

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 16 November 2020

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.

<u>AGENDA</u>	<u>Page No.</u>
1. Apologies for Absence	
2. Notification of Substitute Members	
3. Urgent Items	
4. Notification of Visiting Members	
5. Disclosures by Members and Officers	
6. Disclosures of Lobbying	
7. To consider whether any items should be taken in private because of the possible disclosure of exempt information	
8. Minutes of the meeting held on 14 September 2020	1 - 9
9. Question and answer session for members of the public (if any)	
10. Questions from Members to the Chairman (if any)	
11. Committee Work Programme	10
12. Annual Governance Statement Update	11 - 20
13. Data Protection Action Plan - Progress Update	21 - 35
14. Treasury Management Mid-Year Review 2020/21	36 - 45

Issued on Friday 6 November 2020

Continued Over/:



Alison Broom, Chief Executive

- | | |
|--|----------|
| 15. External Audit Update November 2020 | 46 - 90 |
| 16. Budget Strategy - Risk Assessment Update | 91 - 107 |

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 12 November 2020). 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 submit a written 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 12 November 2020). 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 14 SEPTEMBER 2020

Present: Councillor Harvey (Chairman) and Councillors Adkinson, Brindle, Coulling (Parish Representative), Cox, Daley, Fissenden, Perry, Round and Titchener (Parish Representative)

Also Present: Mr Paul Dossett and Ms Tina James of Grant Thornton (External Auditor)

118. APOLOGIES FOR ABSENCE

There were no apologies for absence.

119. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

120. URGENT ITEMS

The Chairman said that, in her opinion, the updated audit findings report and progress report of the External Auditor should be taken as urgent items as the documents related to the 2019/20 Statement of Accounts which were already included on the agenda.

121. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

122. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

123. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

124. EXEMPT ITEMS

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

125. MINUTES OF THE MEETING HELD ON 29 JULY 2020

RESOLVED: That the Minutes of the meeting held on 29 July 2020 be approved as a correct record and signed.

126. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

127. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members to the Chairman.

128. COMMITTEE WORK PROGRAMME

The Committee considered its work programme for the period 16 November 2020 to 31 March 2021.

The Head of Audit Partnership advised the Committee that the Internal Audit Interim Report 2020/21 was scheduled to be submitted to the Committee in November 2020. However, due to the changes made to the Internal Audit and Assurance Plan to reflect updated priorities as a result of COVID-19, there had been a delay and it was suggested that the Interim Report be put back to January 2021 when more of the Plan will have been completed.

In response to questions, the Head of Audit Partnership advised the Committee that:

- The arrangement was that individual Internal Audit projects would only be reported back to the Committee if they received an adverse assurance rating which was a weak or poor assurance rating in the current system. In the absence of an adverse assurance rating on an individual project, it would be summarised in Internal Audit's interim or annual reporting. Remote IT access had been included in the updated Internal Audit and Assurance Plan and would follow the same path as every other project i.e. if, when the review was completed, there was an adverse assurance rating, it would be reported back to Members as a separate item. If it received a positive assurance rating, the findings would be summarised as part of a larger report.
- Contract management had been reported to Members as a separate item because it had received an adverse assurance rating. The Council was currently working towards implementing the agreed actions arising from the review and it was an area that would be looked at in detail as part of next year's plan. Contract management was an incidental part of a number of other reviews and further information would be gathered as the Plan was completed.
- If issues relating to decision making or governance were encountered as part of other reviews, the Plan was flexible and he might ask the Internal Audit team to look at the topic individually, but it was not included in the Plan at present.
- The Internal Audit team was looking to pilot a piece of work at Ashford Borough Council about remote working and might undertake a similar piece of work at Maidstone in due course. However, based on the risk

landscape at the moment it was not a topic that would be taken forward at Maidstone at this time.

RESOLVED: That subject to the submission of the Internal Audit Interim Report 2020/21 being put back to January 2021, the Committee work programme be noted.

Note: Councillor Fissenden joined the meeting during consideration of the Committee work programme (6.40 p.m.).

129. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

The Principal Solicitor, Contentious and Corporate Governance, presented her report updating the Committee on complaints under the Members' Code of Conduct (a) previously reported as under consideration and (b) received in the period 1 March 2020 to 1 September 2020. The report also included an update on the Local Government Association's (LGA) draft Model Member Code of Conduct.

The Principal Solicitor, Contentious and Corporate Governance, advised the Committee that:

- The complaints related mainly to Parish Councillors, but only four Parish Councils were involved and there did not appear to be any widespread single issue. Recommendations and suggestions had been made regarding training where appropriate, but no responses had been received. This could be due to the COVID-19 pandemic.
- Following the last meeting of the Committee in July 2020, the Monitoring Officer had contacted the LGA asking for an extension of time on the consultation on the draft Model Member Code of Conduct but did not receive a response. It was understood that the consultation was now closed and that the LGA was considering the responses and would publish its conclusions in due course.

In response to questions, the Principal Solicitor, Contentious and Corporate Governance, explained that:

- The Localism Act 2011 required all Parish Councils to adopt a Member Code of Conduct. They were permitted to adopt their own Code or to adopt that of the Principal Authority. Most Parish Councils in the Maidstone area had adopted a similar Code to the Borough Council based on a Kent-wide model. A few Parish Councils had adopted their own Code. Although Parish Councils were required by law to adopt a Member Code of Conduct, there was no sanction or punishment if they failed to do so. She was not aware of any Parish Councils in the Borough that did not have a Member Code of Conduct. They were mostly adopted around 2012 and were usually published on the Parish Council's website if it had one.
- The complaints made against Parish Councillors involved four Parish Councils, but not necessarily the same complainants or subject

Members and there did not seem to be one issue that was recurring across all Parishes. This type of data was kept under review by the Monitoring Officer.

- Once there was a national adopted version of the Model Member Code of Conduct, that would be considered by the County Council and they would take a view on what they would want to take forward as their adopted model. That would then be looked at by the Principal Authorities who would decide for themselves what they want to adopt and then Parish Councils would have the discretion to decide whether they wish to adopt the same Code as the Principal Authorities or adopt their own version.

During the discussion concern was expressed that the draft Model Member Code of Conduct was a loosely and badly drafted document and to adopt it would be a retrograde step. The Principal Solicitor, Contentious and Corporate Governance, confirmed that these views had been conveyed to the LGA.

RESOLVED: That the report be noted.

130. AUDIT, GOVERNANCE & STANDARDS COMMITTEE ANNUAL REPORT 2019/20

The Head of Audit Partnership presented the Committee's Annual Report 2019/20. It was noted that:

- The production and presentation of an annual report was required by the Committee's Terms of Reference. The purpose of the report was to outline where the Committee had gained assurance during the year, particularly over areas of governance, risk management, standards and internal control.
- The overall conclusion was that, based on the activity during the year, the Committee could demonstrate that it had appropriately and effectively fulfilled its duties during 2019/20. The Committee had continued to work in partnership with the Council's Internal Auditors, Finance Team, Senior Officers and appointed External Auditors to provide independent assurance to the Council on a wide range of risk, governance, internal control and conduct related issues.

The Committee agreed that subject to minor presentational improvements suggested by the Chairman and Vice-Chairman and accepted by the Head of Audit Partnership, the Audit, Governance and Standards Committee Annual Report for 2019/20 be approved for submission to the Council.

The Head of Audit Partnership advised the Committee that he would be meeting with the Chairman and the Director of Finance and Business Improvement to discuss the programme of updates and development briefings to be delivered during 2020/21. Members were requested to submit suggested topics and formats for consideration. One possible topic

could be the results of the independent review, led by Sir Tony Redmond, into the effectiveness of local authority financial reporting and audit.

RESOLVED:

1. That subject to minor presentational improvements suggested by the Chairman and Vice-Chairman and accepted by the Head of Audit Partnership, the Audit, Governance and Standards Committee Annual Report for 2019/20 be approved for submission to the Council.
2. That the Officers be thanked for their work in difficult circumstances due to COVID-19.

131. 2020/21 UPDATED INTERNAL AUDIT & ASSURANCE PLAN

The Head of Audit Partnership submitted a report setting out an updated Internal Audit and Assurance Plan for 2020/21 following significant changes to the Council's risks and priorities as a result of the COVID-19 pandemic and the diversion of audit time towards the emergency response. It was noted that in preparing the Plan, the Internal Audit team had consulted widely within the audit profession, conducted research on published audit plans across various authorities paying attention to changes that would be relevant to Mid-Kent Audit and consulted senior managers across the Council on changes to their risks and priorities. The Plan reflected these changes and would be kept under review.

The Head of Audit Partnership said that he wished to highlight the work which would be undertaken in relation to (a) Remote IT Access due to the significant increase in remote access demands with homeworking and (b) the Community Hub.

In response to questions, the Head of Audit Partnership advised the Committee that:

- In terms of the implications of a disorderly Brexit, it had been the intention as part of the 2019/20 Plan to undertake an examination of the Council's emergency planning arrangements. That review was not taken forward because the COVID-19 pandemic provided a live test of those arrangements and the assurance required. The Council's approach to Brexit was not included in the Plan at present, but it could be added as the risk develops over the next few months.
- The decision, in consultation with the Planning service, to remove the proposed review of Community Infrastructure Levy arrangements from the Plan and to concentrate audit time on Section 106 agreements was due to the need to prioritise as a result of the overall reduction in audit resources and was in line with the priorities set earlier in the year.
- The proposed review of Planning Administration had been removed from the Plan due to the significant fall in the number of planning applications which lowered the audit risk. This might change, but, at

present, it would be difficult to make a sample that could be examined.

- The audit review of Climate Change would involve looking at the action plan and making sure that arrangements are in place to achieve those actions.
- The audit review of Remote IT Access had been added to the Plan as a high priority. Internal Audit would examine the arrangements for managing access and keeping systems accessed remotely secure. The review was scheduled for completion in quarter two with a final report by the end of the calendar year.

RESOLVED:

1. That the updates to the 2020/21 Internal Audit and Assurance Plan be approved.
2. That the approach for keeping the Plan current through the year be noted.
3. That the Head of Audit Partnership's conclusion that he has updated the Plan with independence and objectivity free from undue influence be noted.

132. ACCOUNTS 2019/20

The Senior Finance Manager (Client) introduced his report setting out an amended audited Statement of Accounts together with an updated audit findings report and progress report from Grant Thornton, the External Auditor.

The Senior Finance Manager explained that:

- The Statement of Accounts was submitted to the meeting of the Committee in July 2020 for approval, but audit work was still ongoing at that time including seeking assurance regarding the pension figures provided by the actuary. Subsequent audit work had led to further adjustments in respect of the capital figures in the Statement which could be summarised as follows:

The Brunswick Street car park should have been written out of the Property, Plant and Equipment balance following the disposal of the site for housing development. The net value of the car park was £0.273m.

The car park at the Lockmeadow Complex was now included as a separate asset as part of Property, Plant and Equipment. It had been previously included within the overall valuation of the Complex. The car park had been valued at £2.825m and the Balance Sheet figures for 2018/19 had been restated to reflect this, together with some other notes.

- Due to the ongoing work on the audit, further changes to the Accounts might be required. The Committee was therefore asked to delegate approval of any further non-material changes to the Director of Finance and Business Improvement in consultation with the Chairman and Vice-Chairman of the Committee. If any material changes were required, particularly in relation to the pensions issue, it would be necessary to report the Statement of Accounts back to the November meeting of the Committee for re-approval.

Mr Paul Dossett of Grant Thornton, the External Auditor, said that he did not anticipate the pensions figures being an issue. There were a few other minor matters that needed to be addressed, the principal one being the adjustment relating to the Lockmeadow car park which would have an impact on the Statement of Accounts. He would not expect any significant material issues to arise at this stage of the audit that would need to be reported to Members.

In response to questions:

Mr Dossett advised the Committee that:

- In terms of the Kent Pension Fund, all of the audit work was very close to completion.
- Typographical, grammatical and presentational errors in the External Auditor's audit findings report identified during the discussion would be corrected in the final version of the report.

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

- The appropriate level of reserves was a matter of judgement, but in developing a new Medium Term Financial Strategy, consideration would be given to increasing the required minimum level of reserves to £4m.
- Action was being taken to improve performance in collecting related party disclosure forms.

The Head of Finance advised the Committee that:

- Typographical errors in the Statement of Accounts identified during the discussion would be corrected in the final version.
- If there were immaterial rounding errors, it was not the policy to go back and correct them as there could be a knock-on effect elsewhere in the Statement.
- A comment would be included in the notes to the Statement of Accounts to explain that the increase in the Chief Executive's salary related to her Returning Officer's pay rather than a general pay increase.

- In terms of revenue recognition, the Council was required to account on an accruals basis for both income and expenditure.
- The figures for Maidstone Property Holdings Limited would have to appear in the Accounts at the point that they became material, but consideration was being given to including them in 2021/22.
- On the Balance Sheet as at 31 March 2019 and 2020, short term liabilities related to the short term loans taken out following the acquisition of the Lockmeadow Complex when short term rates were very competitive. The movement in unusable reserves related to a combination of the pensions reserve and asset revaluations.

RESOLVED:

1. That subject to the typographical, grammatical and presentational errors raised in the discussion being corrected in the final version, the updated audit findings report, attached as Appendix 1 to the External Audit urgent update, be noted and that the representations contained therein be agreed.
2. That the progress report of the External Auditor, attached as Appendix 2 to the External Audit urgent update, be noted.
3. That subject to the points raised in the discussion, the amended audited Statement of Accounts 2019/20, attached as Appendix 1 to the report of the Senior Finance Manager (Client), be approved.
4. That in the event of any further non-material changes being required to the Statement of Accounts, approval be delegated to the Director of Finance and Business Improvement in consultation with the Chairman and Vice-Chairman of the Committee.

133. **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. It was noted that COVID-19 had had a major impact on the Council's financial position. The position had not changed significantly since the last meeting of the Committee in July 2020, except that the likelihood of a rapid economic recovery appeared to have receded still further. There was also an increased risk of a disruptive transition to new trading arrangements with the EU on 31 December 2020 and the likelihood of a further one year funding settlement for local government in 2021/22 meant that the Council continued to lack the assurance needed for robust long term financial planning.

During the discussion, several Members expressed the view that it would be prudent to consider increasing the required minimum level of reserves to £4m.

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.

134. DURATION OF MEETING

6.30 p.m. to 8.05 p.m.

2020/21 WORK PROGRAMME

	Committee	Month	Origin	CLT to clear	Lead	Report Author
Annual Complaints Report 2019/20	AGS	18-Jan-21	Officer Update	Yes	Angela Woodhouse	Orla Sweeney
Internal Audit Interim Report 2020/21	AGS	18-Jan-21	Officer Update	No	Rich Clarke	Rich Clarke
Annual Risk Management Report	AGS	18-Jan-21	Governance	Yes	Rich Clarke	Alison Blake
External Audit Fee Letter	AGS	18-Jan-21	Governance	No	Mark Green	Ellie Dunnet
External Auditor's Annual Audit Letter	AGS	18-Jan-21	Governance	No	Mark Green	Ellie Dunnet
Budget Strategy Risk Assessment Update	AGS	18-Jan-21	Officer Update	No	Mark Green	Mark Green
Treasury Management, Investment and Capital Strategy	AGS	18-Jan-21	Strategy Update	No	Mark Green	John Owen
Housing Benefit Grant Claim	AGS	15-Mar-21	Governance	No	Sheila Coburn	Liz Norris
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	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 Maidstone Borough Council Code of Conduct and Arrangements	AGS	TBC	Governance	No	Patricia Narebor	Jayne Bolas

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

16 November 2020

Annual Governance Statement Update

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

Executive Summary

This report provides the Committee with an update on those matters identified in the Annual Governance Statement as requiring action.

Purpose of Report

For noting

This report makes the following recommendations to this Committee:

To note the update on progress with the Annual Governance Statement Action Plan.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	16 November 2020

Annual Governance Statement Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	Effective corporate governance arrangements ensure the Council's priorities are understood and delivered.	Head of Policy, Communications and Governance
Cross Cutting Objectives	Effective corporate governance arrangements ensure the Council's cross cutting objectives are understood and delivered.	Head of Policy, Communications and Governance
Risk Management	The AGS considers and gives assurance on the Council's approach to risk management.	Head of Policy, Communications and Governance
Financial	Carrying out the actions identified in the AGS helps to ensure that the Council maintains high governance standards.	Section 151 Officer & Finance Team
Staffing	The action plan will be delivered within current staffing resources.	Head of Policy, Communications and Governance
Legal	Effective governance ensures that the Council is acting lawfully.	Head of Policy, Communications and Governance
Privacy and Data Protection	Maintaining high standards in relation to privacy and data protection have been identified in the Annual Governance Statement as a key part of the governance framework and carried forward into the action plan and update.	Policy and Information Team
Equalities	Good governance will ensure the Council is adhering to the public sector equality duty.	Policy & Information Manager
Public Health	No implications.	Public Health Officer
Crime and Disorder	No implications.	Head of Policy, Communications and Governance
Procurement	No implications.	Head of Policy, Communications and Governance

2. INTRODUCTION AND BACKGROUND

- 2.1 The Annual Statement of Corporate Governance for 2019-20 was considered and approved by the Committee on 29 July 2019. The statement contained an Action Plan for 2020-21. This report provides an update on the progress made against the Action Plan.
- 2.2 The actions outlined in Appendix A arose from areas identified in the corporate governance statement as requiring additional action to maintain the Council's governance standards.
- 2.3 A number of areas were identified for action including:
- Data Protection
 - Community Resilience
 - Exit from the EU
 - Financial Risk
- 2.4 Progress has been made across all areas as outlined in Appendix A. A full report on data protection including a new Action Plan created as a result of our self-assessment against the Information Commissioner's Office accountability framework tracker is also included on this agenda for information. Work has continued on updating the Council's Record of Processing Activity and the outcomes of the review of CCTV. The pandemic did impact the speed at which this has been completed as the Policy and Information Team were redeployed to assist the Council's response via the Community Hub.
- 2.5 Work on building community resilience and capturing the benefits of the developments in our relationships with community groups, voluntary organisations and parish councils has begun. The Council will be developing a local compact and updating the Parish Charter to reflect the role of all our community groups in emergencies. Communities, Housing and Environment Committee will oversee this work with an update expected in February 2021.
- 2.6 Financial resilience was identified as a risk in the Council's corporate risk register and as a result was included on the Action Plan. The financial impact of Covid-19 is monitored in parallel with regular monthly financial reporting and monthly reports are submitted to the Minister of Housing, Communities and Local Government (MHCLG) setting out the impact of Covid-19 for Maidstone Borough Council. The impact of Covid-19 is specifically addressed in our quarterly financial performance monitoring reports to members via the service committees.
- 2.7 The corporate risk register included a risk created by the potential exit from the European Union (EU) on unfavourable terms. Officers with emergency planning responsibilities are now meeting regularly to plan for any short-term impacts from EU transition on 31/12/20. The Council is part of the Kent Resilience Forum and participates in regular tactical and strategic coordination groups to plan for EU transition. Individual service

area contingency plans have been reviewed and updated in light of potential threats arising from EU transition.

3. AVAILABLE OPTIONS

- 3.1 The Committee could decide not to consider the Action Plan. Considering the Action Plan is however a key part of the Committee's governance remit.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 As stated in section 3.1 considering the Action Plan is a key part of the Committee's governance remit. The Committee is asked to note the update provided on the actions developed as a result of the annual review of governance.
-

5. RISK

- 5.1 This report is presented for information only. Key corporate risks have been identified in the Annual Governance Statement Action Plan.
-

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 The Committee is invited to provide feedback on progress with the Action Plan.
-

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 This report has been provided to update the Audit, Governance and Standards Committee and will be publicly available via the Committee papers on the Council's website. Any recommendations for further action by the Committee in regard to the Action Plan will be carried forward.
-

8. REPORT APPENDICES

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

- Appendix A: Annual Governance Statement Action Plan Update

9. BACKGROUND PAPERS

None.

Update on Annual Governance Statement - Action Plan 2020-21

Key improvement area	Lead Officer	To be delivered by	Update
Ensure financial risk arising from the impact of COVID-19 are managed.	Director of Finance and Business Improvement	1 November 2020 1 March 2021	The financial impact of Covid-19 is monitored in parallel with our regular monthly financial reporting and monthly reports are submitted to MHCLG setting out the impact of Covid-19. The impact of Covid-19 is specifically addressed in our quarterly financial performance monitoring reports to members.
Poor management of contracts or financial resilience of contractors leads to significant contract failure disrupting services and creating extra liabilities. Potential impact on the capital programme because of the resilience of our contractors.	Director of Finance and Business Improvement	1 November 2020 1 March 2021	Contract management is recognised as a specific skillset. Contract managers receive training and are familiar with the Council's contract management toolkit. Financial variances on individual contracts are identified as part of the budget monitoring process and action taking accordingly. Supplier resilience is checked at the point of contract award and, where appropriate, during the course of contract delivery.
Exit of EU on unfavourable terms results in adverse short-term Brexit impacts	Director of Finance and Business Improvement	1 November 2020	Officers with emergency planning responsibilities are now meeting regularly to plan for any short-term impacts from EU transition on 31/12/20. The Council is part of

Key improvement area	Lead Officer	To be delivered by	Update
Capacity to deliver the investment and regeneration programme – (link to Corporate Risk Register).	Director of Regeneration and Place	1 March 2022	Within the Council's 5-year capital programme, around £60m has been allocated for investment in housing and regeneration type projects. The Regeneration & Economic Development service area has been refocussed to lead on this work. The team has taken on additional staffing resources to assist in delivery, as well as undertaken a number of specialist training programmes, and is now well supported by a trusted pool of specialist external consultancy firms too, providing the likes of Employers Agent and Architects services. There is an acceptable order book of potential suitable projects to deliver, but the challenge is that of taking these to contract stage with the required financial outputs. For example there is viability pressure on these schemes, and so staff have to work more intensively to overcome these as well as seek to secure additional subsidy sources too. Perhaps this is the case in particular with the Council's return to investment in affordable housing, where returns are proving challenging, and this issue will be explored in more detail in the Council's next capital

Key improvement area	Lead Officer	To be delivered by	Update
			programme, either in terms of reviewing hurdle rates or the particular tenures offered.
Property Maintenance, Health and Safety Compliance.	Director of Finance and Business Improvement	1 March 2021	Compliance with all legal requirements is monitored and reported regularly to CLT. Where the Council is not directly responsible (eg responsibility lies with our tenants) we nevertheless follow up with tenants to ensure that they are compliant.
Ensuring we are resilient and continue to build relationships with partners.	Chief Executive	1 March 2021	Policy and Resources commissioned a report for Communities, Housing and Environment Committee looking at community resilience and how the Council can build on the activity during the Pandemic. The report recommends a new community compact with the voluntary and community sector and refreshing the Parish Charter to recognise the roles played by these bodies in an emergency. A new monthly newsletter for Parish Councils is in place and three joint webinars with the Maidstone branch of Kent Association of Local Councils will be held in 2020-21 to which all parish councillors will be invited.

Key improvement area	Lead Officer	To be delivered by	Update
Declaration of Interests.	Monitoring Officer	1 November 2020	Action remains outstanding to standardise the officer gifts & hospitality registers currently maintained separately by each directorate. This involves the support of the digital team who have had to prioritise work on the pandemic to create all the digital processes required.
Promoting decision making on Garden Communities ensuring information is publicly available and accessible and the role of the council as developer versus the role as the planning authority is clear.	Chief Executive	1 March 2021	<p>The Council continues to apply the public interest test to reports and information regarding the Garden Community Proposal. Regular update reports on the progress of the Garden Community are received by the Policy and Resources Committee. The Council continues to separate the roles of planning authority and developer with the appointment of a separate director to oversee the planning service and Local Plan Review, allowing the Director of Regeneration and Place to oversee the development of the Garden Community Proposal separately.</p> <p>Political decision making is also separated with the Policy and Resources Committee take responsibility for the Council's role as promoter of this proposition and the Strategic Planning and Infrastructure Committee for</p>

Key improvement area	Lead Officer	To be delivered by	Update
			consideration of the Garden Settlement in options for the spatial development strategy 2022-2037

Audit, Governance and Standards Committee

16 November 2020

Data Protection Action Plan – Progress Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Angela Woodhouse - Head of Policy Communications and Governance/Data Protection Officer
Lead Officer and Report Author	Anna Collier Policy and Information Manager
Classification	Public
Wards affected	All

Executive Summary

The Data Protection Act 2018 became law in May 2018. An action plan has been in place since 2017 to ensure the Council was prepared for the changes and to ensure it maintains compliant. This report provides an update on progress and sets out further actions required.

Purpose of Report

Noting

This report makes the following recommendations to this Committee:

1. To note national context and progress to date.
2. To note next steps and new action plan.

Timetable

Meeting	Date
Corporate Leadership Team	3 November 2020
Audit, Governance and Standards Committee	16 November 2020

Data Protection Action Plan – Progress Update

Issue	Implications	Sign-off
Impact on Corporate Priorities	Accountability supports organisations to minimise the risk to personal data held, by putting in place appropriate and effective policies, procedures and measures. By reducing risk and ensuring we have appropriate arrangements in place the Council will be able to meet our corporate objectives.	Policy and Information Manager
Cross Cutting Objectives	The report recommendation supports the achievements of all cross-cutting objectives. It does this by ensuring that the Council collects, processes, stores and deletes residents' personal information responsibly and in accordance with the GDPR/DPA 18 whilst delivering its objectives.	Policy and Information Manager
Risk Management	This action plan identifies actions to mitigate and manage risk in relation to the personal data held and processed by the Council.	Policy and Information Manager
Financial	The proposals set out in the recommendation are all within already approved budgetary headings and so need no new funding for implementation.	Policy and Information Manager
Staffing	We will deliver the recommendations with our current staffing.	Policy and Information Manager
Legal	Accepting the recommendations will fulfil the Council's duties under the General Data Protection Regulations and the Data Protection Act 2018.	Legal Team
Privacy and Data Protection	Accepting the recommendations will fulfil the Council's duties under the General Data Protection Regulations and the Data Protection Act 2018.	Policy and Information Manager
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Policy & Information Manager
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Public Health Officer
Crime and Disorder	No Impact	Policy & Information Manager

Procurement	No Impact	Policy & Information Manager
--------------------	-----------	------------------------------

1. INTRODUCTION AND BACKGROUND

- 1.1. The purpose of this report is to provide an update on the progress of compliance with the Data Protection Act 2018 (the General Data Protection Regulation (GDPR)) that became law on the 25 May 2018.
- 1.2. A report was first presented in November 2017 which set out the proposed resources and actions required for compliance, alongside a detailed action plan. Members have been provided with an update at least once a year since.
- 1.3. The Council has worked proactively to improve how we manage and hold personal data in-line with the Data Protection Act. Whilst there have been additional burdens in terms of the work required to meet the Act the actions taken have improved how the Council operates and how we manage and use personal data. Colleagues across the Council have been receptive to change and training to increase understanding and awareness of data protection and effective data management across the Council.
- 1.4. This report provides an update on key changes and points of note, progress against the action plan and highlights the areas where further work is required.

2. Information of note

Exiting the EU

- 2.1. When the UK leaves the EU, the Government has passed legislation so that personal data can continue to be processed between the UK and the EEA. However the UK is seeking adequacy decisions from the EU under both the General Data Protection Regulation and the Law Enforcement Directive (LED) which, if secured by the end of the EU Exit transition period on 31st December 2020, will allow for the free flow of personal data between the UK and the EU/EEA to continue uninterrupted.
- 2.2. The EU uses adequacy decisions to recognise that a country has data protection standards which are "essentially equivalent" to those in the EU, so there are no restrictions on transfers of personal data from the EU to that country, and no need for organisations to put in place any further arrangements to transfer data to organisations in that country.
- 2.3. On the 1st January 2021, at the end of the transition period, if no alternative agreement is in place, the UK will not retain its adequacy status and will become a 'third country' for data protection purposes. In the event that the European Commission have not recognised the UK as adequate by

the end of the transition period, transfer of personal data from the EEA to the UK will be restricted unless appropriate safeguards are in place, or the transfer benefits from one of the statutory exceptions.

- 2.4. Whilst it may seem that the Council would not process data from the EEA or send information to be processed by the EEA, processing includes the systems which are used for processing purposes and this means identifying whether 'cloud' or host supplier arrangements, including back-up facilities, may fall under this data flow category.
- 2.5. The Council has received guidance from MHCLG, for preparing for data protection after the EU Exit transition period ends. It recommends 3 key actions to be undertaken before 31 December 2020:
 - Conduct an audit of personal data processing in your organisation, where the data is received from or sent to a third party.
 - Identify your data flows from the EU/ EEA to the UK, and where you need to put in place alternative arrangements to allow data flows to continue in a 'no adequacy' scenario, take appropriate action.
 - Identify data stored by EEA processors, for example cloud storage providers based in the EU and take appropriate action.
- 2.6. A majority of this work was completed at the end of 2019 and the beginning of 2020, and no major risks were identified. There are a couple of areas where further work is still required to ensure that systems are solely based in the UK and this is currently underway.

Information Commissioner's Office applying powers

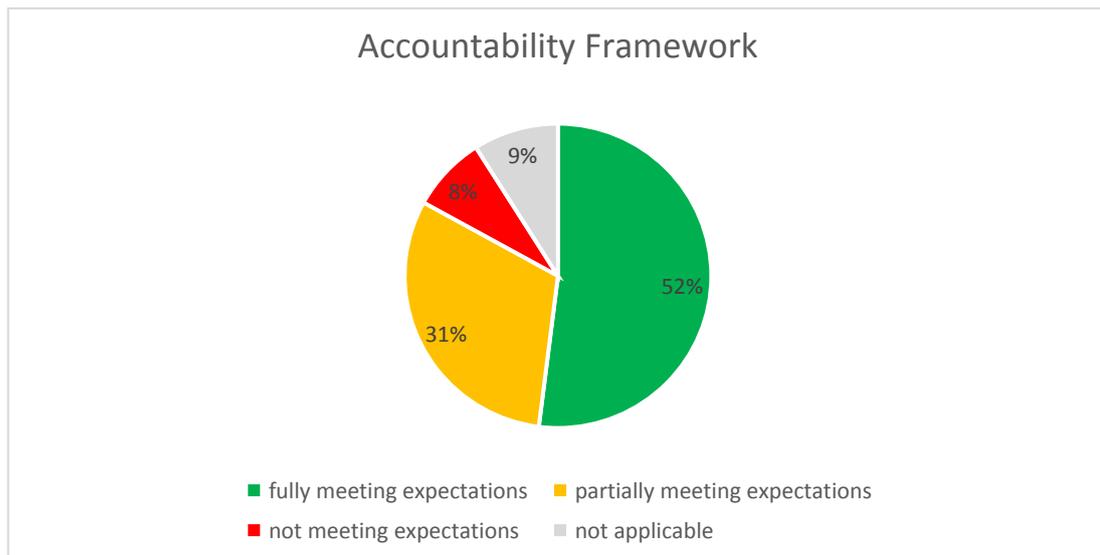
- 2.7. At the Committee meeting in January 2020, members were circulated information on the first action taken by The Information Commissioner's Office (ICO) for breaches of the Data Protection Act 2018/General Data Protection Regulations.
- 2.8. Since then the ICO has also fined British Airways £20m for failing to protect the personal and financial details of more than 400,000 of its customers, after a cyber-attack.
- 2.9. An enforcement notice has also been served on Experian to make fundamental changes to how it handles people's personal data. It was identified that significant 'invisible' processing was being undertaken, likely affecting millions of adults. It is 'invisible' because the individual is not aware that the organisation is collecting and using their personal data.

The ICO's Accountability Framework

- 2.10. Accountability is one of the key principles in data protection. It requires that you comply and are able to demonstrate your compliance with the legislation.
- 2.11. Accountability supports organisations to minimise the risk to personal data held, by putting in place appropriate and effective policies, procedures and measures. These must be proportionate to the risks, which can vary

depending on the amount of data being handled or transferred, its sensitivity and the technology used.

- 2.12. The ICO have produced a framework including an 'accountability tracker' to enable organisations to review their own arrangements and create plans to improve.
- 2.13. The Framework has ten themes, with a range of actions which an organisation complying with accountability and demonstrating best practice will demonstrate. When completing the self-assessment, the organisation will rank itself as, fully meeting, partially meeting or not meeting expectations.
- 2.14. A self-assessment of Maidstone's arrangements and compliance has been undertaken. A cautious and risk averse approach was taken to scoring, as the self-assessment is for the authority's benefit to identify areas of improvement. Maidstone's overall scores, and summary of performance across the areas can be seen below.



Accountability Framework Theme	Score - fully meeting expectations	Areas for improvement
The organisation has good leadership in place, making sure that staff have clear responsibilities for data protection-related activities at a strategic and operational level.	83%	Resources in place and documented roles and responsibilities.

Accountability Framework Theme	Score - fully meeting expectations	Areas for improvement
The organisation has policies and procedures providing clarity and consistency, by communicating what people need to do and why.	41%	Existing policies and procedures need updating, and should be consistent in style.
The organisation makes sure that all employees receive appropriate training about your privacy programme, including what its goals are, what it requires people to do and what responsibilities they have.	62%	New training programme needs to be developed and needs to cover different learning styles.
The organisation facilitates requests around individual's rights effectively.	76%	Clearer processes and procedures need to be in place to document decision making.
The Organisation has a 'data protection by design and by default' approach and this is documented by clear transparent privacy notices and staff awareness.	26%	Privacy Notice and statements need to be updated and a clear procedure and record keeping need to be in place to document privacy notice development moving forward.
It's a legal requirement for an organisation to document processing activities. Taking stock of what information is held, where it is and how it is processed.	35%	The Record of Processing Activity (ROPA) has recently been reviewed but changes need to be implemented and a regular review needs to be recorded.

Accountability Framework Theme	Score - fully meeting expectations	Areas for improvement
It is good practice for to have written data sharing agreements when controllers share personal data. Written contracts help controllers and processors to demonstrate compliance and understand their obligations, responsibilities and liabilities.	67%	Some work is required to ensure Data Protection is embedded in the Procurement process, clearly.
The organisation identifies, assesses and manages privacy risks.	45%	An information Risk Policy and register is required. Information Risk needs to be included in more processes.
The organisation has good records management, it has good information access and has a good understanding of records processing	60%	Clearer processes to be implemented around use of social media and logs of system access to be as well documented and controlled as within ICT.
The organisation is able to detect, investigate, risk-assess and record any breaches. It has effective processes in place to decide when to report them as appropriate.	53%	Information on data protection needs to be more readily available for residents. Performance measures need to be put in place that are monitored regularly.

2.15. A majority of the actions are either in place or partially in place. Those that are partially in place may need updating, formalising, or expanding to meet the ICO's expectations.

2.16. The lowest scoring area is focussed on privacy notices and information, how we inform people we are using their data. We are fully or partially

meeting the majority of requirements, only 4 actions are red and these have been picked up in the action plan.

- 2.17. Overall only 9% of actions do not meet expectations, this equates to 28 actions. None of these are high risk areas, which should be cause for alarm and can be mitigated. The only area which has limited mitigation is

Your organisation can deal with any increase in requests or reduction in staffing levels.

- 2.18. Resources are already limited on Data Protection. Over the next year, more of the Policy and Information and Executive Support teams will receive training on some aspects of Data Protection (e.g. redaction, rights requests) to provide some resilience but day to day resource is limited.
- 2.19. The self-assessment has been used to inform the updating of the new action plan which can be seen at appendix 1.

3. Progress to date and New Action Plan

- 3.1. There were three key areas discussed at the Committee meeting as being outstanding

- Updating of the Asset Register
- Implementing of actions from the CCTV review when it was completed
- Implementing actions from the Record of Processing Activity (ROPA) review when it was completed.

- 3.2. The ROPA and CCTV review completed in February. Due to the pandemic progress on remaining actions were paused. Resources in the Policy and Information Team were redeployed to support in a number of areas, over the lockdown period, and work on Data Protection has mainly focused on ensuring that necessary actions taken to respond to the health crisis were secure and appropriate.

- 3.3. Actions following the CCTV review have continued all be it slowly and policies have been developed and are in draft.

- 3.4. The new action plan can be seen at appendix 1. The new action plan incorporates those areas outstanding from the old action plan and those areas identified from the accountability self-assessment as not or partially meeting expectations. It also includes the remaining work to ensure compliance should the UK not receive adequacy status when it exits the EU.

- 3.5. The action plan is substantial and resembles the size of the action plan that the Council had when first implementing actions in preparation for GDPR in 2017. This is not to say the same work is required whereas the original action plan was focussed on compliance, this action plan is more detailed and focusses on best practice and information management in the round not Data Protection singularly.

3.6. The action plan covers the next 15 months. The next six to nine months will be focussed on

- Ensuring compliance for Exiting the EU
- Updating existing policies to ensure they are in line with best practice and new guidance
- Developing a new training programme which is appropriate to different roles within the organisation
- Implementing a new programme of Information Audits to develop information asset registers, and ensure services have appropriate processes in place.
- Ensuring Information Risk is appropriately managed.

3.7. Delivery of the action plan will be overseen by the Information Management Board.

4. AVAILABLE OPTIONS

4.1 The committee continues to receive an annual update on the progress of embedding GDPR into the Council's processes.

4.2 The committee could choose to receive reports on specific areas of GDPR instead of an annual update.

4.3 The Committee could choose not to receive any further updates on the delivery of the GDPR action plan.

5. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

5.1 That the committee continues to receive an annual update on the progress of embedding GDPR into the Council's processes until all actions become business as usual.

6. RISK

6.1 Accountability supports organisations to minimise the risk to personal data held, by putting in place appropriate and effective policies, procedures and measures. These must be proportionate to the risks, which can vary depending on the amount of data being handled or transferred, its sensitivity and the technology used.

7. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

7.1 The Committee has received a regular update since 2017. The chair of the committee also holds a place on the Council's Information Management Group, which oversees the GDPR action plan.

8. REPORT APPENDICES

- DPA Action Plan 2020/21

Action	Comments	Start Date	End Date	Responsible	Status
All Data Protection, records management and information security Policies need to be reviewed and updated	Policies should: clearly outline roles and responsibilities, be easily available and sign posted, have a clear review date. Review use of consents information sharing, information risk, data breaches, DPIAs	17/11/2020	31/12/2020	Anna Collier	Planned
Operational guidance and procedures needs to be reviewed and updated.	Procedures should clearly outline roles and responsibilities, internal and external transfer of data be easily available and sign posted, have a clear review date, Introduce new procedures around method of recording individual's right to dispute Whilst privacy notices and statements are updated processes aren't in place to update customers in these circumstances. review consents, review information sharing, DPIAs. Data breaches	17/11/2020	31/12/2020	Anna Collier	Planned
Promote updated policies and guidance for staff		04/01/2021	31/01/2021	Angela Woodhouse	Planned
Explore ways of recording that staff have read policies and procedures		01/12/2020	31/12/2020	Angela Woodhouse	Planned
*Data protection pages to be made more visible		04/01/2021	31/01/2021	Lauren Connett	Planned
Job descriptions for MG, AW, AC, OS and LC need to be updated		16/11/2020	30/11/2020	Angela Woodhouse/Anna Collier	Planned
create dashboard to monitor data protection activity		01/11/2020	31/03/2020	Anna Collier /Carly Benville	Started

Action	Comments	Start Date	End Date	Responsible	Status
Review Logs to ensure best practice - Rights log (SAR). Infor sharing, DPIA and Data Breach need to be reviewed.		17/11/2020	30/11/2020	Anna Collier/Lauren Connett	Planned
Recording Processes to be reviewed to ensure they can be handed over to new staff or other team members if required		17/11/2020	31/12/2020	Anna Collier/Lauren Connett	Planned
rolling agenda to be introduced for Operational Data protection meetings		07/10/2020	07/10/2020	Anna Collier	Completed
Action Points of operational meetings to be kept and reviewed each meeting		22/10/2020	22/10/2020	Lauren Connett	Completed
Develop DP training programme inc specialist training, induction training, elearning, managers briefings, team talks and ad hoc team briefings	Training should: Cover individuals rights, DPIA, consents, information sharing, privacy, information security, data breaches. Be developed with Learning and Development Mgr. Cover a mixed learning approach. Be signed off by WLT. Roles where training should be specialist should be identified, If you obtain personal data from a source other than the individual it relates to, privacy information is provided to individuals within a reasonable period no later than one month of obtaining the data.	04/01/2021	31/03/2021	Angela Woodhouse	Planned

Action	Comments	Start Date	End Date	Responsible	Status
Undertake programme of information audits	Audits should include: an audit of all forms to ensure privacy statement is correct, an audit of privacy notices, an audit of all systems to review progress in erasure, anonymisation, introduce regular survey as part of the programme of ongoing audits, Review use of consents, and audit of the asset register, and agreements with any third parties used to transfer business information between your organisation and third parties. Audits should added to the agenda for operational meetings and information management group, the ROPA should be updated alongside the audits .	01/01/2021	30/06/2021	Anna Collier	Planned
Redesign privacy notice	Design of Privacy Notices should consider: User testing, Electronic and hard-copies, using a combination of appropriate techniques, such as a layered approach, icons and mobile and smart device functionalities.	07/12/2020	28/02/2021	Angela Woodhouse	Planned
Audit Privacy Notices	Privacy Notices should be: held in a structured way, including log of former Privacy notices. Review use of consents	17/11/2020	31/12/2020	Anna Collier	Planned
Introduce new measures in leadership team to ensure projects with Data Protection Risks are identified		07/11/2020	31/01/2021	Angela Woodhouse	Started
Develop regular programmed points of review of the ROPA in line with audits and survey of officers		17/11/2020	31/12/2021	Anna Collier	Planned

Action	Comments	Start Date	End Date	Responsible	Status
Review Procurement and Data Protection risks		TBC	TBC	Ellie Dunnet	TBC
Develop information Risk Register		16/11/2020	28/02/2021	Anna Collier/Russell Hepplestone	Planned
Project documentation should be updated to include reference to DPIAs		TBC	TBC	Gary Hunter	TBC
Publish DPIAs on website		17/11/2020	31/12/2021	Lauren Connett	Planned
*introduce programme of data quality reviews		17/11/2020	31/12/2020	Anna Collier	Planned
Retention schedule review	undertake alongside information audits	31/03/2021	30/06/2021	Anna Collier	Planned
Introduce retention review programme		30/09/2021		Anna Collier	Planned
Review log of access to systems holding data		01/01/2021	30/06/2021	Julie May/Anna Collier	Planned
Develop a social media policy		TBC	TBC	julie Maddocks/julie may	Planned
Clear desk policy	To be implented when return to office scheduled				Planned
develop page on website to provide to residents in cases of breach or if have privacy concerns		TBC	TBC	Gary Hunter	Planned
develop advice sheet to provide to residents in cases of breach or if have privacy concerns		04/01/2021	31/03/2021	Angela Woodhouse/Julie Maddocks	Planned

Action	Comments	Start Date	End Date	Responsible	Status
ensure DP and Information management is routinely on audit plan		02/02/2021	31/03/2021	Angela Woodhouse/Rich Clarke	Planned
Develop acceptable standards of performance for Data Protection		01/11/2020	30/11/2020	Angela Woodhouse	Started
Ensure that performance indicators are added to Information management agenda		01/11/2020	30/11/2020	Lauren Connett	Started
Complete CCTV Review		underway	31/03/2020	Anna Collier/Lauren Connett	Started

Agenda Item 14

AUDIT, GOVERNANCE & STANDARDS COMMITTEE

16 November 2020

Treasury Management Mid-Year Review 2020/21

Final Decision-Maker	Audit, Governance & Standards Committee
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 activities of the Treasury Management Function for the first 6 months of the 2020/21 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities.

Purpose of Report

This report requires noting from the Committee.

This report makes the following recommendations to this Committee:

1. That the position of the Treasury Management Strategy as at 30 September 2020 be noted;
2. No amendments to the current procedures are necessary as a result of the review of activities in 2020/21.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	16 November 2020

Treasury Management Mid-Year Review 2020/21

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 all the cross cutting objectives in the way stated above.	Head of Finance
Risk Management	Covered in the risk section 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	<p>Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.</p> <p>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.</p> <p>In considering the impact of Covid-19 on the Council's financial position in 2020/21, consideration should be given to the Council's legal duty to set a balanced budget.</p> <p>Appropriate remedial action should be taken if at any time it appears likely that expenditure will exceed available resources. The S151 Officer has a personal duty under Section 114(3) of the Local Government Finance Act 1988 to report to the Council if it appears that</p>	Legal Team

	the set budget will be exceeded. Having received a S114 report, members are obliged to take all reasonable practical measures to bring the budget back into balance.	
Privacy and Data Protection	None	Policy and Information Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Equalities and Corporate Policy Officer
Public Health	None	Public Health Officer
Crime and Disorder	None	Head of Finance
Procurement	None	Head of Finance & Section 151 Officer

2. INTRODUCTION AND BACKGROUND

- 2.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.
- 2.2 The Authority's Treasury Management Strategy for 2020/21 was approved at Council on 26th February 2020. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's treasury management strategy.
- 2.3 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit, Governance and Standards Committee.

2.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2020/21 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

2.5 Economics and interest rates

2.5.1 The Council's treasury advisors, Link Asset Services, have provided the Council with the following economic update for the first 6 months of 2020/21 (information is correct as of 07/10/2020).

- The Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn.
- Use of negative interest rates is unlikely, at least for the next six months or so. The Monetary Policy Committee suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has other instruments available, including Quantitative Easing (QE) and the use of forward guidance.

- The pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertain over the outcome of the UK/EU trade negotiations concluding at the end of the year. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.
- 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%.
- The Council’s treasury advisor, Link Group, provided the following forecasts on 11th August 2020 (PWLB rates are certainty rates, gilt yields plus 180bps):

Link Group Interest Rate View 11.8.20										
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

- 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 meeting on 6th August (and the subsequent September meeting), 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 within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.
- HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for

mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

2.6 Treasury Management Strategy Statement and Annual Investment Strategy Update

2.6.1 The Treasury Management Strategy Statement, (TMSS), for 2020/21 was approved by this Council on 26th February 2020 in accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

2.6.2 The TMSS stated that the Council are to keep investments short term and cash balances would be used to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate.

2.7 Investment Portfolio

2.7.1 The Council held £10.43m of investments as of 30th September 2020 (£11.025m at the start of the year) and the investment portfolio yield for the first 6 months of the year is 0.33%. A full list of investments can be found in **Appendix A**.

2.7.2 The Council has kept investments short term, as agreed in the TMSS and cash balances would be used to finance the capital programme, in the short term, due to low investment returns and high counterparty risk in the current economic climate. All investments are kept within money market funds and notice accounts which can be called on immediately or with a short notice period.

2.8 Debt Portfolio

2.8.1 The Council's capital financing requirement (CFR) for 2020/21 is £50.2m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). In practice, owing to slippage in the capital programme, it is unlikely that borrowing on this scale will be required in practice.

2.8.2 The Council has short term external borrowing of £9m from other local authorities. A list of these can also be found in **Appendix A**.

2.8.3 The Council's borrowing has been kept under review through the first half of the year to see if it is prudent to lock in long term borrowing to spread the risk of refinancing and to lock in a long term low rate. With PWLB possibly looking to drop borrowing rates for non-commercial activities it has been decided to wait for the results of HM Treasury's consultation review prior to committing to anything long term. Given current interest rate forecasts, the risk of losing the opportunity to borrow at low rates by waiting appears to be low.

2.9 Prudential and Treasury Indicators

2.9.1 It is a statutory duty for the Council to determine and keep under review 'Affordable Borrowing Limits.' During the first six months of financial year 2020/21, the Council has operated within the prudential and treasury indicators set out in the Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury indicators can be found in **Appendix B**.

2.9.2 The Director of Finance & Business Improvement confirms no indicator has been breached in the first half of 2020/21.

3. AVAILABLE OPTIONS

3.1 The Audit, Governance and Standard Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities of the first 6 months of 2020/21.

3.2 The Audit, Governance and Standard Committee proposes changes to the current procedures as the result of a review of activities with the first 6 months of 2020/21.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The Audit, Governance and Standard Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities of the first 6 months of 2020/21 as there are no justifications to make any changes.

5. RISK

5.1 Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2019/20 report. This report is purely for information purposes and has no risk management implications.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 None

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 If Audit, Governance and Standards Committee agrees that no change in current procedures with Treasury management will be made, then there will be no further action.
-

8. REPORT APPENDICES

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

Appendix A - Investments-Borrowing 30th September 2020
Appendix B - Prudential and Treasury Indicators

9. BACKGROUND PAPERS

- 9.1 None

Maidstone Borough Council Investments/Borrowing as at 30th September 2020

Investments

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return	MBC Credit Limits	
						Maximum Term	Maximum Deposit
Svenska Handelsbanken	Notice Account Deposits	3,000,000			0.15%	12 Months	£3,000,000
Lloyds Bank Plc	Notice Account Deposits	1,000,000			0.20%	12 Months	£3,000,000
Aberdeen Asset Management	Money Market Fund	1,700,000			0.07%	2 Years	£8,000,000
Federated Investors LLP	Money Market Fund	2,730,000			0.05%	2 Years	£8,000,000
Goldman Sachs	Money Market Fund	2,000,000			0.01%	2 Years	£8,000,000

10,430,000

Borrowing

Counterparty	Type of Institution	Principal £	Start Date	Maturity Date	Rate of Return
North Yorkshire County Council	Local Authority	4,000,000	22/11/2019	20/11/2020	0.97%
Bridgend County BC	Local Authority	3,000,000	30/09/2020	30/12/2020	0.05%
South Yorkshire Pension Authority	Local Authority	2,000,000	30/09/2020	30/12/2020	0.05%

9,000,000

PRUDENTIAL INDICATORS

Capital Expenditure

2019/20 Actual £m	2020/21 Estimate £m	2020/21 Actual £m
39.211	23.923	9.068

This indicator shows the total spend on the capital programme as at 30th September 2020 against the estimate for 2020/21.

Capital Financing Requirement

2019/20 Actual £m	2020/21 Original £m	2020/21 Revised £m
39.940	68.773	50.200

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. Borrowing can be made external or using the Council's own resources (internal borrowing). Due to slippage within the Capital programme in 2020/21, the revised estimate for CFR has reduced, however this will simultaneously increase in 2021/22.

Treasury Indicators

Operational Limit for External Debt

	2019/20 Actual £m	2020/21 Estimate £m	2020/21 Actual £m
Borrowing	11.000	25.260	11.000
Other Long Term Liabilities	3.047	2.527	2.527
Total	14.047	27.787	13.527

This limit should be the focus of day to day treasury management. It is similar to the Authorised Limit but excludes the allowance for temporary cash flow borrowing as perceived as not necessary on a day to day basis. This limit acts as a warning but can be breached temporarily.

Authorised Limit for External Debt

	2019/20 Actual £m	2020/21 Estimate £m	2020/21 Actual £m
Borrowing	11.000	45.260	11.000
Other Long Term Liabilities	3.047	2.527	2.527
Total	14.047	47.787	13.527

This is the main limit which is set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003. This includes the level of external borrowing and the financial liability in regards to the leisure centre.

Maturity structure of fixed rate borrowing during 2020/21

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

The Council has £9m external debt as at 30th September 2020. This debt is short term debt with maturity dates are within 1 year.

Actual External Debt

2019/20 Actual £m	2020/21 Estimate £m	2020/21 Actual £m
14.047	27.787	13.527

This indicator shows the Council level of gross debt as at 30th September 2020.

Agenda Item 15

Audit, Governance and Standards Committee

16 November 2020

External Audit Update November 2020

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

These reports provide an update from the Council's external auditor, Grant Thornton regarding progress towards completion of the audit of the 2019/20 financial statements and value for money conclusion, and a sector update on some of the emerging national issues and developments that may impact on this Council.

Purpose of Report

These reports are for noting.

This report makes the following recommendations to this Committee:

1. That the updated Audit Findings Report attached at Appendix 1 be noted.
2. That the Audit Progress Report and Sector Update attached at Appendix 2 be noted.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	16 November 2020

External Audit Update November 2020

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	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2020, and details the council's assets, liabilities and reserves at this date. The work of the external auditor provides independent assurance over this information.	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.	Team Leader (Corporate Governance), MKLS
Privacy and Data Protection	There are no specific privacy or data protection issues to address.	Team Leader (Corporate Governance), 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 Council is required to have its audited Statement of Accounts approved by the Audit, Governance and Standards Committee by 30 November 2020 in accordance with the amended Accounts & Audit Regulations.
- 2.2 The audited statement of accounts was approved by this committee at its last meeting on 14 September 2020. However, at that stage there were a number of areas of work outstanding and it was agreed that in the event of any further non-material changes being required to the Statement of Accounts, final approval be delegated to the Director of Finance and Business Improvement, in consultation with the Chair and Vice Chair of this committee.
- 2.3 The updated Audit Findings Report attached at Appendix 1 details the further work which has taken place since the committee meeting and the current status of external audit work in relation to 2019/20.
- 2.4 External audit work is now substantially complete and the anticipated outcome of this is an unqualified audit report opinion 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 which arise from potential impacts of the Covid-19 pandemic on these figures.
- 2.5 Appendix 2 provides a summary of emerging national issues and developments that may be relevant to Maidstone and includes a number of challenge questions in respect of these emerging issues which the committee may wish to consider.

3. AVAILABLE OPTIONS

- 3.1 These reports are for information only and the committee is asked to note them.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The committee is asked to note the 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. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 The external auditor is required to issue the audit opinion by 30 November. The external auditor is expected to present the Annual Audit Letter, which will effectively close the 2019/20 audit to this committee at its meeting in January.

8. REPORT APPENDICES

- Appendix 1: Updated Audit Findings Report 2019/20
 - Appendix 2: Progress Report and Sector Update
-

9. BACKGROUND PAPERS

None



The Audit Findings for Maidstone Borough Council

Year ended 31 March 2020

6 November 2020

50



Contents



Your key Grant Thornton team members are:

51**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

Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

Appendices

- A. Action Plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion
- F. Management Letter of Representation

Page

- 3
- 6
- 16
- 20
- 22
- 23
- 24
- 26
- 27
- 28

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

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	<p>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.</p> <p>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.</p>	<p>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.</p> <p>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 has, and continues to be delivered remotely.</p>
-----------------	---	---

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.

<p>Financial Statements</p>	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	<p>Our audit work has been 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.</p> <p>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 compliant with the CIPFA Code.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • Receipt of assurance letter from the Kent Pension Fund auditor. We expect to receive this in advance of the Committee date; • Completion of internal review procedures; • receipt of management representation letter – see appendix F; and • review of the final set of financial statements. <p>We have 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 outbreak of the Covid-19 coronavirus pandemic.</p> <p>Our anticipated audit report opinion will be 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.</p>
------------------------------------	---	---

53

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').	<p>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.</p> <p>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.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 16 to 19.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • 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. 	<p>We have not exercised any of our additional statutory powers or duties</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

54

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 have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 16 November. The outstanding items are listed on page 4.

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.

OWe are not yet able to conclude on this risk as the assurance from the Kent Pension Fund auditor remains outstanding at this time.

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

Management override of controls

Auditor commentary

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

57

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 will include 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.

We have obtained sufficient assurance over the valuation of land and buildings.

Significant audit risks

Risks identified in our Audit Plan

Valuation of pension fund net liability

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;
- evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- 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;
- 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
- 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.

We are not yet able to conclude on this risk as the assurance from the Kent Pension Fund auditor remains outstanding at this time.

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 2021, 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

59

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. This 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	<p>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.</p> <p>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.</p>	<p>We have assessed management’s estimate, considering:</p> <ul style="list-style-type: none"> • 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 <p>We consider management’s process appropriate.</p>	

60

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.

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	21.8	●
- Males	23.7	
- Females		
Life expectancy – Longevity at 65 for future pensioners		●
- Males	23.2	
- Females	25.2	

TBC

- 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.

We are not yet able to conclude on this risk as the assurance from the Kent Pension Fund auditor remains outstanding at this time.

61

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

Management's assessment process

Management's assessment process is based on your financial planning framework. You have a four year Medium Term Financial Plan (MTFP) covering the period 2020/21 to 2023/24.

Auditor commentary

- 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 other incidents in the period and no other 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 has been requested from the Council, including specific representations in respect of the property valuations, which is appended.
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. All but one of these requests have been returned to date with positive confirmation. We are in the process of following up the remaining confirmation.
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 was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>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.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none">• 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 <p>We have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<p>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.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of Maidstone Borough Council in the audit report.</p>

64

Value for Money

Background to our VFM approach

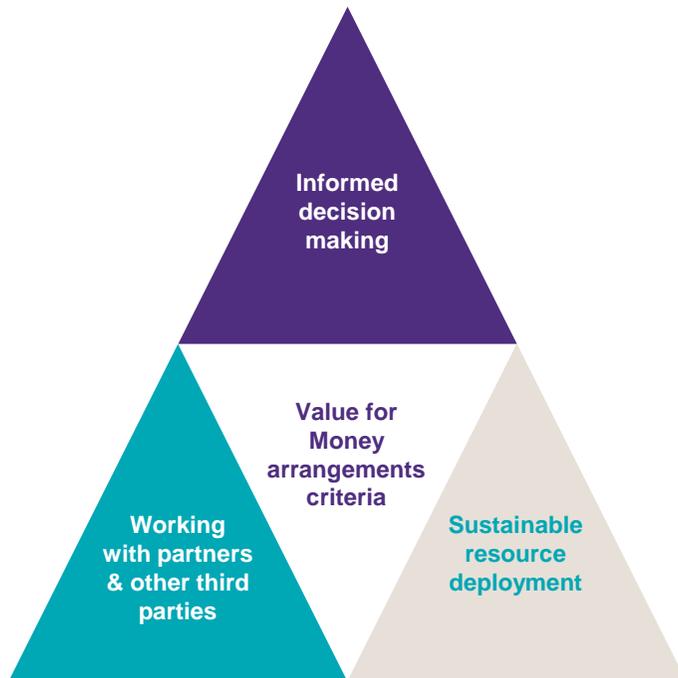
We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

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:

65



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 dated 16 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 plan, 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

8 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

Findings

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 Plan (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

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 able 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) Self review (because GT provides audit services)	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. 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.

70

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	<p>Declarations of interest</p> <p>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.</p>	<p>We recommend that the process for managing the distribution and collections of returns is reviewed and the importance of responding is reiterated with members.</p> <p>Management response</p> <p>We accept this recommendation and will be reviewing our processes to ensure that declarations of interest are collected promptly in future</p>

71

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 carpark	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.	

Audit adjustments

Impact of unadjusted misstatements

Our work to date has not identified an unadjusted misstatements above triviality.

74

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	TBC
Total audit fees (excluding VAT)	£46,366	£TBC

The fees reconcile to the financial statements.

75

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

Audit opinion

We anticipate we will provide the Council with an unqualified audit report with an Emphasis of Matter

To follow

76

Management letter of representation

Grant Thornton UK LLP
110 Bishopsgate
London
EC2N 4AY

[Date] – (TO BE DATED SAME DATE AS DATE OF AUDIT OPINION)

Dear Sirs

Maidstone Borough Council Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Maidstone Borough Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud..

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions. We confirm that we have considered the prior period adjustment in relation to property, plant and equipment and confirm there are no other material omissions in prior year.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Management letter of representation

- xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements
- xv. The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets and travel restrictions have been implemented by many countries. As a consequence economic activity is being impacted in many sectors. As at the valuation date, our independent valuers have stated that they consider that they can attach less weight to previous market evidence, to inform opinions of value. Indeed, the current response to COVID 19 means that they are faced with an unprecedented set of circumstances on which to base a judgement. The Council's valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation of the Council's land and buildings than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, the valuers recommend that the Council keeps the valuation of its properties under frequent review. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. It is included in order to be clear and transparent, that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case

Information Provided

- xvi. We have provided you with:
- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of your audit; and
 - access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:
- management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on [ENTER DATE].

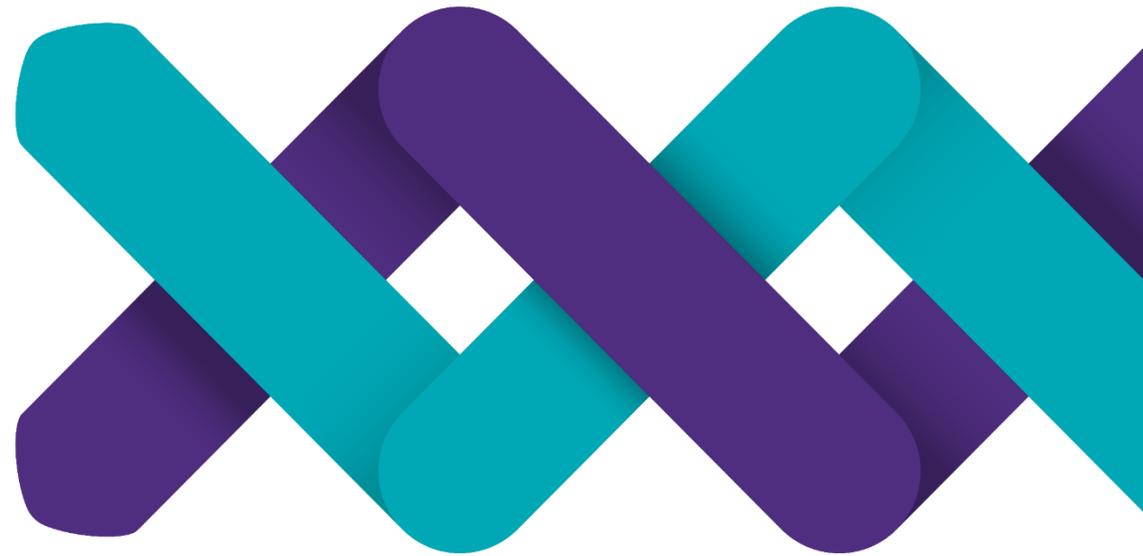
Yours faithfully

Audit Progress Report and Sector Update

Maidstone Borough Council
Year ending 31 March 2020

08

6 November 2020



Contents

Section	Page
Introduction	3
Progress at November 2020	4
Audit Deliverables	6
Sector Update	7

Introduction



Paul Dossett

Engagement Lead

T 020 7728 3180

E paul.dossett@uk.gt.com



Tina James

Engagement 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; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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 your Engagement Lead or Engagement Manager.

Progress at November 2020

Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in December 2019, and interim audit in January 2020. We began our work on your draft financial statements in June.

In March 2020 we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We reported our work in the Audit Findings Report presented in July 2020 and provided an updated report to the September Committee. We have provided a further update for the November Committee and we aim to give our opinion on the Statement of Accounts in November 2020.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation ran until 2 September 2020. The NAO will now analyse all consultation responses received and consider what changes are required to the draft guidance. Please see page 10 for more details.

Progress at November 2020 (Cont.)

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2019/20 claim is planned to start at the end of November. It should be noted that, in response to the impact of the Covid-19 pandemic, the DWP has moved the reporting deadline back to 31 January 2021.

Meetings

We met with Finance Officers in June as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were 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

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit, Governance and Standards Committee. We have recently written to the s151 officer outlining the potential for further fees linked to the issues around auditing remotely through the Covid 19 Pandemic. We have written to all s151 officers across the country in a similar vein. Any fee variation will be subject to PSAA approval.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Confirming audit fee for 2019/20.</p>	April 2019	Complete
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit, Governance and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	March 2020	Complete
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	March 2020	Complete
<p> Audit Findings Report</p> <p>The Audit Findings Report was presented to the September Audit, Governance and Standards Committee and an updated version is provided to the November Audit, Governance and Standards Committee</p>	September 2020	Complete
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	November 2020	In progress
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	January 2021	Not yet due

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

The Redmond Review

The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – “The Redmond Review” was published on 8 September.

The review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Authority’s annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

The Review received 156 responses to the Calls for Views and carried out more than 100 interviews. The Review notes “A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process.”

Key recommendations in the report include:

- A new regulator - the Office of Local Audit and Regulation (OLAR) to replace the Financial Reporting Council’s (FRC) role and that of Public Sector Auditor Appointments (PSAA)
- Scope to revise fees - the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- Move back to a September deadline for Local Authorities - the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- Accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts.

The OLAR would manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

The current roles and responsibilities relating to local audit discharged by the Public Sector Audit Appointments (PSAA); Institute of Chartered Accountants in England and Wales (ICAEW); FRC; and The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.

How you can respond to the Review

One of the recommendations was for local authorities to implement:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor;
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

Whilst Redmond requires legislation, in practice the second and third bullets are things which authorities could start doing now.

The full report can be obtained from the gov.uk website:

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

Code of Audit Practice and revised approach to Value for Money audit work - National Audit Office

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money.

Value for Money - Key changes

There are three main changes arising from the NAO's new approach:

- ∞ A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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
- Provide clearer recommendations to help local bodies improve their arrangements.

Implications of the changes

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful, and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The Auditor's Annual Report will need to be published at the same time as the Auditor's Report on the Financial Statements.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

The Code can be accessed here:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

Local government reorganisation in two-tier shire counties – District Councils’ Network

The District Councils’ Network (DCN) a report ahead of the publication of the government’s ‘devolution and local recovery’ white paper.

The report comments “Devolution should back the success of districts in delivery. It should not distract from the local recovery effort or reduce delivery capacity through forcing reorganisation into a less local, less agile, less responsive local government pushed by interests wanting county unitary councils everywhere. Local governance is a local matter, places must be free to decide how to organise services and to progress any kind of reform only where there is significant local agreement.”

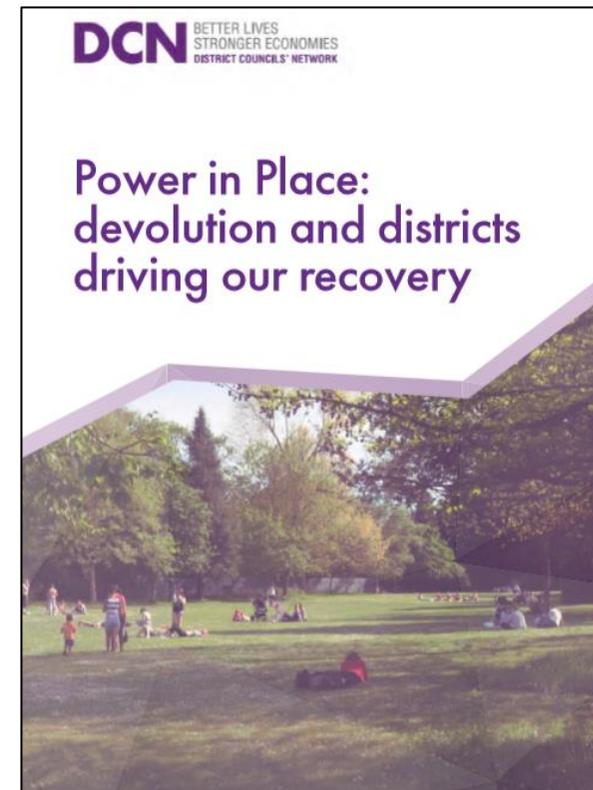
The report calls for the Devolution and Local Recovery White Paper to:

- 1) Deliver genuine devolution that moves quickly to drive local growth
- 2) Retain and build on the local capacity to deliver
- 3) Empower real-world economies
- 4) Continue to anchor local government in local communities
- 5) Reject false arguments that bigger local government is better or cheaper local government
- 6) Support strategic leadership across wider functional economic areas
- 7) Introduce an upper limit for the size of new unitary councils, in line with the principle of electoral equality

The report includes a number of case studies in each of these areas.

The full report can be obtained from the District Councils’ Network website:

<https://districtcouncils.info/wp-content/uploads/2020/08/DCN-Report-Sept-1.pdf>



AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

16 November 2020

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

As reported at the last meeting of the Committee, Covid-19 has had a major impact on the Council’s financial position. The position has not changed significantly since July 2020, except that the likelihood of a rapid economic recovery appears to have receded still further. There is an increased risk of a disruptive transition to new trading arrangements with the EU on 31 December.

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	16 November 2020

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 new lockdown having recently come into effect, it is difficult to forecast the outcome for the year with any degree of certainty, but the impact of Covid-19 is likely to be in excess of £7 million, against an overall net annual revenue budget for the Council of around £20 million.

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. Current projections indicate that, given neutral forecasts, the Council will face a £3 million budget gap in 2021/22. This poses a major challenge and it is unlikely that the whole of the gap can be filled in one year, which means further drawings on reserves to as savings are developed and implemented.

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 will now be postponed for a further year because the Chancellor of the Exchequer plans only to announce plans for the 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 has been reviewed in the light of the Covid-19 pandemic. The majority of projects in the current programme are either already under way, are required for health and safety reasons, or must be carried out to meet contractual commitments. However, it is proposed that a number of projects are deferred to 2021/22, which will have the effect of reducing the in-year revenue costs of capital expenditure.

External factors

- 2.10 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.
- 2.11 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 is reflected in updates to the Budget Risk Register.
- 2.12 The other major external risk is potential adverse financial outcomes from a disorderly Brexit. Whilst the UK has now left the EU, future trading arrangements with the EU are still to be agreed and there remains a risk of disruption if this has not happened by the government's deadline of 31 December 2020. This will affect the Council in two ways: directly, owing to disruption at the Channel ports having a knock-on effect in the rest of Kent; and indirectly, because of the overall impact on the economy. With the 31 December deadline approaching, little progress has been made in negotiations with the EU and the risk of a disruptive transition has increased.
- 2.13 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
B	Fees and charges fail to deliver sufficient income	Fees and charges, particularly from Parking, recovered somewhat in Q2 of 20/21. However, the resurgence of Covid-19 has demonstrated the risk to this recovery.	Impact – major (no change) Likelihood – almost certain (increased)
C	Commercialisation fails to deliver additional income	The Council’s main source of commercial income is from its property portfolio, which generates gross income of around £4 million per annum. This has been put at increased risk by the continuing economic slowdown arising from Covid-19.	Impact – major (increased) Likelihood – probable (increased)
L	Business Rates and Council Tax collection fails to achieve target	Currently Business Rates income is 4.4% and Council Tax income is 4.2% behind the levels collected at this point last year. With five months of the year remaining it will be very difficult to achieve collection targets.	Impact – major (no change) Likelihood – almost certain (increased)
P	Financial impact from a resurgence of Covid-19	Latest developments unfortunately indicate an increased likelihood of the risk materialising.	Impact – major (no change) Likelihood – almost certain (increased)

2.14 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.

2.15 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:

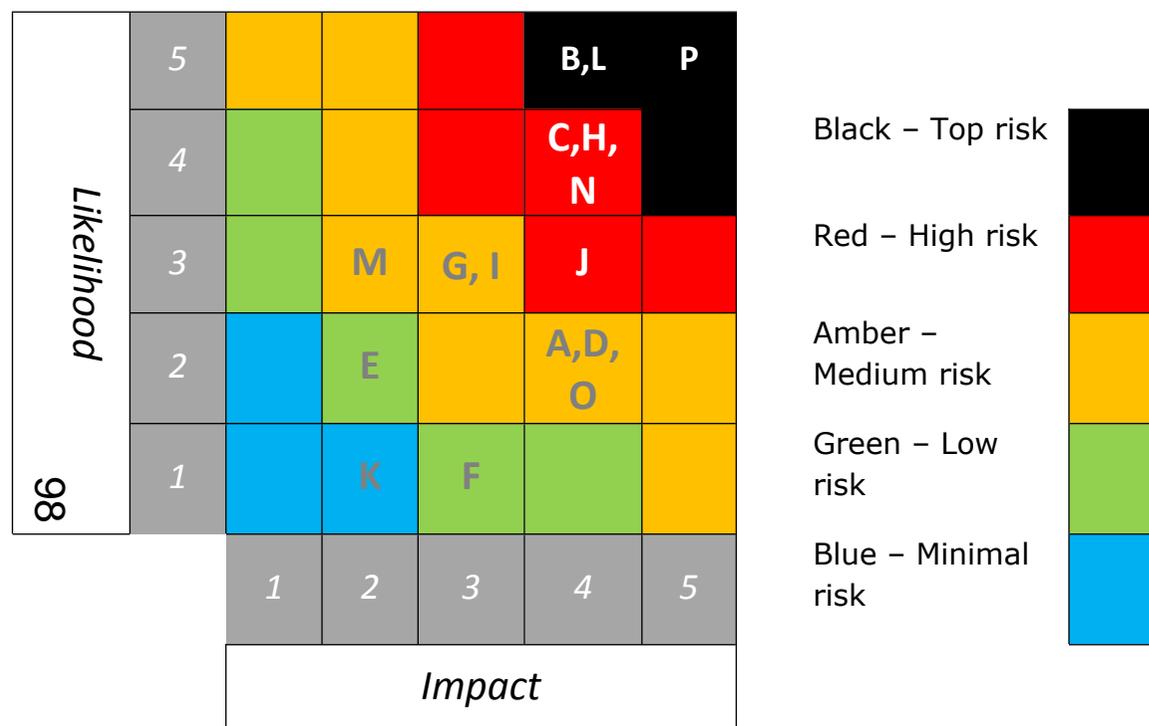
- Appendix A: Budget Strategy Risks
-

9. BACKGROUND PAPERS

None.

Budget Strategy Risks

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

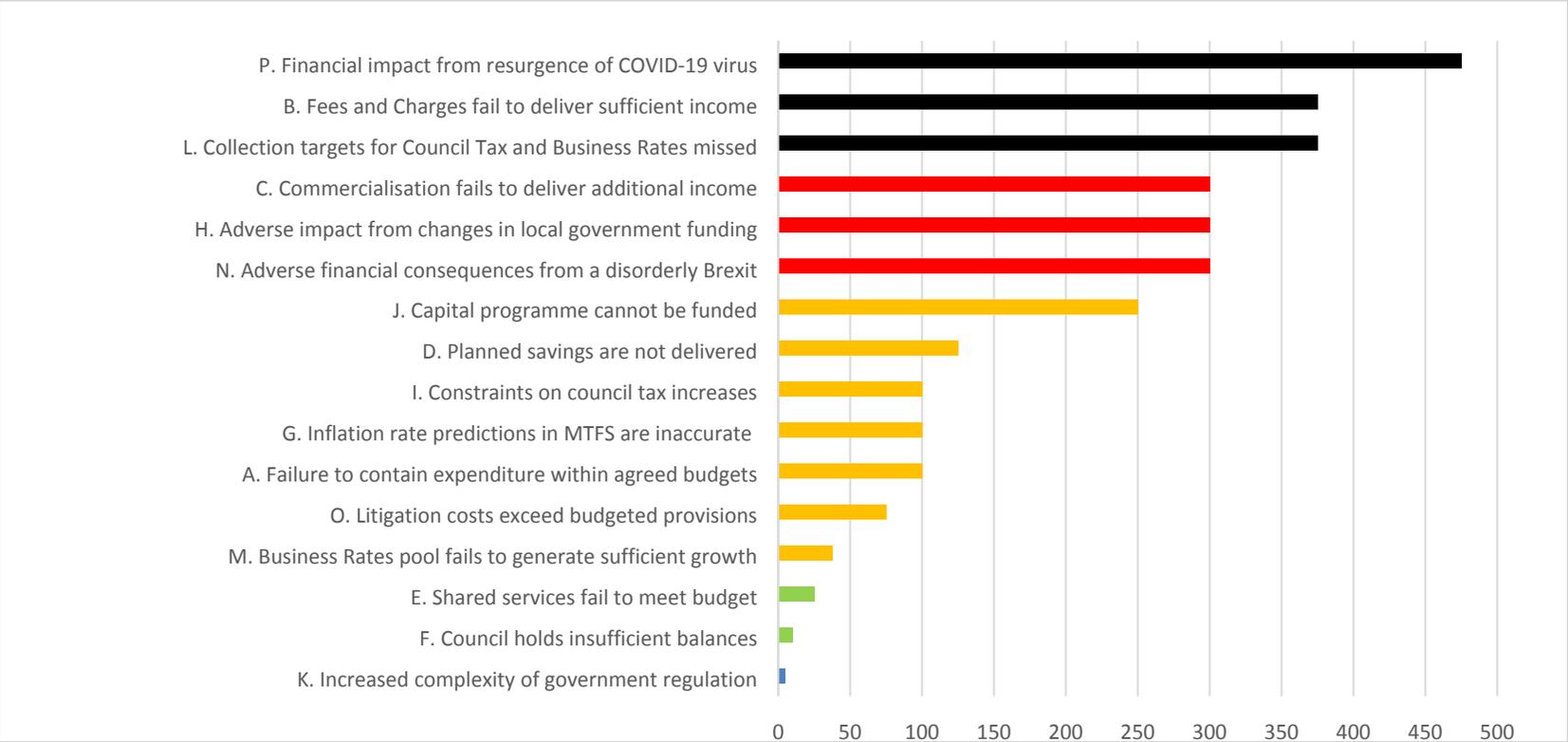


A. Failure to contain expenditure within agreed budgets	I. Constraints on council tax increases
B. Fees and Charges fail to deliver sufficient income	J. Capital programme cannot be funded
C. Commercialisation fails to deliver additional income	K. Increased complexity of government regulation
D. Planned 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:

Risk	Ranking	Financial impact (in any one financial year)				
		Lower £000	Upper £000	Mid- point £000	Likelihood %	Weighted £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	75	300
J. Capital programme cannot be funded	7	250	750	500	50	250
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	Σ
101	<p>A</p> <p>Failure to contain expenditure within agreed budgets The Council overspends overall against its agreed budget for the year</p>	<p>Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.</p>	<ul style="list-style-type: none"> - Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2020/21. - Strong controls over expenditure and established process for recovering from overspends 	4	2	8
	<p>B</p> <p>Fees & Charges fail to deliver sufficient income Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.</p>	<p>The total value of all Council income from fees and charges is around £20 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.</p>	<ul style="list-style-type: none"> - Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised. 	4	5	20
	<p>C</p> <p>Commercialisation fails to deliver additional income The commercialisation strategy, which is now centred on housing and regeneration, does not deliver the expected level of income.</p>	<p>The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy.</p>	<ul style="list-style-type: none"> - The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses. - Individual risks associated with specific projects within commercialisation strategy 	4	4	16

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		Income generation from commercial activities supports the revenue budget and is required in ordered to pay back capital investment.	will be assessed, both as part of the project appraisal process and during the course of delivering the projects.			
D	<p>Planned savings are not delivered</p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p>	<p>The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.</p> <p>Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<p>- The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process.</p> <p>- Savings proposals are separately identified and monitored in the Council's general ledger.</p> <p>- The ability to achieve the targeted savings is monitored quarterly in budget monitoring reports to the Corporate Leadership Team and to Service Committees.</p>	4	2	8
E	<p>Shared Services</p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p>	<p>Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<p>The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.</p>	2	2	4
F	<p>Insufficient Balances</p> <p>Minimum balance is insufficient to cover unexpected events</p> <p>OR</p> <p>Minimum balances exceed the real need and resources are held without identified purpose with low investment returns</p>	<p>Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.</p> <p>The Council would not gain best value from its resources as Investment returns are low in the current market.</p>	<p>- The Council has set a lower limit below which General Fund balances cannot fall of £2 million.</p> <p>- At the beginning of the 2019/20 financial year usable reserves stood at £15.1 million.</p>	3	1	3

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
G	<p>Inflation rate predications in MTFS are inaccurate Actual levels are significantly above or below prediction</p>	<p>Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.</p> <p>Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities.</p>	<p>- Allowances for inflation are developed from three key threads:</p> <ul style="list-style-type: none"> ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally <p>- MTFS inflation projections are based on the government's 2% inflation target.</p>	3	3	9
103 H	<p>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.</p>	<p>The Council no longer receives Revenue Support Grant (RSG), but the amount of Business Rates that it retains depends on the funding regime set by central government.</p>	<p>- The Medium Term Financial Strategy to 2024/25 includes an adverse scenario which allows for a significant impact on the Council's resources,</p> <p>- The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.</p>	4	4	16
I	<p>Constraints on council tax increases 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.</p>	<p>The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be absorbed by making savings elsewhere.</p>	<p>- The budget for 2020/21 incorporates a Council Tax increase of 2%.</p> <p>- Budget planning is based around the assumption of ongoing 2% increases in subsequent years.</p>	3	3	9
J	<p>Capital Programme cannot be funded Reduction or total loss of funding sources means that the capital programme cannot be delivered</p>	<p>The main sources of funding are:</p> <ul style="list-style-type: none"> ○ Internal borrowing ○ PWLB borrowing ○ New Homes Bonus 	<p>- Council has been able to fund the capital programme without recourse to borrowing so far,</p>	4	3	12

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		<ul style="list-style-type: none"> ○ Capital Grants ○ Developer contributions (\$106) <p>A reduction in this funding will mean that future schemes cannot be delivered.</p>	<p>- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.</p> <p>- Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board but there is a risk that this may be subject to restrictions in future.</p>			
104 K	<p>Increased complexity of government regulation</p> <p>Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at an early stage.</p>	<p>On a number of occasions, most recently with the introduction of GDPR, the financial consequences of government regulation have been significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy.</p> <p>In general these events bring consequences to other agencies and external relationships.</p>	<p>- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents.</p> <p>- Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.</p>	2	1	2
L	<p>Business Rates & Council Tax collection</p> <p>Council fails to maintain collection targets for business rates and council tax</p>	<p>Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> <p>Business rates amount to around £60 million in 2020/21 and Council Tax due amounts to around £110 million.</p>	<p>- The Council has a good track record of business rates and Council Tax collection.</p> <p>- Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc.</p> <p>- Nonetheless, Covid-19 is leading to a reduction in collection rates.</p>	4	5	20
M	<p>Business Rates pool</p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool may not generate projected levels of income</p>	<p>Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.</p>	<p>- The pool is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a</p>	2	3	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			<p>whole is projected to be around £10m in 2020/21.</p> <p>- Provisions have been made when projecting business rates income for bad debts and losses on appeal so any loss of income would relate to the excess over the provisions already made.</p>			
N	<p>Adverse financial consequences from a disorderly Brexit. There remains a risk that the UK could leave the EU without a trade agreement in December 2020.</p>	<p>Short term - Increased costs in delivering services, eg arising from traffic congestion</p> <p>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.</p>	<p>- Thorough preparation for Brexit, with an officer Brexit business continuity planning group to co-ordinate our response and liaise with other Kent authorities</p>	4	4	12
105 O	<p>Litigation costs exceed budgeted provisions.</p> <p>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.</p>	<p>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.</p>	<p>- Corporate Leadership Team is updated regularly on outstanding legal cases.</p> <p>- Appropriate professional advice is taken at all times.</p>	4	2	8
P	<p>Financial impact from a resurgence of COVID-19</p> <p>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.</p>	<p>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.</p>	<p>- Senior officer group mobilised to address short term impacts</p> <p>- Mitigations to be developed over longer term</p>	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	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries		Financial loss or overspend under £10k	Environmental incident with no lasting detrimental effect

RISK LIKELIHOOD

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