/22 attached as Appendix C to this report is agreed and recommended to Council for adoption.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	18th January 2021
Policy & Resources Committee	20th January 2021
Council	24th February 2021

Treasury Management, Investment and Capital Strategies 2021/22

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.	Head of Finance
Cross Cutting Objectives	The report recommendations support the achievements of the cross cutting objectives embedded within the Strategic Plan.	Head of Finance
Risk Management	Covered in Section 5 of this report.	Head of Finance
Financial	This report relates to the financial activities of the Council in respect of Treasury Management and specific financial implications are therefore detailed within the body of the report.	Section 151 Officer & Finance Team
Staffing	None.	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.	Principal Solicitor (Corporate Governance), MKLS
Privacy and Data Protection	None.	Policy and Information Team
Equalities	The recommendations do not propose a change in service delivery therefore will not	Equalities and

	require an Equalities Impact Assessment (EIA).	Corporate Policy Officer
Public Health	The recommendations will not negatively impact on population health or that of individuals.	Public Health Officer
Crime and Disorder	None.	Head of Finance
Procurement	None.	Head of Finance

2. INTRODUCTION AND BACKGROUND

2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year must meet cash expenditure. The Treasury Management Strategy assists the Council in achieving this objective while maintaining value for money.

2.2 The first function of the Council's Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2.3 The second function of the Treasury Management operation is the funding of the Council's capital plans. The capital plans provide a guide to the borrowing need of the Council, so this means longer term cash flow planning to ensure that the Council can meet its capital spending obligations. The management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.

2.4 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).

2.5 CIPFA defines Treasury Management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.6 The current 2020/21 Treasury Management Strategy (TMS) was reviewed by this Committee and agreed by Council in February 2020. The current Strategy is primarily 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; and

- Further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments is considered. Greater use of local authority investments will be used where the borrowers offer a high level of security.

2.7 A mid-year monitoring report was considered by this Committee at its November 2020 meeting. Essentially the Council is taking a similar stance with its Strategy for 2021/22, however as cash balances will be fully utilised by the end of 2020/21, the Council will be looking to its borrowing options, which will include long term as well as short term. This will spread the risk of refinancing and to lock the Council into a low long-term rate especially when rates are so low.

2.8 The Treasury Management Strategy for 2021/22 is set out at **Appendix A** to this report. It is consistent with the requirements of the CIPFA and MHCLG and has been developed in line with currently approved spending and financing proposals.

2.9 CIPFA revised the 2011 edition of the Code in 2017, which ensures that local authorities also take into account the risks involved with non-treasury investments. CIPFA have therefore recommended that authorities development an Investment Strategy – **Appendix B** and a Capital Strategy - **Appendix C** which set out the Council's risk appetite and specific policies and arrangements for non-treasury investments.

2.10 The three strategy documents are linked and support the overall Medium Term Financial Strategy (MTFS), alluding to the risk appetites around capital investment priorities and funding decisions including borrowing. Below is an illustration of how these documents are linked:

Table A.

MTFS – covers governance, long term plans and financial resourcing

TM Strategy
- Governance
- Long term Planning incl. MRP
- Risk appetite, key risks and sensitivities

Investment Strategy
- Approach, due diligence, risk appetite
- Governance process for approval and monitoring]
- Summary of material investments, guarantees and liabilities

Capital Strategy

2.11 Current Treasury Management investments as at 31st December 2020 total £24.19m. A list of these can be found within **Appendix D**.

2.12 The Council has short term borrowings of £9m with other local authorities to fund its capital programme, which is likely to increase in 2021/22. A list of these can also be found within **Appendix D**. Although the Council had cash in hand as at 31 December, most of this relates to grants to business and individuals in relation to COVID-19 and cash which has to be paid in respect of the business rates pool and precepts.

2.13 The existing Treasury Management Strategy provided approval for a range of sources of borrowing, including the Public Works Loan Board. As PWLB rates have dropped 100bps for non-commercial activities, this may well be a good source of funding for the Council, however other options will be explored, like Municipal Bonds Agency and corporate markets, to see what the best fit is for the Council.

2.14 The Policy & Resources Committee will consider a capital programme for the period 2021/22 to 2025/26 at its meeting on 20th January 2021. The attached Strategy includes assumptions about the Capital Programme and it is not anticipated that the Capital Programme as finally agreed will differ significantly from these.

2.15 The following table shows the expected borrowing required to fund the draft capital programme. Internal borrowing will be fully utilised within 2020/21 programme, with the only internal sources of funding being New Homes Bonus and small capital receipts.

	2021/22 £m	**2022/23 £m**	**2023/24 £m**
Capital Programme	57.000	30.404	17.746
External Funding Streams	(6.524)	(0.850)	(0.850)
Internal Funding Including Revenue Funding & MRP	(5.012)	(2.410)	(2.241)
Expected Borrowing	45.464	27.144	14.655

2.16 **Revenue Funding**

The strategy proposes the application of £3.8m New Homes Bonus and £0.139m Lower Tier Services Grant to fund the capital programme. This is supplemented by other revenue funding of £1.02m.

Initial considerations on the medium term financial strategy for 2021-22 onwards had allowed for New Homes Bonus to be used to support the revenue budget, given the significance of the expected budget gap for the next financial year.

This strategy reflected previous forecasts of a significant reduction in reserves arising from financial impacts of the pandemic during 2020/21, and sought to mitigate further reductions in the general fund balance through use of New Homes Bonus to support the revenue budget. More recent forecasts indicate that it will be possible to largely offset the financial impacts of Covid-19 during the current financial year through additional government funding.

It is therefore proposed that next year's allocation of New Homes Bonus and the Lower Tier Services Grant be used to fund the capital programme in order to minimise borrowing and the revenue costs associated with this. This follows the approach which the Council has taken to applying this resource in previous years.

This is subject to the requirement to cover any shortfall in next year's revenue budget from other revenue resources including New Homes Bonus.

2.17 **Increased Counterparty Limits**

It is being proposed that the current counterparty limits are increased from the previous year to be effective immediately. Current limits have served their purpose in ensuring the levels of funding lent to each counterparty is not excessive and reduces the exposure to loss if an institution were to fall into financial difficulty. However, due to tightening of financial regulations for financial institutions, they are now better placed to withstand losses.

It has been highlighted in 2020/21 that, with the increased funding local authorities have received from Central Government in respect of COVID-19, placement of short term funding within these limits has been an issue. This is due to the delay between receiving funding and making payments to eligible bodies. In the meantime, funds have to be securely held until the time they are due for payment. Increasing the limits on money market funds and highly rated banks which are used for instant access/short term notice would help alleviate this issue without the risk of placing funds with a lower rated counterparty or sovereignty. The following changes are proposed:

	Colour (and long term rating where applicable)	***Previous Limit***	***Amended Limit***
Banks *	***yellow***	***£5m***	***£8m***
Banks	***purple***	***£5m***	***£7m***
Banks	***orange***	***£3m***	***£5m***
Banks – part nationalised	***blue***	***£3m***	***£5m***
Banks	***red***	***£3m***	***£5m***
Banks	***green***	***£1m***	***£3m***
	Fund rating**	***Money Limit***	***Transaction limit***
Money Market Funds CNAV	***AAA***	***£8m***	***£10m***
Money Market Funds LVNAV	***AAA***	***£8m***	***£10m***
Money Market Funds VNAV	***AAA***	***£8m***	***£10m***

Investment Strategy

2.18 The Investment Strategy focuses on service investments (supporting local services by lending or buying shares) and non-treasury investments.

2.19 The Council has made third party loans to Kent Savers for £25,000 in 2017/18 which is repayable in 2022/23 at an interest rate of 1% and a loan to Cobtree Manor Estates Trust has been agreed in 2019/20 for £323,000 repayment over 5 years at an annual interest rate of 3%. A loan to Maidstone Property Holdings Limited may also be offered in the near future in relation to refurbishment of rental properties for which the interest rate applicable would be at commercial rates. There is a provision for this service loans of £1 million.

2.20 The Council does not currently have any investments in property that are considered to be purely commercial in nature. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects.

Capital Strategy

2.21 The capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

2.22 The strategy forms part of the Council's integrated revenue, capital and balance sheet planning and requires annual approval by full Council. It sets out the long term context in which capital expenditure and investment decisions are made, and considers risk, reward and impact on the achievement of the Council's priority outcomes identified within the strategic plan.

2.23 The strategy for 2021/22 is an update with the latest capital proposal plans for the Council subject to review.

---

3. AVAILABLE OPTIONS

3.1 **Option 1:** The Committee could decide not to recommend the strategies to Council. The Council must adopt strategies for 2021/22 and should the Committee decide not to recommend it would need to recommend an alternative to Council. The strategies are in line with the necessary codes and practice guides and take a low risk approach favouring liquidity and security over return. As such the approach set out within the strategy is considered suitable for this Council.

3.2 **Option 2:** Subject to any legal obligations placed upon the Council, the Committee could amend the strategies prior to recommendation to Council.

The Committee would need to provide Council with detailed reasons for the amendments and the risks and benefits that the proposed amendments provide in order for the Council to make a fully informed decision on the recommendation.

3.3 **Option 3:** The Committee could agree the attached strategies and recommend them to Council. The attached strategies have been produced in line with current guidance from CIPFA and the Ministry of Housing for Communities and Local Government (MHCLG). They have also been developed in line with advice and guidance from the Council's Treasury Management Advisors.

---

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The recommended option is Option 3, to recommend to Council the Treasury Management Strategy, Investment Strategy and the Capital Strategy for 2021/22.

---

5. RISK

5.1 Detailed risk management policies are included within the Treasury Management Practices and have been included in both investment strategies and capital strategies to which the Council adheres . 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 will 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 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 than have been budgeted for. This risk is mitigated by borrowing and lending on a fixed rate basis. The Council will also 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.

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 income than have been budgeted for. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency 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, e.g. brokers, Treasury Management Consultants and other local Authority experience to determine the credit worthiness of an institution and to decide if funds are at risk and agree best course of action with Director of Finance & Business Improvement.

Refinancing Risk - Refinancing risk is the risk that when loans or other forms of capital financing mature, that they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets. The Council currently borrows to fund a portion of its capital programme and will continue to do so 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 shall 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.

Risk Appetite – The Council takes a slightly higher risk with its non-treasury investments compared to its treasury management investments due to the fact that treasury investments are mainly maintaining funds in high security instruments for when they are required and non-treasury decisions are for service delivery where there is a different risk profile.

---

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 None.

---

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 This report will be considered by Council at its meeting on 24th February 2021.

---

8. REPORT APPENDICES

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

- Appendix A: Treasury Management Strategy
- Appendix B: Investment Strategy
- Appendix C: Capital Strategy
- Appendix D: Investment and Borrowing Position as at 31st December 2020.

---

9. BACKGROUND PAPERS

9.1 None.

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2021/22

INDEX

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure) and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy objectives usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- The debt related to the activity and the associated interest costs;
- The payback period (MRP policy);
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.

If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.

To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

The draft Capital Strategy for 2021/22 is also being reviewed at Audit Governance & Standards Committee on 18th January 2021.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

The following reports are not required to be approved by Council but are to be reported and scrutinised to the relevant Committee. The Council has delegated this function to the Audit, Governance and Standards Committee.

b. A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

A quarterly update on the Council's treasury management position is also provided through budget monitoring reports presented to Policy & Resources Committee.

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training has been planned for Members prior to the Audit Governance and Standards Committee meeting on the 18th January 2021. The Council's Treasury Advisors, Link Asset Services, will be providing this training with reference to this Strategy.

Staff regularly attend training courses, seminars and conferences provided by the Council's Treasury Consultants and CIPFA. Relevant staff are also encouraged to study professional qualifications delivered by CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Staff training needs are assessed regularly both as part of the appraisal process and when the responsibilities of individual members of staff change.

1.5 Treasury management consultants

The Council uses Link Asset Services, Treasury solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2020/21 – 2025/26

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
27.810	51.897	25.707	17.646	19.608	14.553

The Council does not currently have any investments in property that are considered to be purely commercial in nature. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects and are included within the above figures.

The Council may potentially lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. However, there are no future plans to do this.

The table below shows how capital expenditure is being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	3.602	0.000	0.000	0.000	0.000	0.000
Capital grants	5.999	6.524	0.850	0.850	0.850	0.850
Capital reserves	0.000	0.000	0.000	0.000	0.000	0.000
Revenue	5.481	5.012	2.410	2.241	2.253	2.273
Net financing need for the year	**12.728**	**40.361**	**22.447**	**14.555**	**16.505**	**11.430**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £2.5m relating to Serco Pasia within the CFR.

The Council is asked to approve the CFR projections below:

£m	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement						
Total CFR	52.408	91.486	111.903	123.931	137.443	145.555
Movement in CFR	**12.276**	**39.078**	**20.417**	**12.028**	**13.512**	**8.111**

Movement in CFR represented by						
Net financing need for the year	12.728	40.361	22.447	14.555	16.505	11.430
Less MRP/VRP and other financing movements	-0.452	-1.284	-2.030	-2.527	-2.992	-3.318
Movement in CFR	**12.276**	**39.078**	**20.417**	**12.028**	**13.512**	**8.111**

2.3 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream (revenue budget). This is shown as a percentage of the budget and as a value of the revenue budget.

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Interest Paid £000	40	726	1,108	1,355	1,669	1,886
Interest Received £000	-35	-50	-80	-80	-100	-100
Net Revenue Exp £000	21,287	21,137	21,322	22,201	23,106	24,037
%	0.02	3.20	4.82	5.74	6.79	7.43

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Cost of Borrowing	0.005	0.676	1.028	1.275	1.569	1.786

The estimates of financing costs include current commitments and the proposals in this budget report.

2.4 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- Asset life method – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction).

These options provide for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual PFI or finance leases are applied as MRP.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31st December 2019 is shown below.

Date	Ref	Lender	Amount £m	Rate %	Start	End
20/11/2020	071	London Borough of Tower Hamlets	4.000	0.10	20/11/2020	20/05/2021
30/12/2020	72	Bridgend County BC	3.000	0.12	30/12/2020	30/06/2021
30/12/2020	73	Warwick District Council	2.000	0.12	30/12/2020	30/06/2021
		TOTAL	**9.000**			

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£m	2020/21 Forecast	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt						
Debt at 1 April	11.000	8.997	49.378	71.856	86.439	102.657
Expected change in Debt	-2.000	40.361	22.447	14.555	16.505	11.430
Other long-term liabilities (OLTL)	2.527	2.010	1.473	0.905	0.309	0.000
Expected change in OLTL	-0.520	-0.517	-0.537	-0.568	-0.596	-0.309
Actual gross debt at 31 March	**11.007**	**50.851**	**72.761**	**86.748**	**102.657**	**113.778**
The Capital Financing Requirement	**52.408**	**91.486**	**111.903**	**123.931**	**137.443**	**145.555**
Under / (over) borrowing	**41.401**	**40.634**	**39.142**	**37.183**	**34.787**	**31.777**

As stated above, the Council's CFR is its underlying capital borrowing need. This looks at all the assets the Council currently owns that will require replacing in the future, plus the capital programme for the year, both which are yet to be financed. The large under borrowing position is due to assets that are not required for replacement.

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Finance and Business Improvement reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Ext Borrowing	14.000	46.070	65.010	76.130	89.330	97.440
Other LT Liab	2.527	2.010	1.473	0.905	0.309	0.000
Total	16.527	48.080	66.483	77.035	89.639	97.440

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Ext Borrowing	34.000	66.070	85.010	96.130	109.330	117.440
Other LT Liab	2.527	2.010	1.473	0.905	0.309	0.000
Total	36.527	68.080	86.483	97.035	109.639	117.440

3.3 Prospects for interest rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view and incorporates the PWLB review which have reduced all previous rates by 1%. These are forecasts for certainty rates, gilt yields plus 80bps which is expected to be the Council's effective cost of borrowing:

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its subsequent meetings to 5th November, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected as economic recovery is expected to be only gradual and, therefore, prolonged.

Gilt yields / PWLB rates

There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up during the financial crisis in March, we have seen these yields fall sharply to unprecedented lows as investors panicked during March in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply. Gilt yields and PWLB rates have been at remarkably low rates so far during 2020/21.

As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

Investment and borrowing rates

Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. It also introduced the following rates for borrowing for different types of capital expenditure: -

- PWLB Standard Rate is gilt plus 200 basis points (G+200bps)
- PWLB Certainty Rate is gilt plus 180 basis points (G+180bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)

- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

Borrowing for capital expenditure

As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. The Council will be looking for a mix of longer and shorter term borrowing to spread its risk of refinancing against lower borrowing costs.

While this authority will not be able to avoid borrowing to finance new capital expenditure, to replace maturing debt and the rundown of reserves, there will be a cost of carry, to ny new borrowing that is not used to finance new capital expenditure or to replace maturing debt would cause a temporary increase in cash balances and incur a revenue cost. This is termed a 'cost of carry' and the authority would normally seek to minimise this cost.

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Director of Finance and Business Improvement will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the Audit Governance and Standards Committee body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated, and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Approved Sources of Long and Short term Borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	

Medium Term Notes	●	
Finance leases	●	●

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex

instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
6. **Transaction limits** are set for each type of investment in 4.2.
7. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
9. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
10. All investments will be denominated in **sterling**.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.

The above criteria is unchanged from last year.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- "watches" and "outlooks" from credit rating agencies;
- CDS spreads that may give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link Asset Services' creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, as well as information on any external support for banks to help support its decision making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long term rating where applicable)	Money Limit	Transaction limit	Time Limit
Banks *	**yellow**	**£8m**	**£8m**	**5yrs**
Banks	**purple**	**£7m**	**£7m**	**2 yrs**
Banks	**orange**	**£5m**	**£5m**	**1 yr**
Banks – part nationalised	**blue**	**£5m**	**£5m**	**1 yr**
Banks	**red**	**£5m**	**£5m**	**6 mths**
Banks	**green**	**£3m**	**£3m**	**100 days**
Banks	**No colour**	**Not to be used**	**£0m**	
Other institutions limit	**-**	**£m**	**£3m**	**5yrs**
DMADF	**UK sovereign rating**	**unlimited**	**£5m**	**6 months**
Local authorities	**n/a**	**£8m**	**£8m**	**5yrs**
Housing associations	**Colour bands**	**£8m**	**£8m**	**As per colour band**

	Fund rating**	Money Limit	Transaction limit	Time Limit
Money Market Funds CNAV	**AAA**	**£10m**	**£10m**	**liquid**
Money Market Funds LVNAV	**AAA**	**£10m**	**£10m**	**liquid**
Money Market Funds VNAV	**AAA**	**£10m**	**£10m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.25	**Dark pink / AAA**	**£8m**	**£8m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.50	**Light pink / AAA**	**£8m**	**£8m**	**liquid**

** Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt –see appendix 5.4.*
*** Please note: "fund" ratings are different to individual counterparty ratings, coming under either specific "MMF" or "Bond Fund" rating criteria.*

Increased Counterparty Limits

The limits stated above have increased from the previous year's strategy due to the increased funding all local authorities have received from Central Government in respect of COVID-19. There is a delay between receiving funding to making payments to the relevant people eligible which has caused issues with the placement of short term funding. Increasing the limits on money market funds, highly rated banks which are used for instant access/short term notice would help alleviate this issue without the risk of placing funds with a lower rated counterparty or sovereignty.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Country limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 10% of the total investment portfolio when investments balances are higher, however during periods when balances are run down (e.g. year end) the limt may be higher for a small period of time.
b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign

credit rating of AA from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than 25% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered

to the population. It may also be affected by the deal UK has agreed as part of Brexit.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative investment rates

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the Debt Management Account Deposit Facility (DMADF), offer nil or negative rates for very short term maturities. This is not universal, and most MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

Changes of investment strategy

The Council is comfortable with its current strategy of keeping investments short term to meet obligations of grant funding during COVID-19 and the obligations of the capital programme.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
	2021/22	**2022/23**	**2023/24**
	£m	**£m**	**£m**
Investments in excess of 1 year maturing in each year	0	2	2

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

4.5 Investment performance / risk benchmarking

This Council uses an investment benchmark to assess the security of institutions it deposits funds with against an average score which is based on the creditworthiness of the institution.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7 External fund managers

£13.3m of the Council's funds is externally managed within Money Market Funds with following institutions:

- Goldman Sachs Asset Management International
- Aberdeen Standard Investments
- Federated Investors (UK) LLP

The Council's external fund managers will comply with the Annual Investment Strategy. The agreements between the Council and the fund managers additionally stipulate guidelines on duration and other limits in order to contain and control risk.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager.

5 APPENDICES

1. Prudential and treasury indicators and MRP statement
2. Interest rate forecasts
3. Economic background
4. Treasury Management Practice (TMP1) - Credit and Counterparty Risk Management
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2020/21 – 2022/23 AND MRP STATEMENT

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

5.1.1 Capital expenditure

2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
27.810	51.897	25.707	17.646	19.608	14.553

5.1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

5.1.3 Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Interest Paid £000	40	726	1,108	1,355	1,669	1,886
Interest Received £000	-35	-50	-80	-80	-100	-100
Net Revenue Exp £000	21,287	21,137	21,322	22,201	23,106	24,037
%	0.02	3.20	4.82	5.74	6.79	7.43

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Cost of Borrowing	0.005	0.676	1.028	1.275	1.569	1.786

The estimates of financing costs include current commitments and the proposals in this budget report.

5.1.4 Maturity structure of borrowing

Maturity structure of borrowing taken in 2021/22. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

	Upper Limit %	Lower Limit %
Under 12 months	35	0
12 months to under 24 mon	100	0
24 months to under 5 years	100	0
5 years to under 10 years	100	0
10 years and within 20 year	100	0
20 years and within 30 year	100	0
30 years and within 40 year	100	0
40 years and within 50 year	65	0

5.1.5 Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 INTEREST RATE FORECASTS 2020 – 2022

Please see 3.3 of this report.

5.3 ECONOMIC BACKGROUND

The following information are the expressed views of the Council's Treasury Consultants, Link Asset Services – as at 1st December 2020

- **UK.** The Bank of England's Monetary Policy Committee kept **Bank Rate** unchanged on 5th November. However, it revised its economic forecasts to take account of a second national lockdown from 5th November to 2nd December which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at the time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022
    - The Bank also expects there to be excess demand in the economy by Q4 2022.
    - CPI inflation is therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance** in August was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase through to quarter 1 2024 but there could well be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of the elevated debt to GDP ratio falling significantly. **Inflation** is unlikely to pose a threat requiring increases in Bank Rate during this period as there is likely to be spare capacity in the economy for a considerable time. It is expected to briefly peak at around 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.
- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the

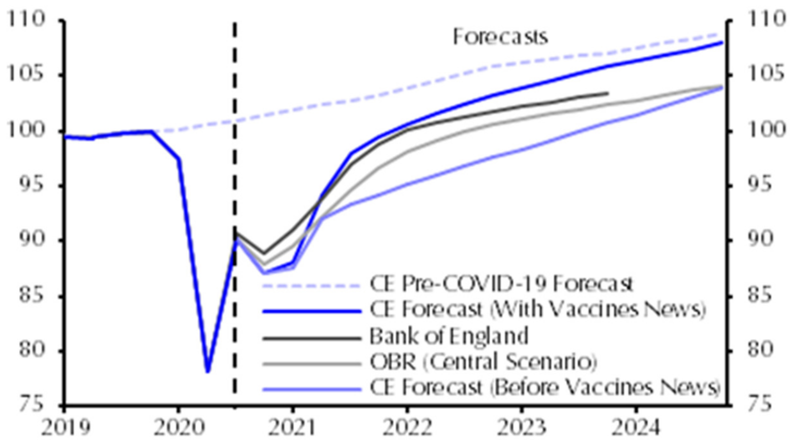
risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. That could involve some or all of the lockdown being extended beyond 2nd December, a temporary relaxation of restrictions over Christmas, a resumption of the lockdown in January and lots of regions being subject to Tier 3 restrictions when the lockdown ends. Hopefully, restrictions should progressively ease during the spring. It is only to be expected that some businesses that have barely survived the first lockdown, will fail to survive the second lockdown, especially those businesses that depend on a surge of business in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of 31st March will limit the degree of damage done.

- As for **upside risks**, we have been waiting expectantly for news that various **COVID19 vaccines** would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, their phase three trials are still only two-thirds complete. More data needs to be collected to make sure there are no serious side effects. We don't know exactly how long immunity will last or whether it is effective across all age groups. The Pfizer vaccine specifically also has demanding cold storage requirements of minus 70C that might make it more difficult to roll out. However, the logistics of production and deployment can surely be worked out over the next few months.
- However, there has been even further encouraging news since then with another two vaccines announcing high success rates. Together, these three announcements have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels, which would help to bring the unemployment rate down. With the household saving rate currently being exceptionally high, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could begin to be eased, possibly in Q2 2021, once vulnerable people and front-line workers had been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% next year instead of 9%. But while this would reduce the need for more QE and/or negative interest rates, increases in Bank Rate would still remain some years away. There is also a potential question as to whether the relatively optimistic outlook of the Monetary Policy Report was swayed by making positive assumptions around effective vaccines being available soon. It should also be borne in mind that as effective vaccines will take time to administer, economic news could well get worse before it starts getting better.

- **Public borrowing** is now forecast by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp but after a disappointing increase in GDP of only 2.1% in August, this left the economy still 9.2% smaller than in February; this suggested that the economic recovery was running out of steam after recovering 64% of its total fall during the crisis. The last three months of 2020 were originally expected to show zero growth due to the impact of widespread local lockdowns, consumers probably remaining cautious in spending, and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year also being a headwind. However, the second national lockdown starting on 5th November for one month is expected to depress GDP by 8% in November while the rebound in December is likely to be muted and vulnerable to the previously mentioned downside risks. It was expected that the second national lockdown would push back recovery of GDP to pre pandemic levels by six months and into sometime during 2023. However, the graph below shows what Capital Economics forecast will happen now that there is high confidence that successful vaccines will be widely administered in the UK in the first half of 2021; this would cause a much quicker recovery than in their previous forecasts.

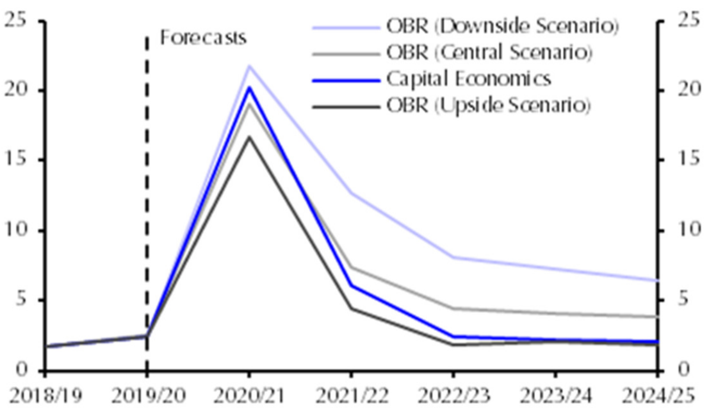
Chart: Level of real GDP (Q4 2019 = 100)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to 2% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assume that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (As a % of GDP)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

- Capital Economics have not revised their forecasts for Bank Rate or gilt yields after this major revision of their forecasts for the speed of recovery of economic growth, as they are also forecasting that inflation is unlikely to be a significant threat and so gilt yields are unlikely to rise significantly from current levels.

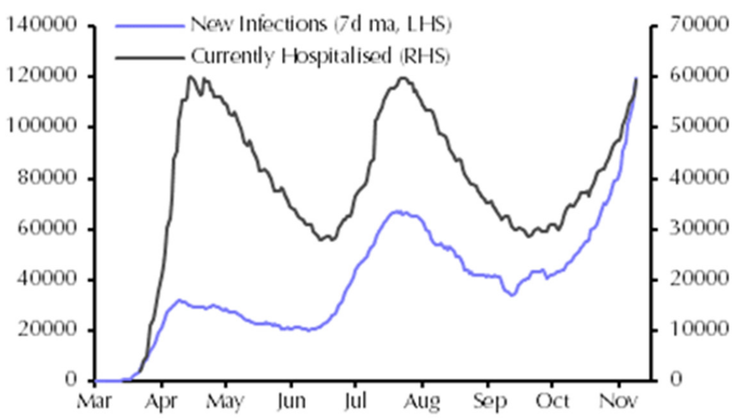
- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

- The **Financial Policy Committee** (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

US. The result of **the November elections** means that while the Democrats have gained the presidency and a majority in the House of Representatives, it looks as if the Republicans will retain their slim majority in the Senate. This means that the Democrats will not be able to do a massive fiscal stimulus, as they had been hoping to do after the elections, as they will have to get agreement from the Republicans. That would have resulted in another surge of debt issuance and could have put particular upward pressure on debt yields – which could then have also put upward pressure on gilt yields. On the other hand, equity prices leapt up on 9th November on the first news of a successful vaccine and have risen further during November as more vaccines announced successful results. This could cause a big shift in investor sentiment i.e. a swing to sell out of government debt to buy into equities which would normally be expected to cause debt prices to fall and yields to rise. However, the rise in yields has been quite muted so far and it is too early to say whether the Fed would feel it necessary to take action to suppress any further rise in debt yields. It is likely that the next two years, and possibly four years in the US, could be a political stalemate where neither party can do anything radical.

The economy had been recovering quite strongly from its contraction in 2020 of 10.2% due to the **pandemic** with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a third wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the latest wave has been driven by a growing outbreak in the Midwest. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 New infections & hospitalisations



However, with the likelihood that highly effective vaccines are going to become progressively widely administered during 2021, this should mean that life will start to return to normal during quarter 2 of 2021. Consequently, there should be a sharp pick-up in growth during that quarter and a rapid return to the pre-pandemic level of growth by the end of the year.

After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal. The Fed's meeting on 5 November was unremarkable - but at a politically sensitive time around the elections.

EU. The economy was recovering well towards the end of Q2 and into Q3 after a sharp drop in GDP caused by the virus, (e.g. France 18.9%, Italy 17.6%). However, growth is likely to stagnate during Q4, and Q1 of 2021, as a second wave of the virus has affected many countries, and is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the worst affected countries. With inflation expected to be unlikely to get much above 1% over the next two years, the ECB has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. It is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support from governments. The current PEPP scheme of €1,350bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, the PEPP scheme is regarded as being a temporary measure during this crisis so it may need to be increased once the first PEPP runs out during early 2021. It could also decide to focus on using the Asset Purchase Programme to make more monthly purchases, rather than the PEPP scheme, and it does have other monetary policy options.

However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle during the closing and opening quarters of this year and next year respectively before it finally breaks through into strong growth in quarters 2 and 3. The ECB will now have to review whether more monetary support will be required to help recovery in the shorter term or to help individual countries more badly impacted by the pandemic.

China. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies.

However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

Japan. Japan's success in containing the virus without imposing draconian restrictions on activity should enable a faster return to pre-virus levels of output than in many major economies. While the second wave of the virus has been abating, the economy has been continuing to recover at a reasonable pace from its earlier total contraction of 8.5% in GDP. However, there now appears to be the early stages of the start of a third wave. It has also been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. There has also been little progress on fundamental reform of the economy. The change of Prime Minister is not expected to result in any significant change in economic policy.

World growth. While Latin America and India have, until recently, been hotspots for virus infections, infection rates have begun to stabilise. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of

Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

The graph below as at 10th November, shows how the 10 and 30 year gilt yields in the UK spiked up after the Pfizer vaccine announcement on the previous day, (though they have levelled off during late November at around the same elevated levels): -

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 are predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. However, as the differences between a Brexit deal and a no deal are not as big as they once were, the economic costs of a no deal have diminished. The bigger risk is that relations between the UK and the EU deteriorate to such an extent that both sides start to unravel the agreements already put in place. So what really matters now is not whether there is a deal or a no deal, but what type of no deal it could be.

The differences between a deal and a no deal were much greater immediately after the EU Referendum in June 2016, and also just before the original Brexit deadline of 29.3.19. That's partly because leaving the EU's Single Market and Customs Union makes this Brexit a relatively "hard" one. But it's mostly because a lot of arrangements have already been put in place. Indeed, since the Withdrawal Agreement laid down the terms of the break-up, both the UK and the EU have made substantial progress in granting financial services equivalence and the UK has replicated the bulk of the trade deals it had with non-EU countries via the EU. In a no deal in these circumstances (a "cooperative no deal"), GDP in 2021 as a whole may be only 1.0% lower than if there were a deal. In this situation, financial services equivalence would probably be granted during 2021 and, if necessary, the UK and the EU would probably rollover any temporary arrangements in the future.

The real risk is if the UK and the EU completely fall out. The UK could override part or all of the Withdrawal Agreement while the EU could respond by starting legal proceedings and few measures could be implemented to mitigate the disruption on 1.1.21. In such an "uncooperative no deal", GDP could be 2.5% lower in 2021 as a whole than if there was a deal. The acrimony would probably continue beyond 2021 too, which may lead to fewer agreements in the future and the expiry of any temporary measures.

Relative to the slump in GDP endured during the COVID crisis, any hit from a no deal would be small. But the pandemic does mean there is less scope for policy to respond. Even so, the Chancellor could loosen fiscal policy by about £10bn (0.5% of GDP) and target it at those sectors hit hardest. The Bank of England could also prop up demand, most likely through more gilt and corporate bond purchases rather than negative interest rates.

Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

So in summary there is not likely to be any change in Bank Rate in 20/21 – 21/22 due to whatever outcome there is from the trade negotiations and while there will probably be some movement in gilt yields / PWLB rates after the deadline date, there will probably be minimal enduring impact beyond the initial reaction.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population. It may also be affected by what, if any, deal the UK agrees as part of Brexit.

- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **UK** - further national lockdowns or severe regional restrictions in major conurbations during 2021.
- **UK / EU trade negotiations** – if they were to cause significant economic disruption and downturn in the rate of growth.
- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU. In November, Hungary and Poland threatened to veto the 7 year EU budget due to the inclusion of a rule of law requirement that poses major challenges to both countries. There has also been a rise in anti-immigration sentiment in Germany and France.

- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK -** a significant rise in inflationary pressures. These could be caused by an uncooperative Brexit deal or by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population which leads to a resumption of normal life and a return to full economic activity across all sectors of the economy.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

Post-Brexit – if a positive agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.

5.4 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 25% will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**£ limit per institution**	**Max. maturity period**
DMADF – UK Government	yellow	£8m	6 months (max. is set by the DMO*)
UK Government gilts	yellow	£8m	5 years
UK Government Treasury bills	yellow	£8m	364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	yellow	£8m	5 years
Money Market Funds CNAV	AAA	£10m	Liquid
Money Market Funds LNVAV	AAA	£10m	Liquid
Money Market Funds VNAV	AAA	£10m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	£8m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	£8m	Liquid
Local authorities	yellow	£5m	5 years

Term deposits with housing associations	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	£5m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	£8m	

* DMO – is the Debt Management Office of H.M.Treasury

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Use of external fund managers – It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council's investment strategy. The fund managers the Council currently engages with are for Money Market Funds and Enhanced Cash Funds.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager.

5.5 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link Asset Services credit worthiness service.

Based on lowest available rating

AAA
Australia
Denmark
Germany
Luxembourg
Netherlands
Norway
Singapore
Sweden
Switzerland

AA+
Canada
Finland
U.S.A.

AA
Abu Dhabi (UAE)
France

AA-
Belgium
Hong Kong
Qatar
U.K.

5.6 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Audit Governance & Standards Committee/ Policy & Resources Committee /Full Council

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Governance & Standards Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.7 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;

- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;

- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;

- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Investment Strategy

Maidstone Borough Council
2020/21

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £10.8m and £30m during the 2020/21 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority’s policies and its plan for 2020/21 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council lends money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. The Council has made loans to Kent Savers for £25k in 2017/18 which is repayable in 2022/23 at an interest rate of 1% and an interest free loan to One Maidstone CIC Limited with a current amount owing of £36,000 as at 31st March 2020. A loan to Cobtree Manor Estates Trust had been agreed in 2019/20 for an amount of £323,000 repayment over 5 years at an annual interest rate of 3%. A loan to Maidstone Property Holdings Limited may also be offered in the near future in relation to refurbishment of rental properties. There is a provision for this service loans of £1 million.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2020 actual			2021/22
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries				1.000
Local businesses	0.061		0.061	0.049
Local charities	0.323		0.323	0.323
TOTAL	**0.384**	**0.000**	**0.384**	**1.372**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2019/20 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans by assessing the borrower's ability to repay the loan, based on past financial performance. This is monitored over the period of the loan in line with the agreed repayment terms.

Commercial Investments: Property

Contribution: The Council does not currently have any investments in property that are considered to be purely commercial in nature. Acquisitions are limited to properties situated within the borough, with the intention of supporting the local community, housing and regeneration objectives rather than for the exclusive purpose of generating profits. All property investments are therefore classified as general fund capital projects.

Third Party Loan Commitments and Financial Guarantees

The Authority has contractually committed to repay the loan on behalf of Serco Paisa for works to the leisure Centre which has a balance as at 31st March 2020 of £2.527m.

Capacity, Skills and Culture

Elected members and statutory officers: The Section 151 Officer has ultimate decision making powers on investment decisions and has a number of key officers with the necessary skills to assess such projects, including the

Corporate Property Manager, Head of Finance, as well as the use of external consultants.

Each project is evaluated on its affordability and prudence to bear additional future revenue cost associated with each investment. It is established if the use of new or existing revenue resources to finance capital investment over competing needs for revenue expenditure and the scope for capital investment to generate future revenue savings or income, taking into account the risks associated with each proposal.

Commercial deals: The Section 151 Officer is involved with all decision making for capital projects and is aware of the core principles of the prudential framework in regard to the following:

- *service objectives, eg strategic planning for the authority*
- *stewardship of assets, eg asset management planning*
- *value for money, eg option appraisal*
- *prudence and sustainability, eg implications for external debt and whole life costing*
- *affordability, eg implications for council tax*
- *practicality, eg achievability of the forward plan.*

Corporate governance: The investment strategy is reviewed by Audit, Governance and Standards Committee prior to approval by full Council. Investment opportunities will be considered on a case by case basis with reference to the strategy, and a mid-year report will be provided during the year to ensure that the strategy remains fit for purpose.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 2: Total investment exposure in £millions

Total investment exposure	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	11.025	3.400	2.000
Service investments: Loans	0.061	0.049	1.372
TOTAL INVESTMENTS	11.086	3.449	3.372
Commitments to lend (Serco Loan – Leisure Centre)	2.527	2.010	1.473
TOTAL EXPOSURE	13.613	5.459	4.845

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 3: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	0.000	0.000	0.000
Service investments: Loans	0.000	0.000	1.000
TOTAL FUNDED BY BORROWING	0.000	0.000	1.000

The above table does not include investments funded by borrowing which form part of the Council's capital programme. Details of this expenditure are included within the Capital Strategy.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Maidstone Borough Council's treasury management loans interest will outweigh investments, hence is why there is a negative figure forecasted for 2020/21.

Table 4: Investment rate of return (net of all costs)

Investments net rate of return	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	0.68%	-0.01%	-1.45%
Service investments: Loans	2.86%	2.86%	1.33%
ALL INVESTMENTS	0.83%	0.01%	-1.38%

MAIDSTONE BOROUGH COUNCIL

CAPITAL STRATEGY

CONTENTS

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 Council's current Strategic Plan sets out four objectives, which are 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. 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.

The current capital programme contributes towards provision of local infrastructure, and to indicate our intention to invest to unlock development and attract matching funding. Schemes including the Innovation Centre and a new Garden Community are already well underway.

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 developing 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 close to completion at Brunswick Street and Union Street and further developments are envisaged, including Springfield Mill. The Council is seeking partnerships to enable further development to take place.

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. Further funding has been provided for the provision of homes for temporary accommodation adding to the number of homes already purchased.

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. £4.98 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. In addition to investment in temporary accommodation, the Council has a successful track record of acquiring non-residential property within the borough.

Where appropriate, we will seek to achieve the necessary scale of investment by identifying external funding or partnership arrangements. 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 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 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.

Plans for the construction of a new Visitor Centre at Mote Park were put on hold in 2020/21 due to the pandemic but are expected to go ahead in 2021/22. 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 took place during 2020.

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 River Medway catchment area, to which Maidstone is contributing £1 million.

Medium Term Financial Strategy

2.3 The overall context for the MTFS leaves Council 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, we will ensure that investments in property made under the Housing Development and Regeneration Investment Plan deliver an overall income stream that will be sufficient to cover the costs of capital. This strategy provides for the Council to play an active role in accelerating housing development, thereby addressing the need for new homes in the borough.

2.5 Below is a table of the latest capital programme which will be discussed at Policy and Resources Committee on 20th January 2021.

FIVE YEAR CAPITAL PROGRAMME 2021/22 - 2025/26

	Adjusted Budget 2020/21	Five Year Plan 2021/22	2022/23	2023/24	2024/25	2025/26	Total 21/22 to 25/26
	£000	£000	£000	£000	£000	£000	£000
Disabled Facilities Grants	591	1,786	800	800	800	800	4,986
Temporary Accommodation	1,887	2,526	1,560				4,086
Brunswick Street - Net Costs	2,731						
Union Street - Net Costs	3,102						
Springfield Mill	1,807						
Granada House extension	50	1,797					1,797
Current Indicative Schemes	370	6,900	3,895	96			10,891
Affordable Housing Programme	800	1,600	3,200	6,400	9,958	9,958	31,115
Acquisitions Officer	80	80	80	80	80		320
Granada House Refurbishment Works		775					775
Medway Street Car Park	80	577	5,078	1,500			7,155
New Indicative Schemes		4,500	4,500	4,500	4,500		18,000
Russett Grove, Marden	382	1,328					1,328
Springfield Mill (Block 6)	750	2,336	195				2,531
Street Scene Investment	96	50	50	50	50	50	250
Flood Action Plan	50	550	200	200	200	150	1,300
Electric Operational Vehicles	100						
Vehicle Telematics & Camera Systems		35					35
Rent & Housing Management IT System	50						
Installation of Public Water Fountains	15						
Cemetery Chapel Repairs	230	170					170
Continued Improvements to Play Areas	123	174					174
Parks Improvements	99	50	50	50	50	50	250
Gypsy & Traveller Sites Refurbishment		1,000					1,000
Sub-total CHE	**13,392**	**26,233**	**19,608**	**13,676**	**15,638**	**11,008**	**86,162**
Mote Park Visitor Centre	20	2,773					2,773
Mote Park Lake - Dam Works	1,041	682					682
Museum Development Plan			389				389
Mall Bus Station Redevelopment	400	690					690
Sub-total ERL	**1,461**	**4,145**	**389**				**4,534**
Asset Man / Corporate Prop	437	1,486	175	175	175	175	2,186
Corporate Property Acqusition	1,983	11,833	2,500	2,500	2,500	2,500	21,833
Biodiversity & Climate Change	50	950					950
Feasibility Studies	150	50	50	50	50	50	250
Infrastructure Delivery		1,200	1,800	600	600	600	4,800
Software / PC Replacement	231	200	200	200	200	200	1,000
Digital Projects	20	20	20	20	20	20	100
Innovation Centre	5,800	4,440					4,440
Garden Community	200	340	465	425	425		1,655
Lockmeadow Ongoing Investment	4,000	1,000	500				1,500
Sub-total P & R	**12,871**	**21,519**	**5,710**	**3,970**	**3,970**	**3,545**	**38,714**
Bridges Gyratory Scheme	86						
Sub-total SPI	**86**						
Sub-total	**27,810**	**51,897**	**25,707**	**17,646**	**19,608**	**14,553**	**129,410**
Section 106 Contributions	62	44	447	58	49	242	242
TOTAL	**27,872**	**51,942**	**26,154**	**17,704**	**19,656**	**14,795**	**129,653**

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, external borrowing and third party contributions such as Section 106 payments on new developments.

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 £2.6 million for Corporate Property Improvements, based on the requirements of the Asset Management Plan.

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, provided that the scheme outcomes return a financial benefit at least equal to the revenue costs of borrowing, in addition to non-financial benefits which directly or indirectly support the objectives of the strategic plan.

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;

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 the Strategic Capital Investment 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 Procedures for the disposal of assets are outlined within the Council's Constitution.

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.

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

	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	Total £000
External sources	5,999	6,524	850	850	850	850	15,923
Own resources - incl Internal borrowing	23,811	5,012	2,410	2,241	2,253	2,273	38,000
Debt	-2,000	40,361	22,447	14,555	16,505	11,430	103,297
TOTAL	**27,810**	**51,897**	**25,707**	**17,646**	**19,608**	**14,553**	**157,221**

4.2 Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue, which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is set out below; no assumptions have been made here about capital receipts.

Table 3: Replacement of debt finance

	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000	Total £000
MRP	452	1,284	2,030	2,527	2,992	3,318	12,603
Capital receipts	3,602	0	0	0	0	0	3,602
TOTAL	**4,054**	**1,284**	**2,030**	**2,527**	**2,992**	**3,318**	**16,205**

4.3 The Council's full 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 £36.594m during 2021/22. 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

	20/21 £000	21/22 £000	22/23 £000	23/24 £000	24/25 £000	25/26 £000
Brought forward	40,132	52,408	91,486	111,903	123,931	137,443
Capital Expenditure	27,810	51,897	25,707	17,646	19,608	14,553
External funding	-5,999	-6,524	-850	-850	-850	-850
Own resources	-9,083	-5,012	-2,410	-2,241	-2,253	-2,273
MRP	-452	-1,284	-2,030	-2,527	-2,992	-3,318
TOTAL CFR	**52,408**	**91,486**	**111,903**	**123,931**	**137,443**	**145,555**

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 0.2%) and long-term fixed rate loans where the future cost is known but higher (currently 1.62 to 1.83%).

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

	31.03.21 forecast £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000
Debt (excl.PFI & leases)	9,000	49,361	71,808	86,363	102,868	114,297
Capital Financing Requirement	52,408	91,486	111,903	123,931	137,443	145,555

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.

Table 6: Borrowing and the Liability Benchmark

	31.03.21 forecast £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000
Outstanding borrowing	9,000	49,361	71,808	86,363	102,868	114,297
Liability benchmark	13,000	55,361	77,808	92,363	108,868	120,297

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

Authorised Limit

	31.03.21 forecast £m	31.03.22 budget £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m
Borrowing	34.000	66.070	85.010	96.130	109.330	117.440
Other Long Term Liabilities	2.527	2.010	1.473	0.905	0.309	0.000
Total	**36.527**	**68.08**	**86.483**	**97.035**	**109.64**	**117.44**

Operational Boundary

	31.03.21 forecast £m	31.03.22 budget £m	31.03.23 budget £m	31.03.24 budget £m	31.03.25 budget £m	31.03.26 budget £m
Borrowing	14.000	46.070	65.010	76.130	89.330	97.440
Other Long Term Liabilities	2.527	2.010	1.473	0.905	0.309	0.000
Total	**16.527**	**48.08**	**66.483**	**77.035**	**89.639**	**97.44**

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

	31.03.21 forecast £000	31.03.22 budget £000	31.03.23 budget £000	31.03.24 budget £000	31.03.25 budget £000	31.03.26 budget £000
Short-term investments	4,000	4,000	4,000	4,000	4,000	4,000
Longer-term investments	0	2,000	2,000	2,000	2,000	2,000
Total	**4000**	**6000**	**6000**	**6000**	**6000**	**6000**

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. The Audit, Governance and Standards Committee is also 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

	2020/21 forecast	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs (£m)	0.005	0.676	1.028	1.275	1.569	1.786
Proportion of net revenue stream (%)	0.023	3.199	4.820	5.744	6.789	7.430

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. KNOWLEDGE AND SKILLS

6.1 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 many 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.

6.2 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.

6.3 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.

7. RISK MANAGEMENT

7.1 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

7.2 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

7.3 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.

7.4 Typically, risks in this area would relate to funding of the capital programme and over/underspending on individual capital projects.

7.5 For all risks shown on the Budget Risk Register, appropriate controls have been identified and their effectiveness is monitored on a regular basis.

Service

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

Project

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

Appendix D

Maidstone Borough Council Investments/Borrowing as at 31st December 2020

Investments

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Interest Rate	MBC Credit Limits	
						Maximum Term	Maximum Deposit
Svenska Handelbanken	Notice Account Deposit	3,000,000			0.15%	12 Months	£3,000,000
HSBC Bank Plc	Notice Account Deposit	2,880,000			0.05%	12 Months	£3,000,000
Lloyds Bank Plc	Notice Account Deposit	1,000,000			0.01%	12 Months	£3,000,000
Lloyds Bank Plc	Call Account	2,000,000			0.01%	12 Months	£3,000,000
Aberdeen Asset Management	Money Market Fund	7,310,000			0.01%	2 Years	£8,000,000
Federated Investers LLP	Money Market Fund	5,570,000			0.01%	2 Years	£8,000,000
Goldman Sachs	Money Market Fund	430,000			0.00%	2 Years	£8,000,000
Nationwide Building Society	Fixed Term Deposit	2,000,000	15/12/2020	15/03/2021	0.02%	6 Months	£3,000,000
		24,190,000					

Borrowing

Counterparty	Type of Institution	Principal £	Start Date	Maturity Date	Interest Rate
Bridgend County BC	Local Authority	3,000,000	30/12/2020	30/06/2021	0.12%
Warwick District Council	Local Authority	2,000,000	30/12/2020	30/06/2021	0.12%
London Borough of Tower Hamle	Local Authority	4,000,000	20/11/2020	20/05/2021	0.10%
		9,000,000			

Audit, Governance and Standards Committee	18 January 2021

External Auditor's Annual Audit Letter

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

Executive Summary

The Annual Audit Letter attached at Appendix 1 summarises the main findings from the work undertaken by the external auditor for the year ended 31 March 2020, and brings the audit process for 2019/20 to a close.

The Audit Findings Report attached at Appendix 2 is an updated version of the report detailing the auditor's key findings and conclusions in relation to the 2019/20 audit, which has been considered at previous meetings of this committee.

Officers from Grant Thornton will be in attendance to present their reports and respond to questions.

Purpose of Report

The committee is asked to note the report.

This report makes the following recommendations to this Committee:

1. That the Annual Audit Letter, attached at Appendix 1 be noted.
2. That the updated Audit Findings Report, attached at Appendix 2 be noted.

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	18 January 2021

External Auditor's Annual Audit Letter

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.	Head of Finance
Cross Cutting Objectives	There is no specific implication, however sound financial management does support the delivery of the Council's cross cutting objectives.	Head of Finance
Risk Management	This is detailed within section 5.	Head of Finance
Financial	As detailed in Appendices 1 & 2, the proposed audit fee for 2019/20 has increased to £53,316, which represents a 15% increase on the previously agreed fee of £46,366 and a 37% increase on the Public Sector Audit Appointments Ltd (PSAA) scale fee of £38,866. This increase remains subject to discussion with Grant Thornton and PSAA approval.	Head of Finance
Staffing	None identified.	Head of Finance
Legal	Under section 151 of the Local Government Act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information. It is a function of the Audit, Governance and Standards Committee to review and approve the annual statement of accounts and to consider if 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.	MKLS
Privacy and Data Protection	There are no specific privacy or data protection issues to address.	MKLS

Equalities	No implications identified.	Head of Finance
Public Health	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

2.1 The Annual Audit Letter attached at Appendix 1 summarises the main findings from the work undertaken by the external auditor for the year ended 31 March 2020. The committee has previously considered the Audit Findings. The updated and final version of this report is attached at Appendix 2. Representatives from Grant Thornton will attend the meeting to present their reports and respond to any questions which committee members may have.

2.2 It is recommended that these documents are considered by the committee in accordance with the terms of reference detailed within the council's Constitution.

2.3 The Annual Audit Letter represents the conclusion of the 2019/20 audit by confirming that:

- The external auditor gave an unqualified opinion on the Council's accounts on 30 November 2020; and
- The external auditor is satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

2.4 The opinion on the financial statements included an emphasis of matter paragraph in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This did not affect the auditor's opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

2.5 The reports detail a proposed increase in the fee for 2019/20 external audit work to £53,316. Scale fees are set by Public Sector Audit Appointment Ltd (PSAA). The scale fee for Maidstone Borough Council was set at £38,866 for 2019/20. The committee was notified of an increase in the scale fee to £46,366 at its meeting on 16 March 2020. The reasons for increasing the audit fee at this time were additional expectations being placed on audit firms by the Financial Reporting Council and the increased workload arising from the introduction of new accounting standards. A further increase of 15% is proposed at this time due to the additional burdens of Covid 19 and the work of the external auditor to investigate and resolve the prior period adjustment in the 2019/20 financial statements. It should be noted that this remains subject to discussion with Grant Thornton and the agreement of PSAA.

---

3. AVAILABLE OPTIONS

3.1 These reports are for information and the committee is asked to note their contents.

---

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The committee is asked to note the external auditor's reports attached as appendices 1 and 2.

---

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 No consultation has been undertaken in relation to this agenda item.

---

7. REPORT APPENDICES

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

- Appendix 1 - External Auditor's Annual Audit Letter 2019-20
- Appendix 2 - Updated Audit Findings Report 2019-20

---

8. BACKGROUND PAPERS

None

The Annual Audit Letter for Maidstone Borough Council

Year ended 31 March 2020

18 January 2021

Contents

Your key Grant Thornton team members are:

131

Paul Dossett
Key Audit Partner
T: 020 7728 3180
E: paul.dossett@uk.gt.com

Tina James
Audit Manager
T: 020 7728 3307
E: tina.b.james@uk.gt.com

Ke Ma
Associate
T: 020 7865 2905
E: ke.ma@uk.gt.com

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Maidstone Borough Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council’s Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 16 November 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council’s financial statements to be £1,800,000, which is 2% of the Council’s prior year expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council’s consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Maidstone Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council . The Council as well as the finance team have faced a number of front line challenges including access to systems, the administration of support to businesses, closure of car parks and leisure services with additional challenges of reopening services under new government guidelines.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in April 2020.

Restrictions for non-essential travel has meant both Council and audit staff have had to deal with a number of audit challenges, including new remote access working arrangements i.e. remote accessing financial systems, video calling and remotely observing information produced by the entity. Remote working inevitably increased the time taken to execute the audit efficiently in 2019/20

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,800,000 which is 2**%** of the Council's prior year expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for related parties and senior officer remuneration.

We set a lower threshold of £100,000, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19	As part of our audit work we have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 19 June 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.	We have nothing to report in relation to this risk.
Management override of internal controls	As part of our audit work we have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work has not identified any issues in respect of management override of controls.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability	As part of our audit work we have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements and consider whether or not any material uncertainties exist in respect of asset values.	The Kent Pension Fund accounts included a material valuation uncertainty disclosure with regards to the valuation of directly held property and pooled property investments as a result of Covid-19. Given the Council's share of these assets is material, we requested that the Council refer to this in the notes to the accounts and we highlighted the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. The EOM paragraph does not qualify the opinion but refers to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings	As part of our audit work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the group's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. As disclosed in notes to the financial statements, the outbreak of Covid-19 has caused uncertainties in markets. As a result, the Council's valuer has declared a 'material valuation uncertainty' in their valuation report. The Council's valuer prepared their valuations in accordance with the RICS Valuation Standards using the information that was available to them at the valuation date in deriving their estimates	During our audit work an omission in the valuations in prior period was identified in relation to the car park in Lockmeadow. This was discussed with the finance team and valuer and a prior period adjustment has been included in the final accounts. The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we highlighted the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. The EOM paragraph does not qualify the opinion but refers to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements

Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the Council's financial statements on 30 November 2020.

Preparation of the financial statements
The Council presented us with draft financial statements and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the Council’s Audit, Governance and Standards Committee on 16 November 2020.
In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked the Council's management to address for the next financial year:
- Timeliness of declarations of interest responses

Annual Governance Statement and Narrative Report
We are also required to review the Council’s Annual Governance Statement and Narrative Report.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)
We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers
We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of Maidstone Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Overall Financial Position and Financial Resilience Whilst the Council has been able to set a balanced budget over the short term, currently there is a requirement for a considerable level of savings of the life of the current Medium Term Financial Strategy (MTFS). The Council also plans to enter into significant levels of borrowing over the next few years.	As part of our work we have: • reviewed the assumptions behind the latest MTFS, covering the period up to March 2025; • considered the 2019-20 budget outturn, and any implications this may have for the MTFS, along with the latest outturn against the 2020-21 budget • reviewed the savings proposals which have been identified to date in respect of the savings requirements, along with the plans that the Council has to identify the additional savings currently required for the life of the MTFS • reviewed the capital strategy and discuss with management the proposals for debt management and the ability of the Council to meet its commitments	**Revenue outturn for 2019/20** Despite the continued challenging funding settlement for local authorities nationally, you have continued your good track record of delivery of service within budget and attainment of planned targets. The Council has had a challenging year and has delivered a revenue budget overspend of £237k (2018-19: underspend of £154k). This represents good financial performance in the context of the reduction in central government funding, the need to make significant savings, and increasing pressure on services. **Budget for 2020/21 onwards** The Council presented three budget scenarios as part of their Medium Term Financial Strategy – 'adverse', 'neutral' and 'favourable. We have analysed the detailed breakdown of the reductions in income and increased expenditure budgeted for 2020/21. We discussed the key items with management and looked at the assumptions behind there and concluded that they were realistically and prudently estimated but remain challenging. We are satisfied that management have demonstrated that sound financial planning processes and robust financial controls are in place. **Impact of Covid-19** The finance team has responded to the impact by reviewing the assumptions in the 2020/21 budget and the expected income and expenditure streams, including the impact on achieving the planned capital programme. They have provided information to government through financial returns and to members to ensure they are aware of the challenges being faced by the Council. The Council has continued to keep this under review and paper was produced in July the 2020-21 revenue budget forecasts were updated for the forecast Covid-19 impact.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	16 March 2020
Audit Findings Report	16 November 2020 Updated 18 January 2021
Annual Audit Letter	18 January 2021

Fees

	Planned £	Actual fees £
Statutory audit	46,366	53,316
Total fees	**46,366**	**53,316**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £38,866 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following page.

Fee variations are subject to PSAA approval.

A. Reports issued and fees

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £38,866 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Pensions - valuation of net pension liabilities under International Auditing Standard (IAS) 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,750
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,750
Raising the bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	2,500
New standards / developments	Additional work required for changes in standards.	1,500
Total		7,500

Fee variations are subject to PSAA approval.

Audit fee variation – Covid-19

Additionally, over the last six months the current Covid-19 pandemic has had a significant impact on all our lives, both at work and at home. The impact of Covd-19 on the audit of the financial statements has been multifaceted. This included:

- Revisiting planning- we have needed to revisit our planning and refresh our risk assessments, materiality and planning as well as additional work in areas such as going concern and disclosures in accordance with IAS 1 in particular in respect to material uncertainties.
- Managements assumptions and estimates - there is increased uncertainty over many estimates including investment and property valuations. Our audit opinion included an emphasis of matter in respect of this.
- Remote working – the most significant impact of terms of delivery is the move to remote working. We, as have other auditors, have experienced delays and inefficiencies resulting from this new working environment. This is understandable and arise from the availability of relevant information, the need for us to devise alternative methods to evidence the veracity of the information provided and not being able to sit with an officer to discuss a query or a working paper. Obtaining an understanding via teams or telephone is often more time consuming.

We have been discussing the matter with PSAA over the last few months and these issues are similar to those experienced in the commercial sector and the NHS. In both sectors there is a recognition that audits will take longer with commercial deadlines expended by four months and the NHS deadline by one month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/about-the-frc/covid-19/covid-19-bulletin-march-2020 sets out the expectations of the FRC.

Prior period adjustment

- Additional time required to investigate and resolve the prior period adjustment related to the car park

In the case of Maidstone Borough Council, the increase will be 15% or £6,950. This has been included in the final fee on page 12.

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services – Housing Benefit Subsidy claim 2018-19	£22,000

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

grantthornton.co.uk

Grant Thornton

The Audit Findings for Maidstone Borough Council

Year ended 31 March 2020

18 January 2021

Contents

Your key Grant Thornton team members are:

Paul Dossett
Key Audit Partner
T: 020 7728 3180
E: paul.dossett@uk.gt.com

Tina James
Audit Manager
T: 020 7728 3307
E: tina.b.james@uk.gt.com

Ke Ma
Associate
T: 020 7865 2905
E: ke.ma@uk.gt.com

146

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Maidstone Borough Council (‘the Council’) and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council . The Council as well as the finance team have faced a number of front line challenges including access to systems, the administration of support to businesses, closure of car parks and leisure services with additional challenges of reopening services under new government guidelines. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7. Restrictions for non-essential travel has meant both Council and audit staff have had to deal with a number of audit challenges, including new remote access working arrangements i.e. remote accessing financial systems, video calling and remotely observing information produced by the entity. The audit was delivered remotely.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Maidstone Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was undertaken remotely during July to November. Our findings are summarised on pages 6 to 13. We have two adjustments to the financial statements to date that have resulted in a £2,338k adjustment to the Council's Comprehensive Income and Expenditure Statement primary due to a prior period adjustment relating to balance sheet assets. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. In our Audit Planning Report we included reference to the work required on the group accounts which the Council was intending to prepare for the first time. Due to the challenges presented by the new ways of working under Covid-19 restrictions management made the decision to refrain from preparing group accounts in 2019-20 on the grounds of materiality. We are satisfied that the Council's decision is complaint with the CIPFA Code. Our work is complete. We concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020 which was prior to the main impact of the Covid-19 coronavirus pandemic. Our audit report opinion was unqualified including an Emphasis of Matter paragraph, highlighting PPE valuation material uncertainties for both the Council property and their share of assets included in the IAS 19 pension fund actuarial position in respect of Kent Pension Fund.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Maidstone Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We issued an unqualified value for money conclusion. Our findings are summarised on pages 16 to 19.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties We certified the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and control; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you in April 2020, to reflect our response to the Covid-19 pandemic.

Conclusion

We issued an unqualified audit opinion on 30 November.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,800,000	This has been calculated based upon 2% of your prior year expenditure
Performance materiality	1,260,000	This has been calculated as 70% of headline materiality, based upon our assessment of the likelihood of a material misstatement in the financial statements
Trivial matters	90,000	
Materiality for related party transactions and senior officer remuneration	100,000	Due to the additional sensitivity and external interest for these areas a lower threshold was applied.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 19 June 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. **We have nothing to report in relation to this risk.**
The revenue cycle includes fraudulent transactions (rebutted)	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted. Therefore we do not consider this to be a significant risk for Maidstone Borough Council. Our audit work has not identified any issues in respect of revenue recognition.

Significant audit risks

Risks identified in our Audit Plan | **Auditor commentary**

Management override of controls

We have undertaken work to:

- evaluate the design effectiveness of management controls over journals
- analyse the journals listing and determine the criteria for selecting high risk unusual journals
- test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

Valuation of land and buildings

We have undertaken work to:

- evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluate the competence, capabilities and objectivity of the valuation expert
- write to the valuer to confirm the basis on which the valuation was carried out
- challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- test revaluations made during the year to see if they had been input correctly into the group's asset register
- evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

As disclosed in notes to the financial statements, the outbreak of Covid-19 has caused uncertainties in markets. As a result, the Council's valuer has declared a 'material valuation uncertainty' in their valuation report. The Council's valuer prepared their valuations in accordance with the RICS Valuation Standards using the information that was available to them at the valuation date in deriving their estimates

As a result of the material uncertainty being identified on the valuation of Property, Plant and Equipment, our audit opinion included a Emphasis of Matter, drawing attention to the material uncertainty identified.

During our audit work an omission in the valuations in prior period was identified in relation to the car park in Lockmeadow. This was discussed with the finance team and valuer and a prior period adjustment has been included in the final accounts.

Findings

The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we highlighted the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.

The EOM paragraph does not qualify the opinion but refers to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability	See below

Auditor commentary

We have undertaken work to:

- update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
    - We documented the processes applied by the Council when providing information to the pension fund and documented the process and performed a walk through of the process as well as agreeing the contributions information to the year end submission.
- evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
    - We utilised the work of a management expert to review the scope of the work performed by the actuary and to undertake a review of the estimates and calculation methodology used by the actuary in reaching the net pension liability value. This involved benchmarking of the estimates employed and consideration of the methodology against industry expectations.
- assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
    - We utilised the work of a management expert to review the scope of the work performed by the actuary and to consider the undertake a review of the competence, capabilities and objectivity of the actuary.
- assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
    - In addition to the assurance provided by the Kent Pension Fund auditor over the data provided to the actuary by the pension fund directly we also compared the pension contributions payroll data from the Council's systems to the submission to the Pension Fund
- test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
    - We compared the final actuary's report to the disclosure in the Council's financial statements
- undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
    - We utilised the work of a management expert to review the scope of the work performed by the actuary and to undertake a review of the estimates and calculation methodology used by the actuary in reaching the net pension liability value. This involved benchmarking of the estimates employed and consideration of the methodology against industry expectations. We performed analytical procedures to ensure the outputs were consistent with expectation based on the data
- obtain assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements and consider whether or not any material uncertainties exist in respect of asset values.
    - The Kent Pension Fund auditor provided assurance over the accuracy and completeness of the data provided to the actuary they had obtained through their detailed testing. They also provided assurance over the accuracy and completeness of the data relating to pension fund investments and the impact of any variances. They provided assurance over the investment valuations including the directly held property and pooled property investments. For the property related investments, as noted below, they confirmed the valuer of the investments had highlighted the material uncertainty arising from the potential impact of Covid-19 on property values.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability (contd.)	**Findings** The Kent Pension Fund accounts included a material valuation uncertainty disclosure with regards to the valuation of directly held property and pooled property investments as a result of Covid-19. Given the Council's share of these assets is material, we requested that the Council refer to this in the notes to the accounts and we highlighted the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. The EOM paragraph does not qualify the opinion but refers to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Other audit risks

Risks identified in our Audit Plan	Auditor commentary
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. We discussed the level of disclosure required with management and upon receipt of the draft financial statements feedback on the disclosure included. This resulted in minor amendments being made to ensure compliance with Code requirements.
Accruals	In our 2018-19 Audit Findings Report we reported that during creditor and accruals testing we had identified items which had been incorrectly accrued at year end resulting in a recommendation to ensure that all accruals are reviewed by the budget holders at year end to ensure they remain valid and are accrued at the appropriate level based on supporting information. We have therefore identified accruals as a risk. We have performed sample testing of accruals as part of our creditor testing with no issues identified.
Accounting for the consolidation of the subsidiary	As referenced on page 4, subsequent to the presentation of our Audit Plan the Council decided not to produce Group accounts on the basis of materiality. The was discussed with management during the audit and we are satisfied no group financial statements are required.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings –- £91,042k	Other land and buildings comprises specialised assets such as the leisure centre and theatre, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Harrisons Chartered Surveyor to complete the valuation of properties as at 30 November 2019. The valuation of properties valued by the valuer has resulted in a net increase of £2,687k. Management have considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.	We have assessed management's estimate, considering: • Assessment of management's expert • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method • Consistency of estimate against a national benchmarking report produced by our auditors expert, Gerald Eve • Reasonableness of the movement in estimate • Challenge of the sensitivities used by the valuer to assess completeness and consistency with our understanding • Adequacy of disclosure of estimate in the financial statements **We consider management's process appropriate.**	●

156

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £73.677m	The Council's net pension liability at 31 March 2020 is £73.677m (PY £71.481m) comprising the Kent Pension Fund Local Government defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	See below	●

157

Our assessment of the estimate has considered:

- Assessment of management's expert
- Assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach
- Use of PwC as auditors expert to assess actuary and assumptions made by actuary

Assumption	Actuary Value	Assessment
Discount rate	2.35%	●
Pension increase rate	2.35%	●
Salary growth	3.85%	●
Life expectancy – Longevity at 65 for current pensioners - Males - Females	 21.8 23.7	●
Life expectancy – Longevity at 65 for future pensioners - Males - Females	 23.2 25.2	●

- Completeness and accuracy of the underlying information used to determine the estimate
- Impact of any changes to valuation method
- Assessment of the information received from pension fund auditor
- Reasonableness of the Council's share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements
- whether there are any material estimation uncertainties in respect of property values that need to be considered.

Significant findings – going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has included administration of grants to businesses, closure of leisure facilities and car parks with additional challenges of reopening services under new government guidelines;staff absences due to being ill , the need to free up capacity of teams in addition to normal responsibilities. The Council is facing significant challenges.

Going concern commentary	Auditor commentary
Management's assessment process Management’s assessment process is based on your financial planning framework. You have a four year Medium Term Financial Strategy (MTFS) covering the period 2020/21 to 2023/24.	• The Council has a history of achieving financial savings plans and delivering services within budget • The Council has a comprehensive medium term planning framework. The MTFS is updated annually and integrated with your annual budget processes • Management has concluded that it is appropriate to use the going concern basis of accounting. • The Council has demonstrated that it has forecast the expected impact of loss of revenue and additional expenditure arising from the Covid-19 pandemic • Management has determined that there are sufficient reserves at the end of March 2020 to cover the projected impact of Covid-19 in 2020-21.
Work performed	• The Council has delivered a revenue budget overspend of £237k for 2019/20. • As at 31 March 2020 the draft accounts showed useable reserves of £17,193k. • At the year end the Council has cash holdings of £10m. A cash flow forecast produced by management is forecasting deficit balances of £909k from October 2020 and a repayment of £4m of short term borrowing in November 2020. They have commented that they anticipate additional government support and the need to borrow later in the year. We requested a cashflow forecast to at least July 2021 updated to reflect these expectations.
Concluding comments	**Our work has concluded and we are satisfied management’s assessment is appropriate.**

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any significant incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation was received from the Council, including specific representations in respect of the property valuations.
Confirmation requests from third parties	We requested from management permission to send confirmation request(s) to banks and third parties with whom the Council has loans. permission was granted and the requests were sent and responses received.
Disclosures	Our review found no material omissions in the financial statements other than in relation to the inclusion of a post balance sheet event in relation to Covid-19 impacts.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management were provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We issued an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We certified the closure of the 2019/20 audit of Maidstone Borough Council in the audit report.

Value for Money

Background to our VFM approach

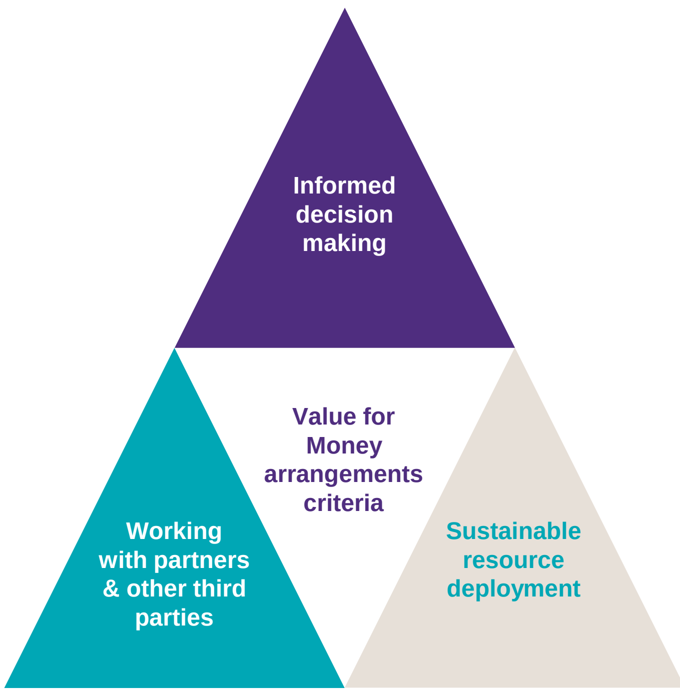
We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:

161



Risk assessment

We carried out an initial risk assessment in January 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated16 March 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's 2019/20 financial outturn;
- The robustness of the Council's 2019/20 budget and Medium Term Financial Strategy, including savings and income proposals; and
- The Council's response to the challenges of Covid-19.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 18 to 19.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Overall Financial Position and Financial Resilience

Whilst the Council has been able to set a balanced budget over the short term, currently there is a requirement for a considerable level of savings of the life of the current Medium Term Financial Strategy (MTFS). The Council also plans to enter into significant levels of borrowing over the next few years.

We proposed to:

- review the assumptions behind the latest MTFS, covering the period up to March 2025;
- consider the 2019-20 budget outturn, and any implications this may have for the MTFS, along with the latest outturn against the 2020-21 budget
- review the savings proposals which have been identified to date in respect of the savings requirements, along with the plans that the Council has to identify the additional savings currently required for the life of the MTFS
- review the capital strategy and discuss with management the proposals for debt management and the ability of the Council to meet its commitments

Findings

Revenue outturn for 2019/20

Despite the continued challenging funding settlement for local authorities nationally, you have continued your good track record of delivery of service within budget and attainment of planned targets.

The Council has had a challenging year and has delivered a revenue budget overspend of £237k (2018-19: underspend of £154k). This represents good financial performance in the context of the reduction in central government funding, the need to make significant savings, and increasing pressure on services.

Budget for 2020/21 onwards

The Council presented three budget scenarios as part of their Medium Term Financial Strategy – ‘adverse’, ‘neutral’ and ‘favourable. We have analysed the detailed breakdown of the reductions in income and increased expenditure budgeted for 2020/21. We discussed the key items with management and looked at the assumptions behind there and concluded that they were realistically and prudently estimated but remain challenging.

We have reviewed the assumptions and estimates which underlie the estimates of the additional revenues and savings included in the plans. We reviewed the revenue which you plan to generate and the savings plans. We found the estimates were reasonable. The Council has a very good track record in setting budgets which are accurate and very close to the reality shown in the outturn position.

We are satisfied that management have demonstrated that sound financial planning processes and robust financial controls are in place.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk | **Findings**

Overall Financial Position and Financial Resilience (contd.)

Fiscal indicators and reserves levels

The level of reserves in the Council's draft accounts is £62,057k comprising usable reserves of £17,193k (including £549k of capital receipts) and unusable reserves of £44,854k.

The general fund and earmarked general fund reserves as a percentage of net service revenue expenditure is 74%. The level of usable reserves, which include the general fund, earmarked reserves and capital receipts reserve, has increased from 2018-19 by 9.8%.

For the short to medium term, the Council's reserves level provides it with a sufficient cushion to weather the on-going financial challenges that you face over the next few years due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary controls on spending and ensure that savings plans are fully delivered.

Impact of Covid-19

The budget and planning discussed above was undertaken prior to the Covid-19 pandemic and the impact of lockdown measures on the frontline services of the Council which has included:

- Loss of revenue e.g. from car parking and leisure services
- Reduced levels of Council tax and Business rates collection
- Increased expenditure to support local business and to be enable to continue to provide services in the changed circumstances.

The Council has received additional funding from central government. The amount received initially was £1.7m provided in two tranches. Further support was announced on 2 July 2020 and a further £274k was allocated to Maidstone Borough Council. Further detail relating to income support is also expected.

The finance team has responded to the impact by reviewing the assumptions in the 2020/21 budget and the expected income and expenditure streams, including the impact on achieving the planned capital programme. They have provided information to government through financial returns and to members to ensure they are aware of the challenges being faced by the Council. In June, the impact on 2020-21 was assessed and the net impact was forecast to be £6,450k in increased expenditure and reductions in income after taking into account the support already provided by central government. This is within the level of reserves available to the Council. The impact on the Council's cash flow position has also been highlighted. The Council had cash balances of £10.687k in the draft accounts however there were short term borrowings due of £11,000k within 2020-21.

The Council has continued to keep this under review and paper was produced in July the 2020-21 revenue budget forecasts were updated for the forecast Covid-19 impact. This amended the original net revenue budget from £18,935k to £24,625k. With any further mitigating actions the projected deficit is £8,563k. This is mitigated by the funding from central government already received and it is expected that, following the announcement on 2 July, further funding is expected. This enables the remainder to be covered by the unearmarked general fund reserves of £8,818k as at end of March 2020.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	22,000 (2018/19 fee)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work was £22,000 in 2018/19 in comparison to the total scale fee for the audit of £38,866 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Action plan

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Declarations of interest** During our testing of related party disclosures we requested the latest declarations for review. The Council sends these to members on an annual basis and they were sent on 9 April 2020. At the time of the audit work in July, 17 forms remained outstanding and had not been received from members.	We recommend that the process for manging the distribution and collections of returns is reviewed and the importance of responding is reiterated with members. **Management response** We accept this recommendation and will be reviewing our processes to ensure that declarations of interest are collected promptly in future

167

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Maidstone Borough Council's 2018/19 financial statements, which resulted in 1 recommendation being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	During our creditor and accruals testing we identified items which had been incorrectly accrued for at the year end. We recommended that all accruals be reviewed at year end for validity and accuracy.	Our testing of this area in 2019-20 has not identified any issues.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

Adjustments were made between the first version of the accounts presented for audit and the final version to include presentational and classification adjustments for preceptor balances and the Kent Business Rates Pool. This resulted in adjustments to the Net Assets between debtors, creditors and provisions with a net nil impact and nil impact on the Comprehensive income and Expenditure Statement.

The other adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Impact of prior period adjustment for the valuation of Lockmeadow Carpark – Opening property, plant and equipment value		2,050	
Impact of prior period adjustment for the valuation of Lockmeadow Carpark – Opening revaluation reserve (This adjustment was processed in 2018-19 and appears as a restatement in the prior year as well)		(2,050)	
Impact of prior period adjustment for the valuation of Lockmeadow Carpark – movement on revaluation in 2019-20	2,050	(2,050)	2,050
Reclassification of capital receipt – adjustment to gain on disposal of assets and reduction in income from 'Fees, charges and other service income'	1,030 (1,030)		0
Adjustment for disposal of Brunswick car park	288	(288)	288
Overall impact	**£2,338**	**£(2,338)**	**£2,338**

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Inclusion of subsequent event in relation to the impact of Covid-19	Due to the significant impact of Covid-19 on the Council's finances post year end we recommend the inclusion of specific disclosure in the accounts in line with the type of information included in the narrative statement.	Yes

Audit adjustments

Impact of unadjusted misstatements

Our work has not identified an unadjusted misstatements above triviality.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Creditors		189.		
Expenditure	(189)		(189)	
The accruals balance was overstated as sample testing of the creditors balances identified 4 errors. All errors resulted in an over accrual in the accounts.				The error is immaterial
Overall impact	**189**	**(189)**	**(189)**	

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	46,366	53,316
Total audit fees (excluding VAT)	**£46,366**	**£53,316**

The fees reconcile to the financial statements subject to the additional fees set out below

- Council audit fees per the financial statements £46,366
- Covid-19 related additional fees £6,950

Total fees per above £53,316

Audit fee variation – Covid-19

- Additionally, over the last six months the current Covid-19 pandemic has had a significant impact on all our lives, both at work and at home. The impact of Covd-19 on the audit of the financial statements has been multifaceted. This included:
- Revisiting planning- we have needed to revisit our planning and refresh our risk assessments, materiality and planning as well as additional work in areas such as going concern and disclosures in accordance with IAS 1 in particular in respect to material uncertainties.
- Managements assumptions and estimates - there is increased uncertainty over many estimates including investment and property valuations. Our audit opinion included an emphasis of matter in respect of this.
- Remote working – the most significant impact of terms of delivery is the move to remote working. We, as have other auditors, have experienced delays and inefficiencies resulting from this new working environment. This is understandable and arise from the availability of relevant information, the need for us to devise alternative methods to evidence the veracity of the information provided and not being able to sit with an officer to discuss a query or a working paper. Obtaining an understanding via teams or telephone is often more time consuming.
- We have been discussing the matter with PSAA over the last few months and these issues are similar to those experienced in the commercial sector and the NHS. In both sectors there is a recognition that audits will take longer with commercial deadlines expended by four months and the NHS deadline by one month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/about-the-frc/covid-19/covid-19-bulletin-march-2020 sets out the expectations of the FRC.

Prior period adjustment

- Additional time required to investigate and resolve the prior period adjustment related to the car park.

Non-audit fees for other services	Final fee
Audit Related Services – Housing Benefit Subsidy claim 2018-19	22,000
Total non- audit fees (excluding VAT)	**£22,000**

172

Audit, Governance & Standards Committee	**18 January 2021**

External Audit – Progress Report & Sector Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Mark Green, Director of Finance and Business Improvement
Lead Officer and Report Author	Ellie Dunnet, Head of Finance
Classification	Public
Wards affected	None

Executive Summary

Committee members are invited to consider the report of the external auditor which provides an update on completion of the 2019/20 audit and offers a summary of emerging national issues and developments of relevance to the local government sector.

Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.

Purpose of Report

Committee members are asked to note this report.

This report makes the following recommendations to this Committee:

1. That the progress report attached at Appendix 1 be noted.

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	18 January 2021

External Audit – Progress Report & Sector Update

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 ability to discharge its responsibilities in relation to the financial statements audit and value for money conclusion.	Ellie Dunnet, Head of Finance
Cross Cutting Objectives	The recommendations set out above will not have any material impact on the cross cutting objectives.	Ellie Dunnet, Head of Finance
Risk Management	This report is presented for information only and has no decisions which give rise to risk management implications.	Ellie Dunnet, Head of Finance
Financial	There are no direct financial implications arising from the report, although the opinion on the financial statements and value for money conclusion are one mechanism through which the council demonstrates financial accountability.	Ellie Dunnet, Head of Finance
Staffing	No implications identified.	Ellie Dunnet, Head of Finance
Legal	The Local Audit and Accountability Act 2014 sets out the framework for audit of local authorities.	Legal Team
Privacy and Data Protection	None identified.	Ellie Dunnet, Head of Finance
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Ellie Dunnet, Head of Finance
Public Health	No implications identified.	Ellie Dunnet, Head of Finance

Crime and Disorder	No implications identified.	Ellie Dunnet, Head of Finance
Procurement	No implications identified	Ellie Dunnet, Head of Finance

2. INTRODUCTION AND BACKGROUND

2.1 External audit services are provided by Grant Thornton following their appointment by Public Sector Audit Appointments Ltd (PSAA) for the period from 2018/19 to 2022/23.

2.2 The report attached at Appendix 1 provides an update on the status of the 2019/20 audit and informs committee members of a number of relevant emerging issues and developments.

---

3. AVAILABLE OPTIONS

3.1 It is recommended that the committee consider and note this report. The committee could choose not to consider this report, however this option is not recommended since the report is intended to assist the committee in discharging its responsibilities in relation to external audit and governance.

---

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 It is recommended that the committee notes the report. Given the respective responsibilities of both the external auditor and this committee, a progress report of this nature is judged to be appropriate for consideration by committee members.

---

5. RISK

5.1 This report is presented for information only and has no decisions which give rise to risk management implications.

---

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 No consultation has been undertaken in relation to this matter.

---

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 Next steps are outlined within Appendix 1.

---

8. REPORT APPENDICES

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

- Appendix 1- Audit Progress Report and Sector Update

---

9. BACKGROUND PAPERS

None

Audit Progress Report and Sector Update

Maidstone Borough Council

Year ending 31 March 2021

18 January 2021

Contents

Introduction

Paul Dossett, Partner

T 020 7728 3180
E paul.dossett@uk.gt.com

Tina James, Audit Manager

T 020 7728 3307
E tina.b.james@uk.gt.com

This paper provides the Audit, Governance and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit, Governance and Standards Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Paul or Tina.

Completion of the Financial Statements Audit 2019/20.

Financial Statements Audit

We issued an unqualified audit opinion on the Council's financial statements on 30th November 2020.

We included an emphasis of matter within our audit opinion which referred to the disclosures that management had made regarding the material uncertainties for the valuations of property , plant and equipment and pension fund directly held property and pooled property funds. Our audit opinion was not modified as a result of this emphasis.

Value for Money opinion

We issued an unqualified value for money opinion for the year ended 31 March 2020 on 30th November 2020.

180

Certification of the Audit

We certified completion of the audit for 2019/20.

Other areas

Certification of claims and returns

Housing Benefit Subsidy claim - in accordance with procedures agreed with the Department for Work and Pensions (DwP). The Council have completed the initial testing and we are in the process of reviewing a sample of cases to verify accuracy.

The DwP has moved the reporting deadline back to 31 January 2021. We will report our findings to the Audit, Governance and Standards Committee in our Certification Letter in March 2021.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers have been invited to our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.

- Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. We included an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.

- Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working.. These are understandable and arise from the availability of the relevant information. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming**. This amounts to £6,950. Additional fees to cover the impact of Covid 19 have been levied on all of our audits. These are subject to PSAA approval.**

Audit deliverables

2019/20 Deliverables	Planned Date	Status
Audit Findings Report	November 2020	November 2020
The Audit Findings Report was reported to the November Audit, Governance and Standards Committee and a final version is being presented to the January Audit, Governance and Standards Committee		Final January 2021
Annual Audit Letter	January 2021	completed
This letter communicates the key issues arising from our work.		
2020/21 Deliverables		
Audit Plan	March 2021	Not yet due
Interim findings	TBC 2021	Not yet due
Audit opinion	September 2021	Not yet due
Audit Annual Report	September 2021	Not yet due

182

Sector update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

New NAO Code of Audit Practice for 2020-21

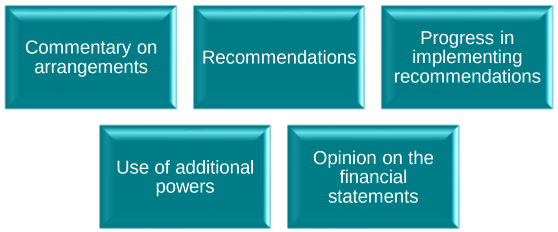
The NAO issued a new Code of Audit Practice which came into force on 1 April 2020 and applies to audits of 2020-21. The key change is an extension to the framework for VfM work. The NAO has prepared Auditor Guidance Note (AGN 03), which sets out detailed guidance on what VfM work needs to be performed. Public consultation on this ended 2 September.

The new approach to VfM re-focuses the work of local auditors to:

- promote more timely reporting of significant issues to local bodies;
- provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas;
- provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
- provide clearer recommendations to help local bodies improve their arrangements.

Under the previous Code, auditors had only to undertake work on VFM where there was a potential significant risk and reporting was by exception. Whereas against the new Code, auditors are required to undertake work to provide a commentary against three criteria set by the NAO – governance; financial sustainability and improving economy, efficiency and effectiveness.

A new Auditor's Annual Report presented at the same time as the audit opinion is the forum for reporting the outcome of the auditor's work on Value for Money. It is required to contain:



The '**Commentary on arrangements**' will include a summary under each of the three specified reporting criteria and compared to how the results of VfM work were reported in previous years, the commentary will allow auditors to better reflect local context and also to draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. The commentary will not simply be a description of the arrangements in place, but an evaluation of those arrangements.

Recommendations: Where an auditor concludes there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.

Progress in implementing recommendations: Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily

Use of additional powers: Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this needs to be reported in the auditor's annual report.

Opinion on the financial statements: The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. This is not a replacement for the AFR, or a verbatim repeat of it – it is simply a summary of what the opinion audit found

The new approach is more complex, more involved and will subsequently increase the cost of audit. We will be discussing this with the Chief Operating Officer shortly.

To review the new Code and AGN03 click here

NAO

Value for Money update for Audit, Governance and Standards Committee on new arrangements 2020-21

185

How have the NAO changed value for money work ?

186

National Audit Office

Code of Audit Practice

APRIL 2020

National Audit Office

National Audit Office	AGN 03 Auditors' Work on VFM Arrangements Issued on xxxx

Auditor Guidance Note 3 (AGN 03)

Auditors' Work on Value for Money (VFM) Arrangements

Version issued on: xxxx

About Auditor Guidance Notes

Auditor Guidance Notes (AGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act).

AGNs set out guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in AGNs supports auditors in meeting their requirements under the Act and the *Code of Audit Practice* published by the NAO on behalf of the C&AG.

The NAO also issues Weekly Auditor Communications (WACs) to local auditors to bring to their attention relevant information to support them in carrying out audit work. The firms that are local auditors under the Act may use WACs to update their own internal communications and reference tools.

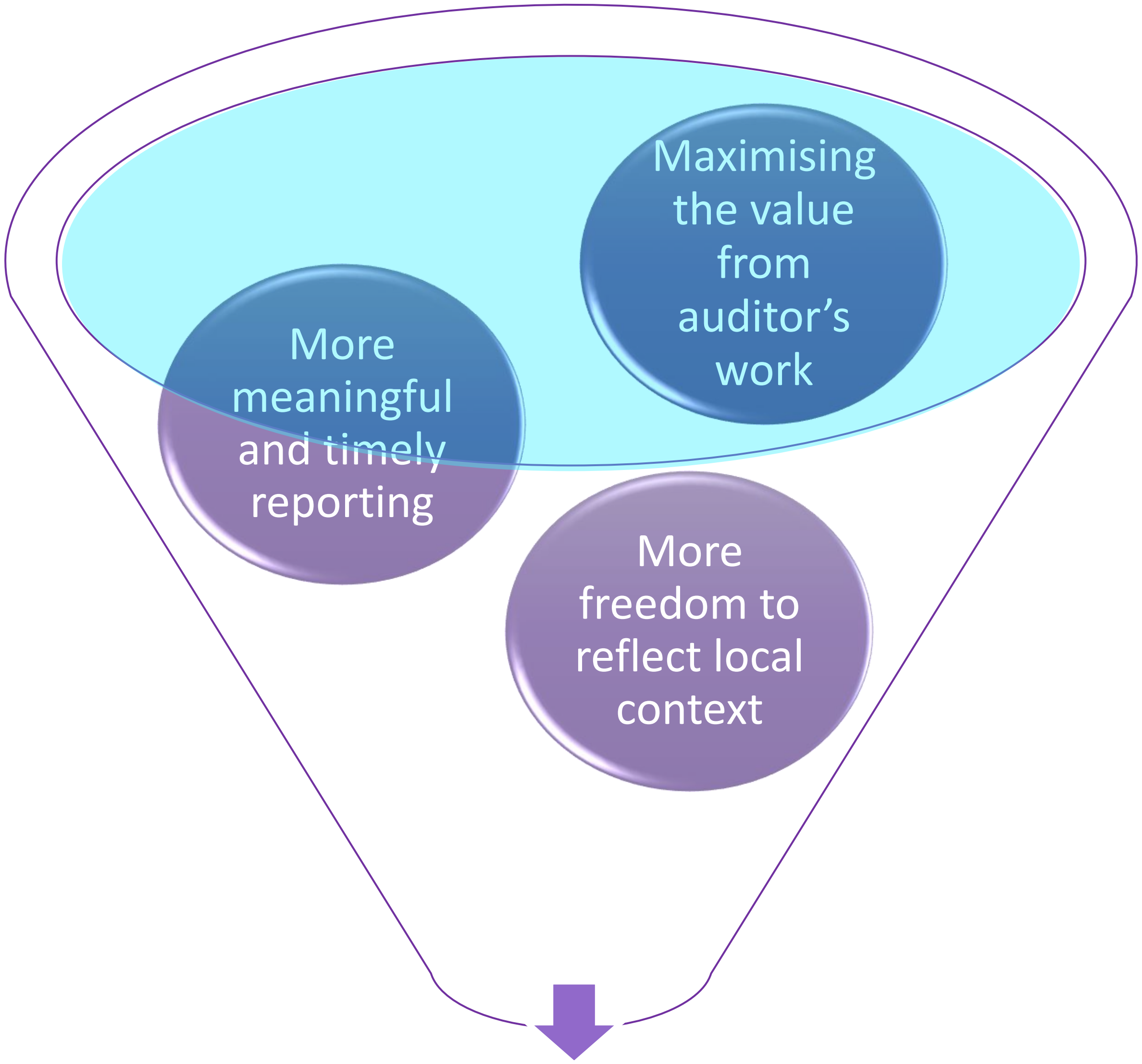
AGNs are numbered sequentially and published on the NAO's website. Any new or revised AGNs are brought to the attention of local auditors through the WACs.

> The NAO prepares Auditor Guidance Notes (AGNs) solely to provide guidance to local auditors in interpreting the Code of Audit Practice made under the Local Audit and Accountability Act 2014. The contents of AGNs cannot be reproduced, copied or re-published by parties other than local auditors without permission from the NAO.
>
> The AGNs are designed to assist local auditors in forming their own understanding of the requirements of the Code. Auditors are required to have regard to AGNs, which means that they must take into account the guidance issued by the NAO, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance. AGNs are in no way intended as a substitute for the exercise of the independent professional skill and judgement of a local auditor in deciding how to apply the NAO's guidance or when providing explanations as to why guidance has not been followed.
>
> Local auditors should not assume that AGNs are comprehensive or that they will provide a definitive answer in every case.

1 | Page

OFFICIAL

How is value for money work changing ?



VFM arrangements commentary and recommendations

187

The three criteria have changed…

~~Informed decision making~~	Governance
~~Sustainable resource deployment~~	Financial sustainability
~~Working with partners and other third parties~~	Improving economy, efficiency and effectiveness

188

A key change in reporting…

~~Annual Audit Letter~~

Auditor's Annual Report

So what is in an Auditor's Annual Report ?

Commentary on arrangements

Recommendations

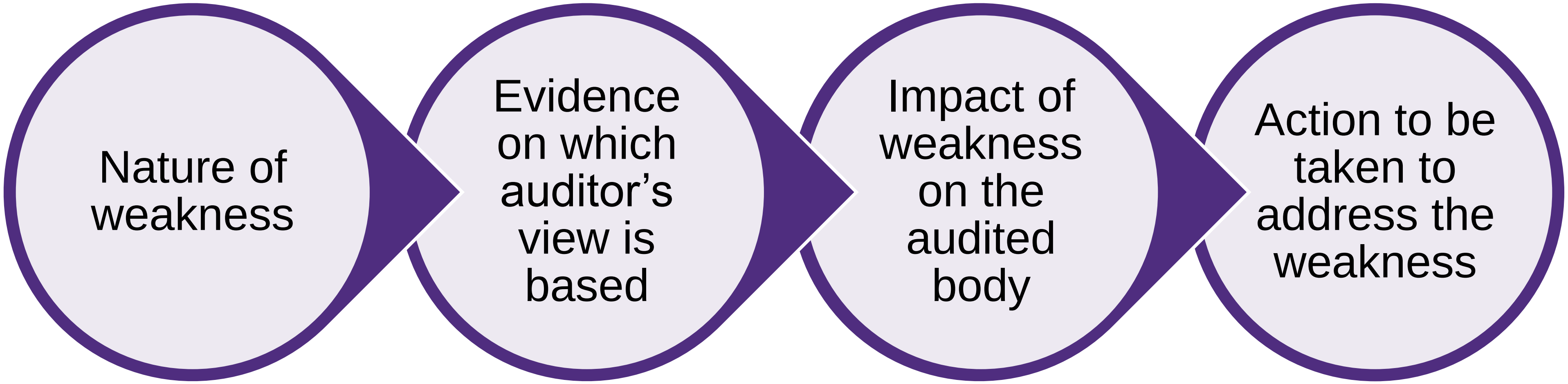
Progress in implementing recommendations

Use of additional powers

Opinion on the financial statements

Recommendations

191



Practical implications

The new approach is more complex, more involved and will lead to better quality working achieving more impact. Before beginning work, we will discuss with you:

- Timing

- Resourcing

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Governance and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. investments and asset valuations. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that::

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

194

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

- Where there is material estimation uncertainty, we would expect the financial statement disclosures to disclose:
- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

How can you help

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit, Governance and Standards Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above).

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Grant Thornton

An instinct for growth™

grantthornton.co.uk

Agenda Item 17

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE	18 January 2021

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

The resurgence of the Covid-19 pandemic, which was highlighted as a major risk in the last report to the Committee, threatens further delays to economic recovery, with consequent impacts for the Council. The risk associated with EU transition appears to have receded at the time of writing, with a trade deal in place, but there remain risks to the road network and in the longer term to the UK economy.

This report makes the following recommendations to this Committee:

That the Audit Governance and Standards Committee notes the updated risk assessment of the Budget Strategy provided at Appendix A.

Timetable	
Meeting	***Date***
Audit, Governance and Standards Committee	18 January 2021

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	Director of Finance and Business Improvement

	the MTFS and the strategic revenue projection in the ways 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.

Delivering the revenue budget

2.2 The Council set a balanced revenue budget for 2020/21 at its meeting on 26th February 2020. The position has changed completely since then as a result of the Covid-19 pandemic. The Council has:

- incurred substantial additional expenditure, in particular as a result of accommodating homeless people and establishing a community hub
- suffered a reduction in Council Tax and Business Tax receipts
- lost substantial income in areas such as parking.

This will give rise to a very substantial overspend against the original budget. With a third lockdown having recently come into effect, it is difficult to forecast the outcome for the year with any degree of certainty.

2.3 The deficit has been mitigated by government grants and actions that the Council has taken at its own initiative. We have received £2.5 million in four tranches of unringfenced Covid-19 local authority funding. We are also eligible to claim reimbursement for 75% of lost sales, fees and charges above a minimum threshold. We have so far claimed £1 million in respect of the first 4 months of 2020/21. The combined effect of these grants, together with cost mitigation measures carried out on our own initiative, will still leave the Council facing a substantial deficit, which will have to be covered from reserves. The Council had unallocated General Fund reserves of £8.8 million as at 31 March 2020, so we have the capacity to absorb the deficit, albeit at the expense of reduced resilience to future financial shocks.

2021/22 Budget and Medium Term Financial Strategy

2.4 The impact of Covid-19 will be long-lasting, so from a budget viewpoint, consideration will also need to be given to the impact on future years. Initial projections indicated that, under a neutral scenario, the Council would face a £3 million budget gap in 2021/22. This budget gap has now reduced, thanks largely to the government announcing more support for local authorities in the Chancellor's Spending Review and in the provisional Local Government Finance Settlement for 2021/22. There nevertheless remains a substantial budget gap. Savings proposals going to Service Committees in January 2021 will reduce the gap, if adopted by Council. But there will remain a residual budget gap which will have to be covered by drawings on other revenue resources, pending further savings being delivered over the following two years (2022/23 and 2023/24).

2.5 The position is further complicated by the lack of clarity about future funding of local government. A new funding settlement had been promised following the end of the four-year settlement that came to an end in 2019/20. This was postponed for one year, owing to Brexit, and has now been postponed for a further year because the Chancellor of the Exchequer announced plans for only one year in his Autumn Spending Review.

2.6 The uncertainty about funding future funding arrangements makes long term planning very difficult. Whilst the Council seeks at all times to build financial resilience and minimise risk, many of the key financial variables, including the permitted level of Council Tax increase and our share of business rates, are set by central government. If the government is unable to provide any certainty about its future plans, the Council is prevented from planning with confidence and risks losing opportunities to invest in public services.

Delivering the capital budget

2.7 The capital programme plays a vital part in delivering the Council's corporate objectives. The Council has borrowed to fund the capital programme, for the first time, this year. The availability of funding is therefore important.

2.8 The cost of the capital programme is spread over the lifetime of investments, so it has not been as directly affected by Covid-19 related pressures. However, there are revenue consequences to the capital programme. The cost of borrowing is factored into the revenue budget, along with a Minimum Revenue Provision which spreads the cost of loan repayment over the lifetime of an asset.

2.9 The capital programme for 2020/21 was reviewed in the light of the Covid-19 pandemic. The majority of projects in the current programme were either already under way, were required for health and safety reasons, or had to be carried out to meet contractual commitments. However, a number of projects were deferred to 2021/22, which has had the effect of reducing the in-year revenue costs of capital expenditure.

2.10 The Chancellor's Spending Review signalled a willingness to support local authority capital investment, particularly for housing and regeneration, by reducing the cost of borrowing from the Public Works Loan Board by 1%. This has reduced the risk, identified previously, of the Council not being able to fund its capital programme.

External factors

2.11 The Covid-19 pandemic shows how vulnerable the Council is to external factors. The corporate risk register therefore now includes new risks relating to (a) major emergencies such as a new pandemic and (b) a resurgence of the current Covid-19 pandemic.

2.12 Covid-19 impacts directly on the budget as set out in paragraph 2.2 above, ie through additional direct costs, loss of Council Tax and Business Rates income, and loss of income from parking and commercial activities. The impact of the second wave of Covid-19 has been to increase the risk to the budget and this was reflected in an update to the Budget Risk Register in November.

2.13 The other major external risk previously identified was potential adverse financial outcomes from a disorderly Brexit. The UK has now negotiated a trade deal with the EU, which has substantially mitigated this risk. However, there remain risks from disruption at the Channel ports arising from the implementation of new customs arrangements, and more broadly from the overall impact on the economy, for example if UK exports are affected adversely by the new trading arrangements.

2.14 The Budget Risk Register has been reviewed in light of developments since it was last reported to members. A summary of the changes to the risk register is set out below.

	Risk	Factor considered	Implications for risk profile
J	Capital programme cannot be funded	Reduction in cost of borrowing and government encouragement for local authority investment reduces this risk.	Impact – major (no change) Likelihood – unlikely (reduced)
N	Adverse financial consequences from a disorderly Brexit	This risk has been substantially mitigated through the negotiation of a trade deal with the EU, but there remain risks associated with traffic disruption and the longer term economic impact.	Impact – major (no change) Likelihood – possible (reduced)

2.15 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. The information is also set out in the form of a bar chart.

2.16 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

---

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 will be completed for the 2021/22 budget and the results will be reported to Service Committees as part of the budget setting process.

---

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

---

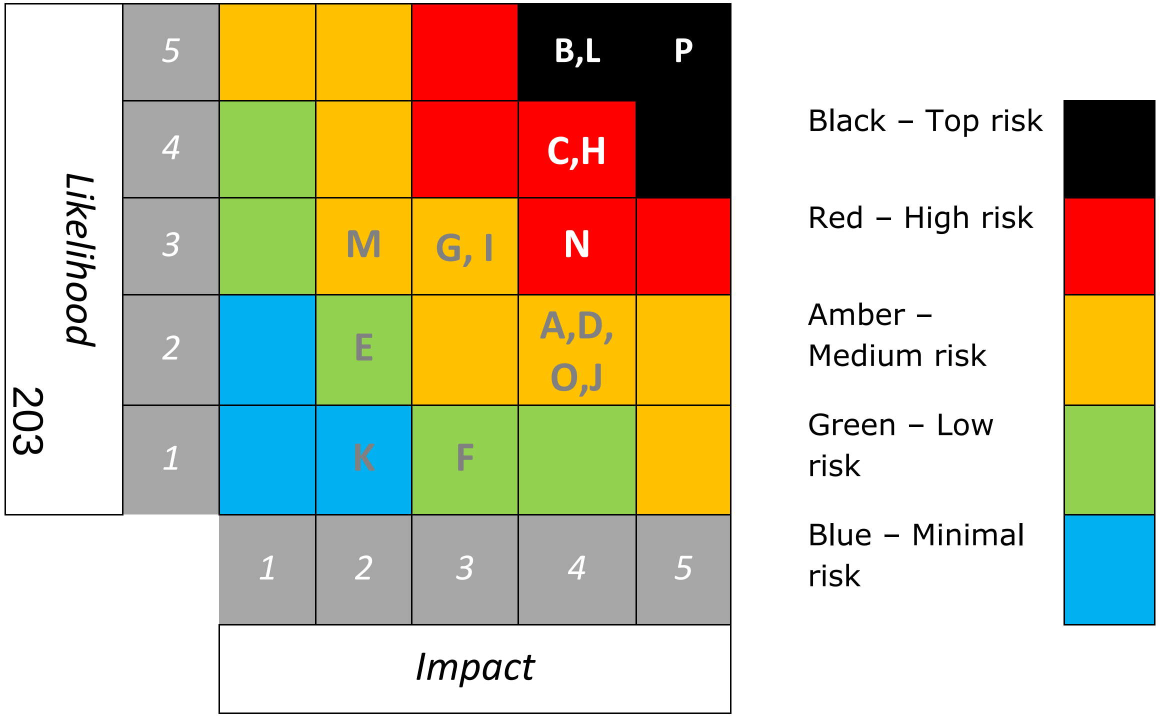
9. BACKGROUND PAPERS

None.

APPENDIX A

Budget Strategy Risks

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

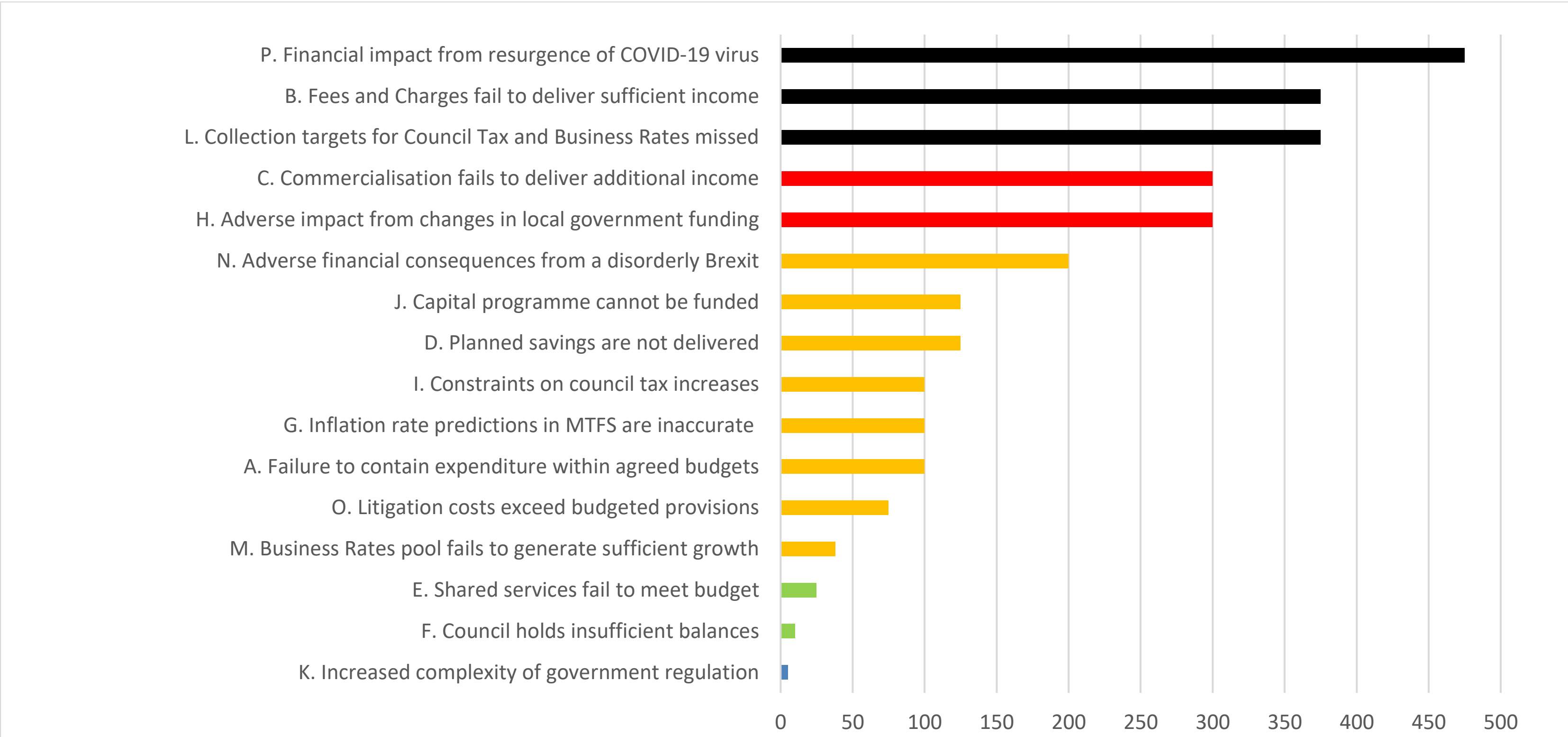


A. Failure to contain expenditure within agreed budgets	**I. Constraints on council tax increases**
B. Fees and Charges fail to deliver sufficient income	**J. Capital programme cannot be funded**
C. Commercialisation fails to deliver additional income	**K. Increased complexity of government regulation**
D. Planned savings are not delivered	**L. Collection targets for Council Tax and Business Rates missed**
E. Shared services fail to meet budget	**M. Business Rates pool fails to generate sufficient growth**
F. Council holds insufficient balances	**N. Adverse financial consequences from a disorderly Brexit**
G. Inflation rate predictions in MTFS are inaccurate	**O. Litigation costs exceed budgeted provisions**
H. Adverse impact from changes in local government funding	**P. Financial impact from a resurgence of Covid-19**

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

		Financial impact (in any one financial year)				
Risk	Ranking	Lower	Upper	Mid-point	Likelihood	Weighted
		£000	£000	£000	%	£000
P. Financial impact from resurgence of COVID-19 virus	1	250	750	500	95	475
B. Fees and Charges fail to deliver sufficient income	2=	200	600	400	95	380
L. Collection targets for Council Tax and Business Rates missed	2=	200	600	400	95	380
C. Commercialisation fails to deliver additional income	4=	200	600	400	75	300
H. Adverse impact from changes in local government funding	4=	100	900	400	75	300
N. Adverse financial consequences from a disorderly Brexit	4=	200	600	400	50	200
J. Capital programme cannot be funded	7	250	750	500	25	125
D. Planned savings are not delivered	8	250	750	500	25	125
A. Failure to contain expenditure within agreed budgets	9=	200	600	400	25	100
G. Inflation rate predictions in MTFS are inaccurate	9=	100	300	200	50	100
I. Constraints on council tax increases	9=	100	300	200	50	100
O. Litigation costs exceed budgeted provisions	12	100	500	300	25	75
M. Business Rates pool fails to generate sufficient growth	13	50	100	75	50	38
E. Shared services fail to meet budget	14	50	150	100	25	25
F. Council holds insufficient balances	15	100	300	200	5	10
K. Increased complexity of government regulation	16	50	150	100	5	5

Chart - Budget risks



Budget Strategy Risk Register

The following risk register sets out the key risks to the budget strategy. 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	∑
A	**Failure to contain expenditure within agreed budgets** The Council overspends overall against its agreed budget for the year	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.	- Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2020/21. - Strong controls over expenditure and established process for recovering from overspends	4	2	8
B	**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.	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.	- 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	5	20
C	**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.	The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy. Income generation from commercial activities supports the revenue budget and is required in ordered to pay back capital investment.	- 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 will be assessed, both as part of the project	4	4	16

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
			appraisal process and during the course of delivering the projects.			
D	**Planned savings are not delivered** Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget	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. 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.	- 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	**Shared Services** Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.	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.	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.	2	2	4
F	**Insufficient Balances** Minimum balance is insufficient to cover unexpected events OR Minimum balances exceed the real need and resources are held without identified purpose with low investment returns	Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves. The Council would not gain best value from its resources as Investment returns are low in the current market.	- 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	**Inflation rate predications in MTFS are inaccurate**	Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.	- 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	∑
	Actual levels are significantly above or below prediction	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.	○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally - MTFS inflation projections are based on the government's 2% inflation target.			
H	**Adverse impact from changes in local government funding** The financial implications of the new local government funding regime, now unlikely to be introduced until 2022/23, remain unclear.	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.	- The Medium Term Financial Strategy to 2024/25 includes an adverse scenario which allows for a significant impact on the Council's resources, - The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.	4	4	16
I	**Constraints on council tax increases** The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than the referendum limit.	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.	- The budget for 2020/21 incorporates a Council Tax increase of 2%. - Budget planning is based around the assumption of ongoing 2% increases in subsequent years. .	3	3	9
J	**Capital Programme cannot be funded** Reduction or total loss of funding sources means that the capital programme cannot be delivered	The main sources of funding are: ○ Internal borrowing ○ PWLB borrowing ○ New Homes Bonus ○ Capital Grants ○ Developer contributions (S106)	- Council has been able to fund the capital programme without recourse to borrowing so far, - Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.	4	2	8

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		A reduction in this funding will mean that future 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.			
K	**Increased complexity of government regulation** Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at an early stage.	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. In general these events bring consequences to other agencies and external relationships.	- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents. - Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.	2	1	2
L	**Business Rates & Council Tax collection** Council fails to maintain collection targets for business rates and council tax	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. Business rates amount to around £60 million in 2020/21 and Council Tax due amounts to around £110 million.	- The Council has a good track record of business rates and Council Tax collection. - Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc. - Nonetheless, Covid-19 is leading to a reduction in collection rates.	4	5	20
M	**Business Rates pool** Changes to rateable value (RV) or instability of business rates growth within the pool may not generate projected levels of income	Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.	- 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 2020/21. - Provisions have been made when projecting business rates income for bad debts and losses on	2	3	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	∑
			appeal so any loss of income would relate to the excess over the provisions already made.			
N	**Adverse financial consequences from a disorderly Brexit.** A trade deal has now been agreed with the EU but risks remain of disruption to traffic and unfavourable economic impacts, particularly for exporters.	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	3	12
O	**Litigation costs exceed budgeted provisions.** The Council is often engaged in litigation and generally the costs of any award against the Council and associated costs of legal advice can be met from within budgets. However, it is prudent to acknowledge the risk that provisions may not in fact be sufficient to cover all likely costs.	Costs in excess of budget would require a drawing on reserves and the identification of savings in subsequent years in order to replenish the level of reserves.	- Corporate Leadership Team is updated regularly on outstanding legal cases. - Appropriate professional advice is taken at all times.	4	2	8
P	**Financial impact from a resurgence of COVID-19** A resurgence of the pandemic would see similar impact to those experienced in the first wave, eg reduction in fees and charges income arising from lower levels of economic activity and the effect of a broad reduction in economic growth on public finances.	In the short term the Council would need to draw on reserves to cover the financial costs, but in the longer term savings would be required to replenish reserves.	- Senior officer group mobilised to address short term impacts - Mitigations to be developed over longer term	5	5	25

Impact & Likelihood Scales

RISK IMPACT

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

RISK LIKELIHOOD

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