

Auditor's Annual Report on Maidstone Borough Council

2020-21

November 2022



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

Executive summary

Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made

Financial sustainability

The Council is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Maidstone, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.

Despite this uncertainty, and the challenges posed by COVID-19, the Authority has maintained its financial position. The 2020/21 final outturn for the General Fund was a surplus of £1.2m.

Overall, the Council has a relative amount of capacity to manage variances over the short to medium term. We are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability.

We have made some improvement recommendations including the production of a workforce plan.

Governance

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.

We have identified some improvement recommendations around risk management.

Improving economy, efficiency and effectiveness

The Authority has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources.

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources.

We have made some improvement recommendations around performance management and procurement.

Opinion on financial statements

We issued an unmodified opinion on the Council's 2020/21 financial statements on 18 November 2022.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on the following pages.

Financial sustainability



We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

The Covid-19 pandemic has been the largest peace time emergency seen in this country since WWII. The knock-on effects on local government finance have meant shortfalls in income due to cessation of services and reduction in collection of both Council Tax and Business Rates. There has also been a loss of commercial income in such areas as car parking and commercial rents as people stayed at home and business were forced to close. The Council does not have a large property portfolio but does have some property holdings in borough. Covid has hit rental income but in the medium-term income levels are expected to return to pre Covid levels. While government grants have covered part of the general shortfall, councils have been left with increased financial uncertainty.

Throughout the huge uncertainty of last two financial years, the Council worked to minimise expenditure in all areas where appropriate and some of the capital programme was paused or delayed due to Covid-19. Alongside this, new, essential activity was introduced, such as the community support hub and bringing those who are homeless into accommodation, to address the impact of the pandemic on the residents of the district.

Precepts for 2020/21 for County, Fire and Police services were set in February 2020 before the effects of the pandemic were realised and as such district councils have had to pay these over as planned, while collection rates have been down, providing added pressures on cashflow.

At the onset of the pandemic play areas were closed and several services that were either non-essential or non-compatible with social distancing rules were suspended including food safety inspections and taxi driver knowledge tests. The Council's contractors also closed the leisure centre and the theatre. Meanwhile staff were diverted to Covid related work including resourcing the "Community Hub" and paying out Covid related support grants across the district.

The Council set its budget for 2020/21 in February 2020. The pandemic started in March 2020 and it became clear over the next couple of months that it would have a fundamental impact on the Council's finances. An updated Medium Term Financial Strategy (MTFS) was taken to Policy & Resources Committee in July 2020 and October 2020 papers for this committee included a further finance update. The impact of Covid was also included in the scheduled quarterly budget updates to Policy & Resources Committee along with further updates on the MTFS. At July 2020, it was projected that the Council would have an in-year deficit of £8.56m. This shortfall was to be funded by a mixture of government grants, although it was unclear at that time how much might be forthcoming, along with savings and use of reserves. The final outturn for the General Fund was an underspend of £1.2m which allowed larger than expected contributions to be made to reserves. This is laudable performance given the income losses incurred by the Council due in part to receipt of significant levels of Government Grant but also due to strong budgetary control. This outcome has had positive benefits for the Council's financial resilience in 2021/22 and beyond. A balanced budget was set for 2021/22 in February 2021. The 2021/22 budget contained reliance on reserves and savings as recovery begins. Review of Council papers indicates the assumptions used for financial planning in 2020/21 and 2021/22 are sound. We have seen no evidence that inappropriate short term measures are being used to relieve current pressures.

The future financing of local government is still unclear. A planned government long term spending review was postponed from 2020 due to the pandemic and the local government settlement only covered the 2021/22 year. The date of the long-term review, whilst announced in the October 2021 budget statement, is yet to be confirmed with the clarity now that 2022/23 was also covered by a 1-year settlement. Recent indications from the Secretary of State is there may be a two year settlement for 2023/24 and 2024/25 but no formal announcement has yet been made.

Financial sustainability

The Council has a detailed financial plan covering the years to 2025/26. Given the uncertainty of the financial regime its plan has been drawn up using prudent assumptions on future income streams and three scenarios have been planned for adverse, neutral and favourable. The Council has considered the financial pressures brought about by the pandemic and has also looked at long term pressures on funding streams such as Council Tax, Business Rates and the Government funding settlement.

Lack of information on future funding is a national issue but we have seen pre pandemic that the Council has a sensible approach to financial planning and budget management.

Budgets are discussed with Service Heads and then passed via Leadership Team and service committees to Policy and Resources Committee before going to full Council. There is discussion of the MTFS and potential savings. Savings and pressures are shown together in the MTFS. There is also an annual consultation exercise with residents to identify their budget priorities. The Council has a history of transparency in financial matters.

How the body plans to bridge its funding gaps and identifies achievable savings

The final budget is approved by Council. The Council has a history of delivering on savings and on its budget. Savings delivery is monitored at Policy and Resources Committee as part of the Budget Management Report.

As part of the 2021/22 budget setting process, budgets were reviewed and changes to the budget made adjusting for pressures, new initiatives, expected cost increases and income changes. The 2019/20 to 2022/23 financial plan highlighted a budget gap of £6.8m in the medium term with required savings of £21.7m, of which at February 2020 £16.3m still needed to be identified. By February 2021 when the 2021/22 budget was set the medium-term budget gap had reduced to £2.8m with a residual gap of £1.8 m after already identified savings and use of reserves. The Council has a healthy reserves position so this expected draw down is not of immediate concern.

While savings potential has been affected by the pandemic, from our experience in previous years Maidstone has a history of successful delivery on savings and we have no reason to believe that this will not happen going forward post Covid.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.

We found a robust financial planning process which ties in with corporate objectives. There is extensive internal consultation to ensure the budget meets the needs of the service. The process ensures that key services remain funded. We found no evidence of the need to curtail services to support short term funding deficiencies.

The council's latest workforce strategy covers the period 2016 to 2020. It clearly links to the corporate plan and MTFS but needs to be updated. The revision is in hand but we understand this revision has been delayed by Covid 19. Given the shortfalls in staffing across the sector and wider economy, developing a new credible workforce strategy is crucial.

The Council has the necessary resources for financial management including a financial system able to provide timely financial information, the necessary financial skills, experience and capacity in the finance team and budget holders in the services, clearly defined responsibilities for budget management and Corporate Management and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary. The finance team is well established with significant experience of managing the Council's finances albeit there have been recent changes in key roles. We feel the Council has a positive financial culture and an appropriate 'tone from the top' set by the Chief Executive Officer. The ongoing management of the Council's financial position over recent years is evidence of this. In challenging times, it is vitally important that a strong financial culture is maintained.

Budget reports are issued to budget managers each month and service heads every quarter. Meetings will be held with finance staff as required and there is no requirement for set monthly meetings. The budget position is reported to P&R on a quarterly basis with other performance information.

The Council has adopted a Capital Strategy and has a capital planning process. These are regularly reviewed to reflect changing circumstances. The capital programme is agreed by the strategic investment board (SIB) before going to members Other than funding the replacement of assets which deliver services as well as recurring capital expenditure, the capital programme is used to support the council's objectives including housing and homelessness and property investment. During 2020/21 the capital programme is overseen by Policy & Resources Committee, while projects are subject to an appraisal and approval process.

Financial sustainability

The Council has the necessary resources for financial management including a financial system able to provide timely financial information; the necessary financial skills, experience and capacity in the finance team; and budget holders in the services, with clearly defined responsibilities for budget management. Corporate Management and member challenge of performance, holding budget holders to account, and making decisive interventions where necessary provide effective challenge. The Finance team is well established with significant experience of managing the Council's finances.

The current corporate strategy covers the period 2019 to 2045 and was agreed in February 2020. The current priorities are:

- Embracing Growth and Enabling Infrastructure
- Safe, Clean and Green
- Homes and Communities
- A Thriving Place

The plan is underpinned by a number of strategies and plans including the MTFs, the Economic Development Strategy and the Housing Strategy

The understanding of drivers of risk in the Council budget are strong and variances from budget are understood. However, there remain fluctuations in variances to budget which may indicate further work is required, either to arrive at more accurate assumptions / a better understanding of cost pressures in the budget, or to ensure budgetary adherence is improved by budget holders. Some variance is inevitable as some services are demand led making forecasts more difficult. The Covid-19 pandemic has also made it more difficult to predict future costs and demand. However, in emerging from the pandemic a return to the norms of budgetary monitoring and financial discipline will be required to ensure financial success. It will also be critical to ensure that budget holders and the Council as a whole are held to account for any future failure to deliver to agreed budgets. The Council will also need to be cognisant, early on, of pressures to budgets, with effective early warning systems to identify risks and ensure corrective action is taken. It is equally critical that there are effective monitoring and assessment arrangements in place to understand whether future budgetary overspends are the result of unavoidable / unforeseeable cost pressures, or deficiencies in budgetary and financial discipline within directorates. Previous experience has indicated to us that the Council is well equipped to deal with the challenges ahead as long as a strong financial culture is maintained.

Statutory and discretionary spend is not clearly differentiated in the financial planning reports which underlie the budget and MTFP. Whilst discretionary spends are the areas which predominately come under scrutiny when savings plans are being considered, there is of course review of costs for statutory services to provide best value, While we understand that splitting statutory and discretionary spend is not always straight forward, doing so would help a resident understand the choices faced by the Council .

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system.

In 2020/21 an additional role of the Council was to support the response to the pandemic. The response was coordinated at a county level by the Kent Resilience Forum (KRF), of which Maidstone Borough Council is a member. The Council has paid out over £30m in Covid grants, supporting local residents and businesses and providing advice to business. Planning for 2021/22 was challenging as the pandemic has created increased uncertainty around future funding. Subsequent to this year one year settlements have been provided for 2021/22 and 2022/23..

We found a robust financial planning process which ties in with corporate objectives. There is evidence of staff working collaboratively across the Council as opposed to silo working. Service provision is aligned to the funding envelope.

However, the Council does not have an up-to-date workforce plan or people strategy which has been reviewed to reflect the demands of the “new normal”. As a sector local government is facing a recruitment and retention challenge. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is clear. As previously mentioned, we would recommend the Council sets a clear timetable for production of the new workforce strategy.

How the body identifies and manages risks to financial resilience, e.g., unplanned changes in demand, including challenge of the assumptions underlying its plans.

2020/21 has been a unique year for financial management given the impact of the pandemic including the temporary cessation of some services to deal with Covid demands and a changing profile of demands on services.

Financial sustainability

Within the corporate risk register the Council has identified a risk relating to a general financial downturn, unexpected changes to government funding or the failure to achieve income or savings targets creating financial pressures which make it more difficult to maintain standards or achieve the Council's objectives. It is noted that the latest Strategic Risk Register indicated this risk was marked as "red". Ways in which the Council is managing this risk include budget monitoring, the MTFs, scenario planning, the Commercial Investment Strategy and use of reserves. Budget reports are monitored on a regular basis and finance reports are subject to scrutiny and challenge at Policy and Resources Committee meetings. A list of financial risks is included in budget papers sent to members when setting the Council's budget.

As the Council emerges from the pandemic, and the 'new normal' begins to be established – crucially, a normal which once again comes with financial constraints – the Council should assess which Covid driven working patterns and arrangements should continue in the post pandemic world. Our work and broader analysis of the sector indicates the Council will face significant financial challenges in future years and we will monitor this response in those years. Previous experience indicates the Council is well equipped to deal with these challenges.

Conclusion

We found no evidence or indication of significant risks to your financial sustainability as such no further risk-based work has been undertaken in this area.

Improvement recommendations



Financial Sustainability

Recommendation One

Summary recommendation

Consideration should be given to making a clear distinction between statutory and discretionary spending in the budgetary information provided to members and published on the web.

Auditor judgement

While we understand that clearly differentiating costs is not always easy, no distinction is made in the financial information reported to Those Charged With Governance (TCWG) between statutory and discretionary spending. This approach would help members and residents to understand the difference between these types of spending and would help inform them as to any spending which is made as a result of manifesto pledges or following a decision by the Council to undertake a specific project outside of or in addition to its statutory obligations.

Management comment

As part of the budget setting process we are clear to Members the impacts to services. This includes the impact to statutory and discretionary. The services cannot be considered by the split alone as there are some services that contribute to the overall budget position as they are income generating. There are also levels of service that can vary in statutory too. Therefore the recommendation is not fully supported. But we will ensure any savings and growth decisions consider if the service is statutory/discretionary.

Recommendation Two

A workforce plan or people strategy, aligned to the corporate plan and MTFS should be prepared, formally approved and circulated to appropriate officers.

The Council's latest workforce strategy covers the period 2016 to 2020. It clearly links to the corporate plan and MTFS but needs to be updated. The revision is in hand but we understand this revision has been delayed by Covid 19. Therefore the strategy has not been reviewed to reflect the demands of the "new normal". As a sector local government is facing a recruitment and retention challenge. The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is clear. We would recommend the Council sets a clear timetable for production of the new workforce strategy. Given the shortfalls in staffing across the sector and wider economy, developing a new credible workforce strategy is crucial.

Management accepts the need for an up-to-date workforce strategy. The strategy is reviewed formally on an annual basis, and the most recent review was reported to the Democracy and General Purposes Committee on 26 January 2022. The latest review addressed in particular the need for organisation culture change, given the changes in working practices arising from the Covid-19 pandemic.

The range of recommendations that external auditors can make is explained in Appendix B

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Governance is the system by which an organisation is controlled and operates and is the mechanism by which it and its staff are held to account. It works from Council meetings to the front line. Ethics, risk management, compliance, internal control and best practice are all element of governance. Effective governance requires both clear and unambiguous structures and processes and effective working of people within these frameworks. Effective governance also requires an open culture that promotes transparency, a willingness to learn and improve and no fear to speak the truth.

The Annual Governance Statement for 2020/21 states “.The Council has in place a robust risk management framework and guidance and risk management is considered by the Audit Governance and Standards Committee.”

The highest-level risks on the Corporate Risk Register are reported to and monitored by Corporate Leadership Team throughout the year. Further to this, risks updates were reported to Policy & Resources Committee and also to Audit, Governance and Standards Committee during the year for oversight and challenge.

The risk management framework was approved in December 2020 and this provides guidance to staff on the risk management process. Roles and responsibilities are clearly defined and the guidance describes the process for identifying, evaluating and monitoring risk .

Risk was reported to Audit Governance and Standards Committee in March 2021 and March 2022 with budget risks being reported in September 2021. The Strategic risk register is reported to Policy & Resources Committee quarterly as part of wider reporting on finance and performance. The Strategic Risk Register contains 11 risks which in our expected range of risk (5 to 15 risks) to allow adequate review of those threats to Council objectives. Nine of the risks are rated red on mitigated risk scores and efforts should be made to mitigate these risks further .We note the risk report to Audit Governance and Standards Committee are only reported with unmitigated risk scores. We feel reporting mitigated risk scores as well would be more useful to members so that they can see the real level of risk faced by the council

The risk register reported to Policy and Resources Committee is clear showing current and mitigated risk score, current and planned controls. The full risk register documents the target risk score, the risk owner, direction of travel, sources of risk and assurance and dates of last and next review. The Council should consider developing information provided to Members and Senior Management regarding risk and this can be linked to the three lines of defence model advocated by the Institute of Internal Auditors.

For 2022/23 we understand arrangement are for the Corporate Risk Register to be presented quarterly to the Corporate Services Policy Advisory Committee and the Executive.

We understand Members and officers have received training on risk in the past. The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff in tandem with the new risk management policy and providing greater clarity of the relationship between all the risk registers used across the Council, including strategic, operational, project and partnership risk. These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation.

Governance

Internal Audit services are provided by Mid Kent Audit, a shared service organisation covering Maidstone, Ashford, Swale and Tunbridge Wells Borough Councils. Although the agreed plan had to be adjusted because of the pandemic, Internal Audit provided sufficient fieldwork and completed reports within the year and the Head of Internal Audit Opinion was provided to the Council by July 2021. Progress reports highlighting key issues and findings on reviews are reported to Audit, Governance and Standards Committee periodically. The Head of Internal Audit Opinion concludes that “the Council managed its internal controls to offer sound assurance on control effectiveness”, “corporate governance arrangements for the year ended 31 March 2021 comply in all material respects with guidance on proper practices” and “risk management arrangements at the Council for the year ended 31 March 2021 are effective and provide sound assurance”. Review of the Annual Internal Audit Opinion indicates a wide breadth of work during the year covering financial and operational processes and including a flexible approach which allowed adjustments to the plan in year.

Internal audit presented one “weak” assurance report in 2019/20. This related to Health and Safety and found weaknesses in monitoring of compliance and completion of mandatory training. No “weak” assurance reports were issued in 2020/21.

Counter fraud services are provided by Mid Kent Audit and the Revenue and Benefits shared service.

Counter fraud operations are underpinned by a Member code of conduct (undated) a staff code of conduct (dated 2007) and a whistleblowing policy (dated 2016). These documents have not been reviewed for some time and an updating of them is recommended. The anti-fraud, and corruption policy was last updated in January 2020

The annual work plans for internal audit are currently approved and overseen by the Audit Governance and Standards Committee. From our attendance at Audit Committee, we consider it to robustly review the work of internal audit, providing appropriate challenge.

How the body approaches and carries out its annual budget setting process

The financial landscape made 2020/21 a unique year for financial planning. The Council has a robust approach to financial planning and assumptions made appear reasonable. While future funding is unclear, a medium-term financial plan has been produced based on prudent assumptions about future income streams. Our previous knowledge of the Council indicates that arrangements are in place to model the uncertainties in the system notwithstanding the factors that are outside the Council’s control. We understand that the model medium term financial strategy is a living document, constantly updated following discussions across the Council.

Budgets are discussed with budget holders, senior leadership and members prior to approval at Council level.

Investments and Borrowings are included within the financial plan, but the effects on the revenue budgets are minimal given the current rates of return on investments and costs of borrowing in a low interest rate world in place in 2020 and 2021.

How the body ensures effective processes and systems are in place to ensure budgetary control.

Budget managers have access to the finance system and can review budgets at any time. Budget reports are issued to budget managers each month and service heads every quarter. Meetings will be held with finance staff as required and there is no requirement for set monthly meetings. The budget position is reported to Policy & Resources Committee on a quarterly basis with other performance information. Review of Policy and Resources papers indicates that variances are adequately identified and explained.

The Finance team is duly qualified, generally stable and experienced. Although the previous established Head of Finance left the Authority earlier this year, a new Head of Finance with considerable public sector finance experience has taken up the post in July 2022. The S151 Officer is the Director of Finance and Business Improvement and sits on the Corporate Leadership Team.

Governance

It is clear that financial delivery is a key objective from the top down. 2020/21 has been a tough year financially for Maidstone and without a concerted effort across the council the year end position could have been troubling for financial sustainability. We consider budget management arrangements to be robust and we have found no areas of concern during our work.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency.

From review of papers and discussions with staff, we believe the Council's decision-making processes are open, transparent and strong and we have no evidence that reactive or unlawful decisions have been made.

It is evident from our review of papers that sufficient information is provided to members and they challenge and hold senior management to account appropriately. The Council is engaged and provides an appropriate level of scrutiny over external and internal audit. There is no evidence of serious and pervasive weaknesses in final accounts processes leading to a failure to meet statutory reporting deadlines and/or a modified opinion on the financial statements.

Covid-19 brought some unique challenges to the Council and some decisions had to be taken on a short timescale. However, as will be seen in our section on Covid in this report, we feel that appropriate arrangements were put in place to facilitate both agile decision making but also appropriate scrutiny and authorization in line with the wishes of the Council.

The administration changed at the elections in May 2021. The Council had been No Overall Control but has moved to a Conservative administration. The new Council has extensive plans for change. The old committee system is due to be replaced by a Cabinet system. We have no concerns as yet in relation to risks related to high turnover of Council members which can lead to inadequate understanding of the organization leading to poor decision making. The importance of maintaining a strong financial culture is vital in this context.

Financial and operational activity appears well planned with no need for reactive actions and short-term remedies. Even during the height of the pandemic responses have been deliberate and thought out.

We have noted that the Council has moved to a Cabinet system, following the May 2022 elections with the P&R Committee being discontinued from May 2022. As our report relates to 2020/21 we still make references to the P&R Committee throughout our report in the context of the arrangements in place for that year.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Various internal and external mechanisms are used to ensure the Council meets the necessary standards and legislative requirements.

Our work has not uncovered any non-compliance with the Constitution, statutory requirements or expected standards of behaviour. We have not been made aware of any data breaches at the Council.

Members interests are published on the Council website. There is an opportunity for Members to declare interests at every meeting as a set agenda item. Related party transactions are required to be declared as part of year end closure of accounts and declarations are sent to all Members and Senior officers for their completion. Rules on gifts and hospitality are included in the code of conduct. The gifts and hospitality register is retained by the Monitoring Officer and is available for inspection on request.

Officers are required to make a declaration every three years and on employment for new employees and to update if there are any changes. The gifts and hospitality register is held in Executive Support by Directorate and the policy is advised to staff on employment and reminders sent out in the staff newsletter, Inside Maidstone. This is also specifically done in early December each year to remind staff of expectations near to Christmas. We found no evidence of interests, gifts or hospitality not being declared.

Conclusion

We found no evidence or indication of significant risks to your governance arrangements as such no further risk-based work has been undertaken in this area.

Improvement recommendations



Governance

Recommendation Three

Summary recommendation

While we feel risk management arrangements are generally satisfactory, to further enhance the risk management approach the Council should consider:

- Reporting current and mitigated risk scores to Audit, Governance and Standards Committee
- Reporting risk to the Audit, Governance and Standards Committee every six months
- Factors such as target risk score, the risk owner, direction of travel, sources of risk and assurance and dates of last and next review should be reported to Members
- Developing a comprehensive risk management training programme for members and staff.

Auditor judgement

Risk was reported to Audit Governance and Standards Committee in March 2021 and March 2022. We note the risk report to Audit Governance and Standards Committee are only reported with unmitigated risk scores. We feel reporting mitigated risk scores as well would be more useful to members so that they can see the real level of risk faced by the council.

The full risk register documents the target risk score, the risk owner, direction of travel, sources of risk and assurance and dates of last and next review. But this information is not reported to Members and Senior Management This could be included in report and can be linked to the three lines of defence model advocated by the Institute of Internal Auditors.

We understand Members and officers have received training on risk in the past. The Council could strengthen its risk management framework further by developing a full training programme for all levels of staff providing greater clarity of the importance of risk management. These should align to ensure that there is a clear golden thread of risks that runs up and down the organisation.

Management comment

The council is rolling out the use of a risk management tool (JCAD) to capture all risks and ensure we regular update progress to mitigate risks. The new tool is being rolled out with training by Internal Audit. This will allow further oversight and scrutiny of all risk.

Recommendation Four

Codes of conduct and the Whistleblowing Policy should be updated as soon as possible and annual thereafter.

Counter fraud operations are underpinned by a Member code of conduct (undated) a staff code of conduct (dated 2007) and a whistleblowing policy (dated 2016). These documents have not been reviewed for some time and an updating of them is recommended.

Members are aware that the Member Code of Conduct needs to be reviewed. It is intended that this Council's Code of Conduct continues to align with those adopted elsewhere in Kent. The Monitoring Officer is therefore liaising with peers from other Kent authorities to develop a new Code of Conduct which has regard to the latest LGA guidance.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

How financial and performance information has been used to assess performance to identify areas for improvement

This year has been an incredibly challenging one for public services as a whole and Maidstone is no different. Kent was the first to see the Alpha variant of Covid-19 and this has meant the county has been particularly hard hit by the pandemic. The first six months of the year were spent getting to grips with the unique challenges of the pandemic, as services adapted to this unknown threat and challenges of the first lockdown. Maidstone played its part in the county wide effort to support residents and local business. Local government will face yet more challenge as it moves from the Covid response stage to the task of supporting long-term economic and social recovery.

There is comprehensive quarterly performance reporting to Policy and Resources Committee integrated with reporting of financial results and strategic risks.

Benchmarking has been used to assess performance in the past but with the focus on dealing with the pandemic over the last two years, understandably resources have not been available to focus on service improvement. As we emerge from the pandemic a focus on service improvement by comparing with others should be reintroduced.

The Council has a Data Quality Policy dated August 2011. While the policy looks comprehensive, this is overdue for review.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Corporate Strategy is used by officers to deliver services and to inform their recommendations to service committees. Councillors use it to inform their decisions too. The current Corporate Strategy runs until 2045.

As previously mentioned, the Council has a comprehensive approach to performance management.

We found no evidence of failure to meet minimum service standards or consider appropriate service delivery options. The organisation has a focus on long term development and not short-term expediency.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve.

Partnerships and in particular shared services have been seen as a cost effective and efficient way to provide services by the Council for a number of years. The Council is flexible in its approach, working in partnership when it is efficient and economical to do so. Maidstone host Mid Kent Services. Mid Kent Services (MKS) is a partnership between Maidstone, Swale Borough Council and Tunbridge Wells Borough Council which started in 2008. Working together the objective is to improve and reduce the cost of services to residents across Mid-Kent. The governance arrangements for Mid Kent Services include the Shared Service Board (comprised of each Council's s151 Officers) that meet quarterly to review cost and performance, Exec Board (CEO's) that meet quarterly to review the direction and priorities and MKS Board (Leaders and CEO's) that meet bi-annually to have political oversight of direction and performance, including consideration of any expansion of shared services. It's important to note that any decisions coming from the above are made in line with the sovereign decision-making arrangements for each partner, with KPI's and budget management also forming part of the standard corporate reporting at each partner authority.

Improving economy, efficiency and effectiveness

A list of current shared service arrangements is included below.

Service	Host Authority	Other Authorities
Environmental Health	No host	Maidstone, Swale and Tunbridge Wells
Human Resources	Maidstone	Swale
ICT	Maidstone	Swale and Tunbridge Wells
Internal Audit	Maidstone	Ashford, Swale and Tunbridge Wells
Legal	Swale	Maidstone and Tunbridge Wells
Parking Enforcement	No host	Maidstone and Swale
Planning Support	Maidstone	Swale
Revenues and Benefits	No host	Maidstone and Tunbridge Wells

Leisure services are run by the Maidstone Leisure Trust. The contract relationship has three layers – Council > Maidstone Leisure Trust > Operator. The leisure centre contract is reported back to the council via contract monitoring meetings held on a monthly basis. The contractor is monitored on performance against contract KPIs which include visitor numbers, customer satisfaction and financial performance. Officers also monitor the contractor's ability to emerging issues, which includes things like how they react to declines in certain areas, maximise opportunities in growing areas and contribute to public health initiatives. Issues of non-performance are managed via the monthly meeting process or escalated to senior officers where required. In terms of value for money the council receives a one third profit share after the contractor's fee threshold has been surpassed. It should be noted that 2020/21 was a difficult year for the leisure industry nationally with facilities being forced to close due to Government policy during the pandemic.

Serco Leisure (the operator) took advantage of their contractual position to recover their losses from the Council, less £5,000 payable by the Leisure Trust. This was partially offset by a contribution from the National Leisure Recovery Fund. In addition, Serco have not paid the annual £0.2m contribution due under the contract.

The Mid Kent Waste Collection Contract with Biffa Municipal Ltd is monitored through quarterly Partnership Board meetings, monthly contract meetings with the local Biffa management team and daily proactive inspections. Performance relating to health and safety, compliance with the contract specification and application of the performance mechanism is reported through the four tiers of contract management: local contract meetings, partnership monitoring meetings, Strategic Operations Group and Partnership Board. Maidstone Borough Council is the lead authority for the Mid Kent Contract; however, the Supervising Officer responsibility rotates biennially. Decision making responsibility remains with each individual authority, although agreement is sought across the Partnership to ensure consistency and a unified approach to contract management.

The Council also works with other agencies to co-ordinate and improve services and value for money.

The Council is transparent about its dealing with significant partners except where commercial sensitivity precludes this.

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

Procurement support services across the organisation delivering front line and back-office services. The Council's approach to procurement is laid out clearly in the Procurement Standing Orders in the Constitution and an 'Maidstone Borough Council Approach to Procurement' and 'Purchasing Guide', published on the intranet. The whole process is co-ordinated and supported by a corporate procurement team, headed by a fully Chartered Institute of Purchasing and Supply (CIPS) qualified Procurement Manager. An internal audit review of procurement was completed in July 2022 and gave a 'sound' conclusion on the design and operation of controls, the second highest opinion of four available.

Improving economy, efficiency and effectiveness

We have not, however, been provided with a procurement strategy and we feel one should be produced to provide an overview of the Council procurement activities. The strategy should cover e-procurement, procurement with small to medium size enterprises and the voluntary sector and sustainable procurement. The development of the strategy should have an eye on recent events and the introduction of the National Procurement Strategy for Local Government in England in 2018. It should be noted that The National Procurement Strategy provides a toolkit for the Council to assess its progress against the themes and objectives within the strategy which would be useful when refreshing the in-house approach.

The Council has a legal duty to secure value for money in commissioning and procuring its requirements and to continually improve the quality in everything the public sees and expects from it. Central Government policy seeks to ensure that all commissioning and procurement activity should be based on obtaining value for money. This is defined as considering the optimum combination of whole life cost and the quality necessary to meet the customer's requirements in conjunction with relevant legislation and the Council's Constitution (particularly the Financial Procedure Rules and Contract Procedure Rules).

We found no evidence that appropriate procurement processes were not followed during 2020/21.

The Council has no significant commercial ventures.

Conclusion

We found no evidence or indication of significant risks to your arrangements as such no further risk-based work has been undertaken in this area.



Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation Five

Summary recommendation

Consideration should be given to developing a programme of service reviews using such tools as benchmarking to identify best practice. Firstly, it could compare its performance reporting (in terms of number and types of KPIs against other Kent Districts) to determine whether others are capturing and reporting useful information the Council is not. Secondly, the Council could actually compare the performance of existing KPIs against other Councils (starting in Kent initially to determine whether the exercise is useful).

Auditor judgement

Benchmarking has been used to assess performance in the past but with the focus on dealing with the pandemic over the last two years, understandably resources have not been available to focus on service improvement. As we emerge from the pandemic a focus on service improvement by comparing with others should be reintroduced.

Management comment

The current focus is to deliver savings options for the 23/24 budget that are driven by efficiencies, reductions and income opportunities. These are driven by professional experience of where efficiencies can be delivered or income can be recovered. These decisions are also supported by the in-year and previous years financial position. Invest to Save decisions are driven by key data on spend and comparisons to ensure the business case delivers a suitable return as investment decisions are driven by the need to make an appropriate rate of return. This is a key measure before approval can be given to progress a project. The 2024/25 budget process will be the main opportunity to start benchmarking services in more detail and driving further efficiencies.

Recommendation Six

The Data Quality Policy should be updated as soon as possible and annually thereafter. This Strategy should set out how the Council is delivering transparency in a way which is safe, accurate and secure, and which complies with the relevant transparency regulations as well as the General Data Protection Regulations and the Data Protection Act 2018. The Strategy should define how good quality data is being collected and handled to inform evidence-based decision making.

The Council has a Data Quality Policy dated August 2011. While the policy looks comprehensive, this is overdue for review. Protecting and managing information is a key risk area with significant associated financial and reputation impacts.

The current Data Quality Policy was introduced in February 2017. A review of data policies is under way and the policy will be updated in the next 12 months.

The range of recommendations that external auditors can make is explained in Appendix B

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation Seven

Summary recommendation

We recommend a Procurement Strategy is developed and in addition to the explaining the Council's approach to procurement it includes the following:

SMART (specific, measurable, achievable, realistic, and timely) objectives are clearly set out in the Strategy to allow the Council to assess whether the Strategy is delivering as intended.

A framework for how the delivery of the Strategy will be achieved. An annual or biennial review against SMART objectives reported to the Resources and Strategy Committee would allow the Council to assess how successful the Strategy is in delivering its objectives.

Auditor judgement

While procurement processes are generally felt to be sound and this view was recently endorsed by Internal Audit, we have not been provided with a procurement strategy and we feel one should be produced. The strategy should cover e-procurement, procurement with small to medium size enterprises and the voluntary sector and sustainable procurement. The development of the strategy should have an eye on recent events and the introduction of the National Procurement Strategy for Local Government in England in 2018. It should be noted that The National Procurement Strategy provides a toolkit for the Council to assess its progress against the themes and objectives within the strategy which would be useful when refreshing the in-house approach.

Management comment

We agree with the recommendation and have already started to implement changes. The aim is to develop an overall procurement strategy later in 23/24. We have Social Value and Sustainability policies and Modern Slavery in the Supply Chain Statements going through governance in December. There is also an aim to roll out contract management tool kit at the end of 22/23 and to ensure Contract Managers have the appropriate training and support during the first quarter of 23/24.

The range of recommendations that external auditors can make is explained in Appendix B

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial Sustainability

The pandemic has had a significant financial effect on the Council predominantly through the loss of income in areas as commercial rents and car parking. However, operational changes have led to a change in expenditure profiles which has partially offset losses.

In the early stages of the pandemic the Government announced various funds to provide financial support for business (Small Business Grant Fund, the Retail, Leisure and Hospitality Grant Fund and the Local Authority Discretionary Grant Fund (LADGF)). Local authorities were made responsible for delivering grants to eligible businesses.

There is likely to be significant pressure on public funds in future years given the levels of borrowing undertaken by Government to fund Covid-19 support measures. The Council has commenced some scenario modelling on the potential impact on the Council Tax base for the number of households from which full Council Tax can be collected, to understand how this may affect the Council's core funding in the immediate future. In the short term any unexpected shortfall in funding will be met from reserves.

The Council received additional grant funding to cover costs incurred as a result of Covid-19. This funding was utilised in a variety of ways. The Government also announced a support package to partly cover the irrecoverable council tax and business rate loss of income in 2020/21, whereby 75% of losses incurred will be funded by Government Grant.

Governance

In response to the Covid-19 pandemic, the multi-agency Strategic Coordination Group declared the coronavirus pandemic a major incident on 24 March 2020 and Kent and Medway went into a national lockdown on that date. These measures did not significantly change through the whole financial year 2020/21. The first six months of the year was spent largely adjusting to the demands of the pandemic with new services being introduced and the payment of grants to support residents and local business. Staff were seconded to help with Covid related work and this had a knock-on effect to day-to-day services.

In response to the emerging risk of Covid19 in February 2020 an officer response group was set up and their responsibilities included representing the council at the daily multi agency meetings set up via the Kent Resilience Forum, maintaining situational awareness, feeding into the common operating picture (COP) reports for the council and providing guidance to officers on emerging HR matters. After declaration of an emergency, strategic leadership was provided by CLT and response was led by Heads of Service.

Member meetings went on-line and all staff started working from home where possible to reduce the risk of the spread of the disease. Other measures were put in place to ensure the safety of those who still had to work in the community.

Governance arrangements were amended to meet the challenges of the pandemic. Specific cost centres were set up to allow for accurate recording of Covid related costs.

The Council was kept up to date with the situation through regular updates to Policy and Resources Committee.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Improving economy, efficiency and effectiveness

In March 2020 there was an impact on business as usual and delivery of services mainly from staff working at home and some self-isolation. Some services were unable to function during the initial lockdown such as parking enforcement. Decisions around any necessary changes to internal controls were discussed with senior managers and escalated if necessary. The Council started a food delivery service for those shielding in partnership with NHS volunteers at the request of government and procured personal protective equipment to help staff carry out their roles. An initial assessment of the costs and loss of income arising from immediately apparent changes was also carried out and reported to management and members.

The Councils response to the Covid-19 emergency included providing temporary accommodation for rough sleepers and people at risk of homelessness, supporting vulnerable residents and the Council distributed millions of pounds in Business Grants.

Conclusion

We found no evidence or indication of significant risks to your Covid-19 arrangements as such no further risk-based work has been undertaken in this area.



Opinion on the financial statements



Audit opinion on the financial statements

We issued an unmodified opinion on the Council's 2020/21 financial statements on 18 November 2022.

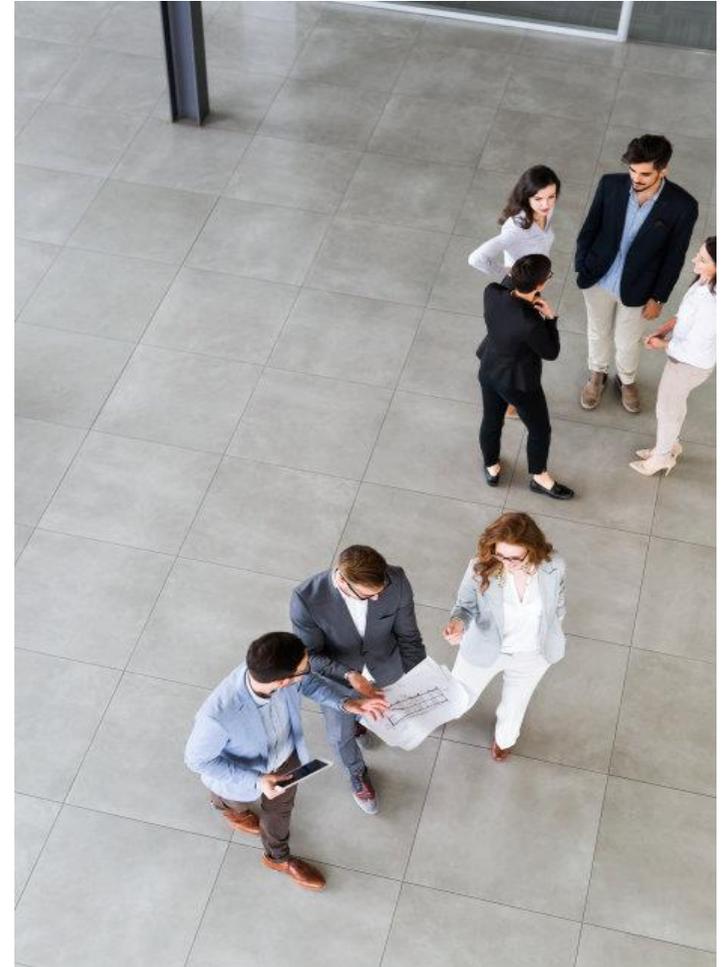
Audit Findings Report

We reported the initial findings from our audit in our Audit Findings Report presented to the November 2021 Audit, Governance and Standards Committee. At that point our work was still in progress. Further work identified the need for a number of additional material amendments to the financial statements. We provided an updated Audit Findings Report to the November 2022 Audit, Governance and Standards Committee.

Whole of Government Accounts

We are required to carry out specified procedures on the Whole of Government Accounts consolidation pack under group audit instructions issued by the National Audit Office.

As the relevant values in the Council's financial statements do not exceed the thresholds specified in the 2020/21 group audit instructions no detailed work will be required.



Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

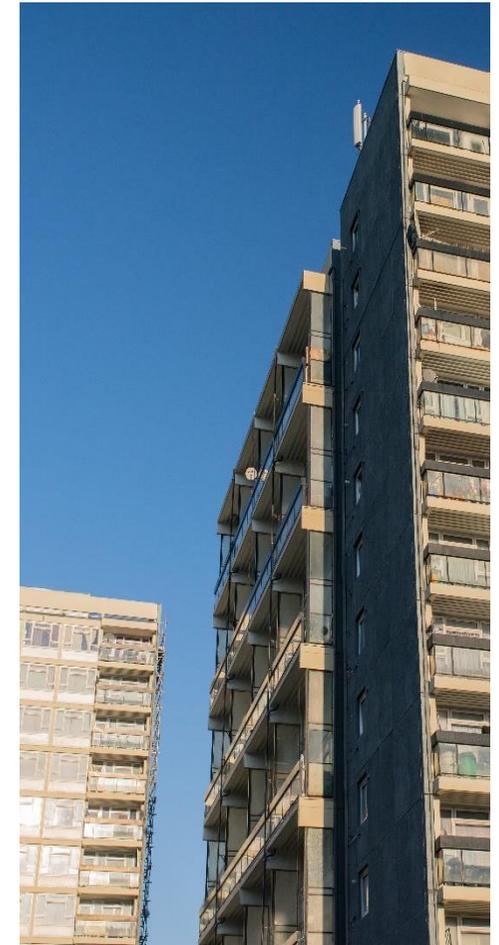
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council auditors as follows:

Type of recommendation	Background	Raised within this report
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Service to discuss and respond publicly to the report.	No
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes, see pages 13 and 14.

Appendix C - Use of formal auditor's powers

The following are formal powers that can be used by auditors:

Formal power	Used by auditor in 2020/21
<p>Statutory recommendations</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly</p>	Not required.
<p>Public interest report</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.</p>	Not required.
<p>Application to the Court</p> <p>Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.</p>	Not required.
<p>Advisory notice</p> <p>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:</p> <ul style="list-style-type: none"> • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful. 	Not required.
<p>Judicial review</p> <p>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.</p>	Not required.

