

# Auditor's Annual Report on Maidstone Borough Council

**2021/22 and 2022/23**

February 2024



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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 those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

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# 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 Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO has issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Council's arrangements for 2021/22 and 2022/23 set out within this report. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	2022/23 Risk assessment	2021/22 Auditor judgment	2022/23 Auditor judgment	Direction of travel
<b>Financial sustainability</b>	No risks of significant weakness identified	<b>A</b> No significant weaknesses in arrangements identified, but two improvement recommendations made	<b>A</b> No significant weaknesses in arrangements identified, but one improvement recommendation made	↔
<b>Governance</b>	No risks of significant weakness identified	<b>A</b> No significant weaknesses in arrangements identified, but six improvement recommendations made	<b>A</b> No significant weaknesses in arrangements identified, but five improvement recommendations made	↔
<b>Improving economy, efficiency and effectiveness</b>	No risks of significant weakness identified	<b>A</b> No significant weaknesses in arrangements identified, but four improvement recommendations made	<b>A</b> No significant weaknesses in arrangements identified, but four improvement recommendations made	↔

- G** No significant weaknesses in arrangements identified or improvement recommendation made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- B** Significant weaknesses in arrangements identified and key recommendations made.

# Executive summary



## Financial sustainability

Our work has not identified any significant weaknesses in arrangements to secure financial sustainability and we are satisfied that the Council had appropriate arrangements in place in 2021/22 and 2022/23 to manage financial risks, set budgets and effectively develop its financial plans. We have raised two improvement recommendations on pages 12 and 13.

The Council has managed its resources effectively and delivered a small surplus in 2021/22 and 2022/23. Over the same period the Council's combined total for earmarked and general fund reserves has remained relatively constant. However, in February 2023 the Council identified a cumulative revenue deficit of £14.372m from 2023/24 to 2027/28. The deficit is not significant in the first two years, but increases to £3.686m in 2025/26, £4.357m in 2026/27 and £5.5m in 2027/28. Savings plans are not yet in place to address these shortfalls.

The Council plans to increase the capital programme significantly over the next five to 10 years and to fund £164.8m of this capital programme through external borrowing. In order to make informed decisions the full cost of the capital programme and individual projects such as the 1,000 affordable homes should be calculated and made publicly available.



## Governance

Our work has not identified any significant weaknesses in the Council's governance arrangements for ensuring it made informed decisions and properly managed its risks.

We have identified some improvement recommendations (see pages 21-26) including improving how Mid Kent Audit could improve its performance, consider the Council's new governance structure to ensure it is effective and provides value for money, and consider developing an overarching housing acquisition strategy which considers all property types, the full life cost, outcomes and how progress will be assessed against these outcomes.



## Improving economy, efficiency and effectiveness

Our work has not identified any significant weaknesses in arrangements to improve economy, efficiency and effectiveness. The Council had arrangements in place to manage its performance, administer its contracts appropriately and work effectively with partners.

We have identified four improvement recommendations (pages 31-34) including improving the tracking of performance of the Strategic Plan and performance management arrangements for Mid Kent Services.



## Financial statements

### 2021/22

We completed our audit of your 2021/22 financial statements and issued an unqualified audit opinion on 17 November 2023, following the Audit, Governance and Standards Committee meeting on 13 November 2023.

### 2022/23

We anticipate issuing an unqualified opinion on the Council's 2022/23 financial statements in April 2024, following the Audit, Governance and Standards Committee meeting on 11 April 2024.

Our findings for both years are set out in further detail on pages 38 to 39.



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# Use of auditor's powers

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We did not need to apply the following powers in either 2021/22 or 2022/23:

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## Statutory recommendations

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.

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## Public Interest Report

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.

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## Application to the Court

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.

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## Advisory notice

Under Section 29 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:

- 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.

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## Judicial review

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.

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# The current LG landscape



## National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the Covid-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and Members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

# The current LG landscape



## Local context

Maidstone Borough Council (the Council) is a district council situated within Kent County Council and was formed in 1974. The Council is responsible for providing waste services, collecting council tax, planning and building control, housing services, housing benefit and a range of other services, such as parking and street cleaning.

The Council has the largest population of all the districts in Kent, with a reported population of 175,000 in 2021 (UK national census), with a 13% increase in population since 2011. IN 2021 the employment rate was 63.5% and had dropped by 9.4% since 2011.

The Council has 55 councillors, and no political party has had overall control since the elections in 2023. The Council is led by a minority Conservative administration.

In May 2021 the Council agreed at its annual general meeting to change its governance arrangements from a 'Committee System' to the 'Executive System' and this took effect from May 2022. With the 'Executive System' strategic and key decisions are made by the Executive Committee or Leader. The Executive Committee (known as the Cabinet at Maidstone Borough Council) consists of elected Members appointed by the Leader from the Conservative political party.

The Council's new governance arrangements include the following committees:

- Full Council
- Cabinet
- Overview and Scrutiny Committee
- Four Policy and Advisory Committees
- A range of regulatory/statutory committees, such as Licensing, Planning and the Audit, Governance and Standards Committee

# Securing economy, efficiency and effectiveness in the Council's 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).



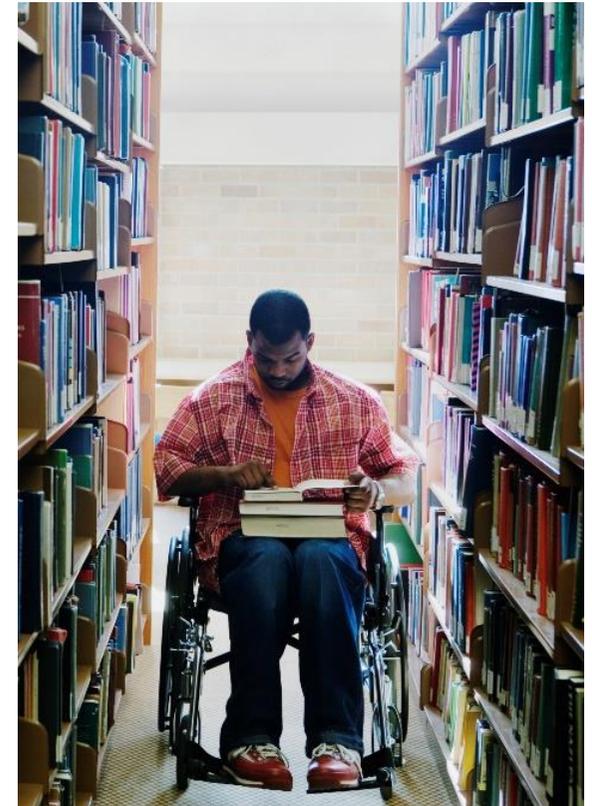
## Governance

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 the Council's arrangements in each of these three areas, is set out on pages 9 to 34.

# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them 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 which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Medium Term Financial Planning

The Council has a Medium Term Financial Strategy (MTFS) which is refreshed annually and runs for five years on a rolling basis. This allows financial risks and challenges to be managed over an appropriate time frame and to reflect the implications of the annual funding settlement in its financial plans.

Financial planning includes use of different scenarios, with the most likely one used to inform the budget. Appropriate assumptions are used for key factors such as inflation and council tax increases. In setting the 2023/24 budget the Council included inflation related pressures of £3.5m. The Council has also been able to build up a contingency of £1.3m which can be used in the event that inflation is higher than forecast.

The MTFS was agreed as part of the budget setting process for both 2021/22 and 2022/23 by Full Council. The financial plan assumes reasonable increases in the council tax base, with the reason for this, including historic data, included in the budget setting report.

Figure 1 opposite sets out the revenue and capital year-end position for 2021/22 and 2022/23. In February 2023, as part of the Council's MTFS and budget papers, the Council identified a cumulative revenue deficit of £14.372m from 2023/24 to 2027/28. The deficit is not significant in the first two years, but increases to £3.686m in 2025/26, £4.357m in 2026/27 and £5.5m in 2027/28. This is a significant shortfall in funds for which detailed savings plans will be required.

Figure 1: Revue and capital outturn 2021/22 and 2022/23

	2022/23	2021/22
Planned revenue net budget	£23.231m	£19.695
Actual revenue expenditure	£23.019m	£19.228m
Year-end underspend	£0.212m	£0.467m
Planned capital spend	£32.631m	£33.629m
Actual capital spend	£16.335m	£26.431m
Year-end underspend	£16.296m	£7.198m

The savings required in 2021/22 and 2022/23 were not significant and were deducted from existing budgets. As a result, monitoring arrangements focussing only on savings were not considered necessary. The Council relied upon the standard monitoring of financial performance against budget, which was reported to Members on a quarterly basis.

# Financial sustainability

The Council does not have savings or income generation plans in place to address the projected significant budget short fall from 2024/25 onwards and is planning to do this after the local elections in May 2024. Whilst recognising that the elections in May 2024 provide a four-year term for all Members, so that longer term decisions can be made, not having fully developed plans in place to address the longer-term financial deficit is an area for improvement. Effective savings plans require elapsed time before they will begin to deliver cashable savings, so if plans were not developed until the summer of 2024, it is unlikely that savings plans would not begin to deliver until 2025/26. We note that previous savings plans have not necessitated detailed consultation with residents and businesses. This is likely to change as more significant savings plans are required.

We have raised the following improvement recommendation (page 12): **The Council should develop savings and income generation plans that will address the significant funding gap expected from 2025/26. As part of this process the Council should introduce:**

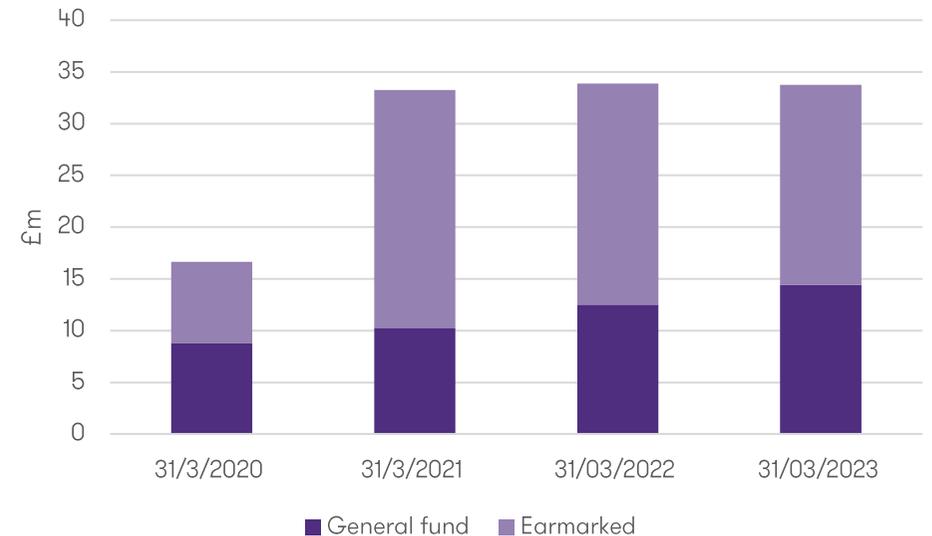
- monitoring arrangements so that the progress of individual savings plans can be monitored by Members throughout the year
- consultation with residents and businesses on suggested savings plans.

## Reserves and risk mitigation

The purpose of the unearmarked general fund (GF) reserve is to meet costs arising from any unplanned or emergency events such as unforeseen financial liabilities or natural disasters. These reserves also act as a financial buffer to help mitigate against the financial risks the Council faces and can be used to a limited degree to 'smooth' expenditure on a one-off basis across years. Whereas earmarked reserves are set aside for specific purposes.

Figure 2 opposite illustrates that the Council has been able to increase its general fund reserves in recent years to £14.4m at the end of 2022/23 and that the combined total for earmarked and general fund reserves has remained relatively constant.

Figure 2: Level of general fund and earmarked reserves from 31 March 2020 to 31 March 2023



The Chief Finance Officer's assessment of the robustness of estimates and adequacy of reserves is comprehensive, balanced and robust. Scenario planning ensures that estimates are reasonable and the level of balances held, which could be used to offset any unexpected overspends, are £14.4m which is nearly 50% of net income.

**Whilst the Council has a significant financial challenge on the horizon, with the budget gap, we consider that it has sufficient reserves and that its lack of savings plans is not a significant weakness in arrangements but should be addressed as soon as possible.**

# Financial sustainability

## Capital strategy

The Capital Strategy, a five-year strategy, was presented as part of the annual budget setting reports and includes the three major housing projects, the 1,000 affordable Housing Programme, private rented sector and temporary accommodation. The capital strategy outlines the main projects contributing to the four corporate objectives and their forecast expenditure, as illustrated in figure 3 below.

Figure 3: Proposed capital programme for the next five years

Proposed capital spend	Capital programme all projects £m	1,000 affordable housing element £m	Private rented sector £m	Temporary accommodation £m
2023/24	39.5	6.1	3.1	12.0
2024/25	49.7	20.1	6.8	12.0
2025/26	47.6	22.8	6.8	8.0
2026/27	35.0	25.5	9.6	0
2027/28	30.6	22.4	6.9	0
<b>Total</b>	<b>202.4</b>	<b>96.9</b>	<b>33.2</b>	<b>32.0</b>

The Council has secured social housing grant of £24.5m to support the delivery of the 1,000 affordable homes and secured £80m in advanced borrowing.

The Council plans to increase the capital programme significantly over the next five to 10 years and to fund £164.8m of this capital programme through external borrowing.

Although we have illustrated the capital costs of the housing projects the Council also has other high value projects such as, £12.5m on corporate property acquisitions, £5.3m on biodiversity and climate change, and £7m for leisure provision. Looking over the next 10 years from 2023/24 to 2032/33 the capital programme is £365m, of which nearly £300m (82%) is forecast to be financed through external borrowing.

The Minimum Revenue Provision required is projected to increase from £0.865m in 2022/23 to £6.5m in 2032/33 and total over £45m for the next 10 years. Total financing costs are forecast as £8.5m in 2027/28, but are not shown beyond that date. This compares to £0.8m in 2022/23. Financing costs in 2027/28 represent over 30% of the Council's forecast net revenue. These are very significant changes over a comparatively short (10 year) period.

This information does not take into account that the cost of borrowing (financing and debt repayment) is likely to continue beyond 10 years and could extend to 20-25 years. In order to make informed decisions the full cost of the capital programme and individual projects such as the 1,000 affordable homes should be calculated and made publicly available. We have raised an improvement recommendation (page 13): **the Council needs to publicly report the full life cost of the current capital programme to ensure it is affordable – financing costs and debt repayment will continue well beyond 2032/33.**

Figure 1 on page 9 illustrated that there has been significant capital underspend in 2021/22 and 2022/23. In 2022/23 the underspend was due to slippage in three projects:

- Temporary accommodation - £3.9m slippage due to high property prices meant that purchases did not occur
- Corporate property acquisitions - £3.2m slippage as no suitable properties to purchase
- 1,000 affordable housing - £3.2m slippage as a large-scale scheme had not progressed as planned

Members are provided with regular updates and explanations of the slippages.

## Auditor judgement

**Our work has not identified any significant weaknesses in arrangements to secure financial sustainability and we are satisfied that the Council had appropriate arrangements in place in 2021/22 and 2022/23 to manage financial risks, set budgets and effectively develop its financial plans.**

# Improvement recommendations



## Financial sustainability

### Recommendation 1

The Council should develop savings and income generation plans that will address the significant funding gap expected from 2025/26. As part of this process the Council should introduce:

- monitoring arrangements so that the progress of individual savings plans can be monitored by Members throughout the year; and
- consultation with residents and businesses on suggested savings plans.

### Audit year

2022/23

### Why/Impact

The size of the forecast budget gap will require significant savings to be delivered and is likely to require detailed savings plans to ensure delivery.

### Auditor judgement

This is not a significant weakness in arrangements but an area for improvement.

### Summary findings

The Council has a significant cumulative revenue deficit of £14.372m from 2023/24 to 2027/28. The deficit is not significant in the first two years, but increases to £3.686m in 2025/26, £4.357m in 2026/27 and £5.5m in 2027/28. The Council does not have savings or income generation plans in place to address this projected budget short fall.

Effective savings plans require elapsed time before they will begin to deliver cashable savings, so if plans are not developed until the summer of 2024, after the May 2024 elections, it is unlikely that they would not begin to deliver until 2025/26.

### Management comments

We will be preparing an updated MTFS for 2025/26 onwards to revise the position (using the 4 scenario approach). We have been clear it will involve significant decisions around service levels and also a review of the capital programme to reduce and reprofile to reflect a more affordable programme. We will engage the new cabinet following the all out election in May 2024 to progress this as part of the regular budget process.

We currently monitor savings delivery as part of the quarterly reviews by the S151 with Heads of Service and this will continue.

Consultation with residents occur every year to inform the budget process and will be expanded to include businesses. We know going forward we may need to change the questions to get feedback around service reductions and priorities due to a much tighter financial envelope.

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

# Improvement recommendations



## Financial sustainability

### Recommendation 2

The Council needs to publicly report the full life cost of the current capital programme to ensure it is affordable – financing costs and debt repayment will continue well beyond 2032/33.

### Audit year

2021/22 and 2022/23

### Why/Impact

The Council plans to fund a large proportion of the capital programme from external borrowing. This borrowing will need to be repaid over a period longer than 10 years.

### Auditor judgement

This is not a significant weakness in arrangements but an area for improvement.

### Summary findings

The Council plans to increase the capital programme significantly over the next five to 10 years. Over the next 10 years from 2023/24 to 2032/33 the capital programme is £365m, of which nearly £300m (82%) is forecast to be financed through external borrowing.

The Minimum Revenue Provision required is projected to increase from £0.865m in 2022/23 to £6.5m in 2032/33 and total over £45m for the next 10 years. Total financing costs are forecast as £8.5m in 2027/28, but are not shown beyond that date. This compares to £0.8m in 2022/23.

### Management comments

At present we do not have significant levels of borrowing but are aware of the need to increase visibility of the costs of borrowing. We will add further details of the full life cost of borrowing to future capital/revenue and Treasury Management reports so the full life costs of borrowing is made more transparently.

Individual business cases such as for new housing schemes include the cost of borrowing as part of its assessment to ensure it delivers the right rate of return. We are also developing our Housing Revenue Account forecast, which will building in the cost of borrowing.



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 effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Governance is the system by which organisations control and operate and is the mechanism by which they and their staff are held to account. Risk management, internal control, compliance and maintaining standards are all elements of governance. Effective governance requires both clear and unambiguous structures, processes and effective working of people within these frameworks. Good governance also requires an open and transparent culture.

## Risk management

The Council has a risk management framework that sets out how the Council identifies, manages, and monitors uncertainty and risk. The framework was reviewed, updated and approved by Policy and Resources Committee in April 2019. The Council should consider if this framework requires updating – we have raised an improvement recommendation on page 21.

The Mid Kent Audit Service throughout 2021/22 and 2022/23 was responsible for facilitating and co-ordinating the risk management processes across the Council.

In 2021/22 the Policy and Resources Committee had overall responsibility for risk identification and mitigation and received quarterly risk monitoring reports. The Audit, Governance and Standards Committee had an assurance role to ensure the Council was operating an effective risk management process and received an annual monitoring report.

During December 2021, the Council's insurers, Zurich performed a desktop review of the framework and how risk information is reported. Zurich concluded that good

arrangements were in place with “evidence of a strong process led by the audit function as the key conduit for the flow of information”.

In 2022/23 similar arrangements were in place, but the quarterly risk management reports were presented to the Cabinet. The Council also improved its risk management arrangements by rolling out risk management software – JCAD. The software is available to all risk owners and senior management allowing them to view and update their risks. JCAD should provide a more efficient risk management process and more effective reporting of risk information.

## Internal Control

Internal Audit services were provided by Mid Kent Audit, a shared service with the Council and Ashford, Swale and Tunbridge Wells Borough Councils.

2021/22 was a challenging year for the service as the work delivered was limited by Covid-19 and there were significant staff changes within the team, with high turnover and the departure of both the Head of Audit and Deputy. A positive Head of internal Audit opinion was given for the year, however, the service had to rely upon other sources of evidence to enable this opinion to be given, as the amount of work completed was less than planned.

2022/23 similarly posed a challenge as work had to be completed that had been carried forward from the previous year. A positive Head of internal Audit opinion was given, but again this was only possible by relying on other sources to provide assurance.

# Governance

Figure 4 below illustrates that Internal Audit's performance has been below expectations. We would normally expect an internal audit service to be delivering over 80% of its planned audits.

**Figure 4: Analysis of work completed by Internal Audit compared to planned audits**

	Planned audits	Audits completed	% completed
2020/21	14	12	86%
2021/22	18	11	61%
2022/23	14	8	57%

We note that the audit reviews in 2022/23 were not completed as planned for similar reasons to 2021/22 but also due to management deferring or cancelling reviews.

Based on this performance we have raised an improvement recommendation (page 22): **The Council should consider how Mid Kent Audit could improve its performance and increase the proportion of audits completed in line with its plan. This consideration should include review of how the Council manages and ensures delivery of planned audits.**

We recognise that the Mid Kent Audit service is a shared service, and the Council may need to discuss performance with the other partners to determine if the above performance is limited to the Council or is any issue across all partners.

The counter fraud services were provided by Mid Kent Audit, except for benefit investigations which were carried out by the Revenue and Benefits shared service. In 2021/22 this work included review of compliance with the Covid-19 grant requirements.

The Council has an agreed anti-fraud and corruption policy which was last updated in January 2020, this policy was due for renewal in 2022, but has yet to be updated – we have raised an improvement recommendation on page 21.

## Monitoring standards

The Council has codes of conduct which are incorporated into the Constitution these codes set out the standard of behaviour which are expected from Members and officers. The Council has a Whistleblowing Policy last updated in September 2016, available on the Council's website. In 2020/21 we raised an improvement recommendation that both the codes of conduct and the whistleblowing policy should be updated.

The Members' code of conduct was updated and adopted by the Council in February 2024, whereas the officers' code of conduct has yet to be updated and the whistleblowing policy still requires updating.

Our work has not identified any non-compliance with the Constitution, statutory requirements or legislative requirement during 2021/22 or 2022/23.

The Constitution requires that both Members and employees are required to declare gifts and hospitality and interests. Through both years these declarations have been made, as necessary by Members and officers. Officers are required to register their interests upon appointment and should resubmit their declaration when the Council recirculates the requirement every three years. However, this request has not been recirculated since 2019 and we raise an improvement recommendation in this area (page 23): **The Council should circulate its declaration of interest form to all employees and ensure this is undertaken every three years in line with the Council's Constitution.**

# Governance

## Decision making and the new governance structure

From May 2022 the Council changed its governance arrangements from a 'Committee System' to the 'Executive System'. The new structure is illustrated in figure 5 opposite.

With the 'Executive System' strategic and key decisions are made by the executive committee or leader of the Council. The executive committee (known as the Cabinet at Maidstone Borough Council) consists of elected Members appointed by the Leader from the Conservative political party.

The Council's new governance arrangements include the following committees:

- Council
- Cabinet
- Overview and Scrutiny Committee
- Four Policy and Advisory Committees
- A range of regulatory/statutory committees, such as Licensing, Planning and the Audit, Governance and Standards Committee.

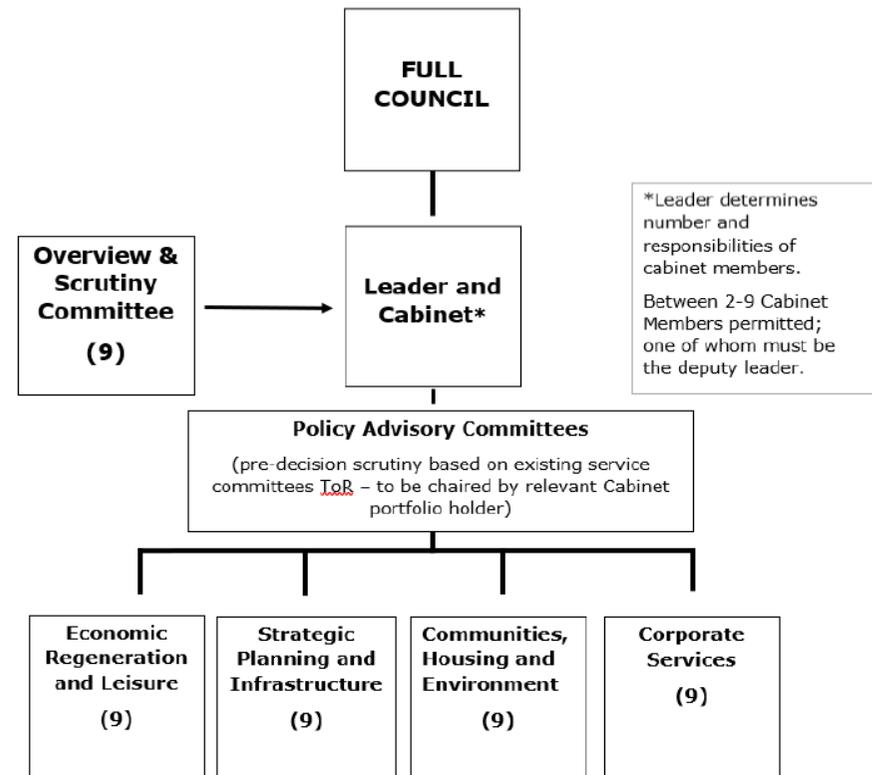
However, this structure differs from the executive system we have observed at many councils across England and follows a more hybrid approach with the introduction of four Policy and Advisory Committees (PACs). The PACs are not decision making committees, but follow a similar structure to the committee system which was in place previously, where the Council had four decision making committees and did not have a scrutiny committee.

The aim of the PACs was to ensure greater cross-party involvement in the decisions and policy development. It is the Council's intention, as set out in the Constitution, that all decisions taken by Cabinet (apart from pledges by the administration) will go through a PAC.

The existing governance structure enables wider Member involvement which would ordinarily be undertaken within the scrutiny function and audit committee, but has a number of disadvantages, such as:

- increasing the amount of resources, both officer and member, required to support and maintain this hybrid structure;
- duplicating and lengthening the decision-making process as decisions pass through a related PAC before the decision is made by Cabinet or the Leader;
- undermining the authority of the portfolio holder; and
- marginalising the role of overview and scrutiny and not enabling scrutiny to develop.

Figure 5: New governance structure from May 2022



\*This diagram does not include regulatory/statutory/other Committees such as; Audit, Governance and Standards, Licensing, Planning, Crime and Disorder Committee, Appointment Sub-Committee, Democracy and General Purposes Committee.

# Governance

## Scrutiny function

We also considered the work undertaken by the Overview and Scrutiny Committee since its formation. The Overview and Scrutiny Committee is not a decision-making committee and is intended to act as a challenge to the Cabinet. It can request Cabinet or a Cabinet Member to reconsider a decision through the call-in process. It can undertake reviews and investigations into areas of concern or policy development areas, are able to express views on Council decisions and undertaken pre-decision scrutiny of any decision, subject to urgency provisions.

PACs consider matters before they go to Cabinet to offer advice and are therefore undertaking a form of pre-decision scrutiny.

The Overview and Scrutiny Committee met for the first time in June 2022 and met a further nine times in 2022/23. The first meeting included a work programming session. At the meeting four areas for detailed review were agreed. Throughout the remainder of 2022/23 one decision was subject to the call-in process and the committee were predominately focused on detailed areas of review such as the Council's Waste Strategy. The Committee's work programme did not include pre-decision scrutiny and did not follow the workplan of the Cabinet. This is an approach which the PACs are following as opposed to the Overview and Scrutiny Committee.

Based on our findings we have raised an improvement recommendation (page 24): **The Council should consider its existing decision-making structure to ensure it is effective and provides value for money. The Council should take into account the following:**

- the resources required to maintain this structure;
- the length of time it takes a decision to be made; and
- the role of scrutiny and whether a more effective approach might involve two scrutiny committees instead of the four Policy Advisory Committees.

## Meeting the housing needs of residents

The Council has made a number of decisions to improve the housing provision of its residents this included:

- the building of 1,0000 affordable homes over a 10 year period starting in April 2022, costs in the region of £200m;
- to extend the availability of housing within the private rented sector by building 200 such homes over a five-year period, with costs in the region of £46m; and
- the purchase and repair of properties to use as temporary accommodation, this investment began in 2017 and should be completed by 2025/26. A further 80 properties of various sizes will be purchased.

The 1,000 affordable homes is the most significant project, but combining all of the above the Council is looking at purchasing 1,280 additional homes.

The planned capital spend over these three initiatives was included in figure 3 on page 9.

### 1,000 affordable homes

This project was agreed in January 2022 by the Policy and Resources Committee. The homes would be owned by the Council and rented to residents at affordable rates, to be let at 80% of the market rent. Despite this project being likely to benefit from Section 106 monies and grants from Home England, each home delivered will have a viability gap, which is the difference between the likely cost and the investment value of the property. In January 2022 this was reported as £17,600 per home. To fund this gap the Council has set up a Maidstone Housing Investment Fund (MHIF) and would need to be £17.6m over ten years. This subsidy has since increased to £50m.

In 2022/23 the Council has £3.2m held within the MHIF and anticipates this will increase to £4m in 2023/24. The Council hopes to have set aside £10m by 2027/28 when it hopes to have 200 affordable homes.

The Council is only able to hold 199 affordable homes within its General Fund. Above this threshold homes would need to be held within a Housing Revenue Account (HRA) or an alternative sought.

# Governance

The decisions as to whether an HRA should be established has not yet been made. The Council is considering other options and has sought specialist legal advice to enable it to make this decision. The homes cannot be held by Maidstone Property Holdings (MPH), as MPH cannot access grant funding from Homes England or hold homes delivered through Section 106 agreements.

In January 2024 an update was provided to Cabinet, on both the 1,000 affordable homes project and the private rented sector homes project. At this point the Council's housing portfolio included 29 affordable rented homes, expected to increase to 49 homes by 31 March 2024.

From 2022 the Council has been setting up the New Business and Housing Development Team. The team has been established to identify suitable sites for house building and will be covering all the Council's housing needs, not just affordable homes. Consideration needs to be given to how the 1,000 affordable homes will be managed.

The additional homes which the Council intends to deliver are not expected to meet the latest environmental requirements and as such are expected to have a significant impact on the Council's 2030 net zero commitment.

Annual updates on how the Council is progressing its objectives to meet residents' housing needs have been provided to Members and information is provided within the MTFs and the Capital Strategy. However, this is a complex issue and to fully understand the impact a range of documents need to be understood. We consider that an overarching summary document which brings together all this information would be beneficial. This would promote good governance, openness and transparency. Such a document should consider all housing schemes, the full cost of borrowing (as discussed on page 11), how the housing stock should be held and managed and its impact on other priorities such as climate change. It should also include the level of subsidy for each property and how the Council plans to meet this requirement over the life of the project.

We have raised the following improvement recommendation (page 25): **The Council should develop an overarching housing acquisition strategy which considers all property acquisitions, the full life cost, Council's level of subsidy, outcomes and how progress will be assessed against these outcomes. Considerations should also be given to the skills and capacity required to manage:**

- the Council's acquired housing stock in its various forms; and
- The Housing revenue Account.

## Maidstone Property Holding (MPH)

MPH is a limited company wholly owned by the Council. It was established in 2016 and aims to act as a landlord in the private rented sector within the boundaries of the Council. The properties are held by the Council and leased to MPH.

MPH is a separate legal entity and whilst is solely providing services for the Council it is not another directorate of the Council and as such needs to have separate governance arrangements and will need to comply with different legislation.

The MPH Board consists of four Directors who are all employees of the Council:

- Director of Regeneration and Place
- Director of Mid Kent Services
- Head of Housing, Environmental Health, Community Protection & Licensing
- Interim Head of One Legal, Part of Mid Kent Services

Whilst it is possible for officers to be directors of locally authority companies, it is important that potential conflicts of interest are considered and managed. Potential conflicts could occur, and existing arrangements do not ensure that potential conflicts are identified, managed and mitigated accordingly.

The last business plan, articles of association and services agreement were agreed by the Policy and Resources Committee in July 2019. It was at this meeting that it was also agreed that this committee would act as the shareholder representative.



# Governance

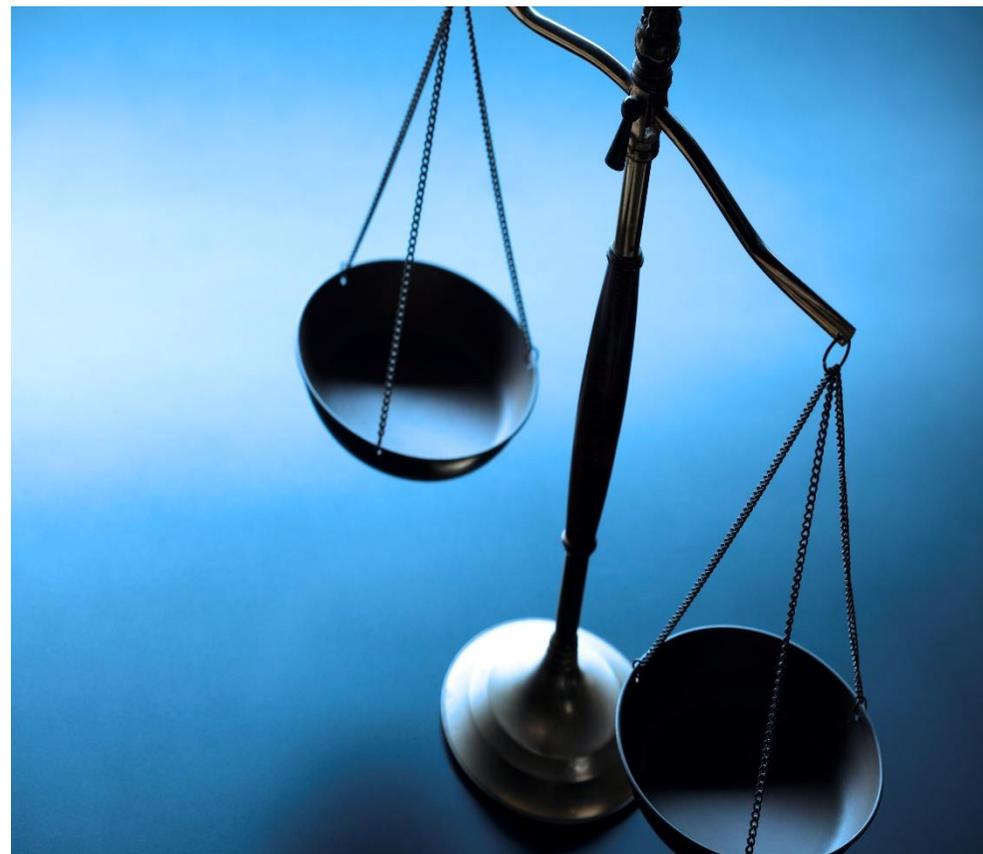
In 2022/23 the quarterly financial performance reports included a short section on MPH. This was added following an Internal Audit report that identified that there should be a mechanism to enable the company to report to the Council. However, this was high level and did not include performance against its business plan.

We have raised the following improvement recommendation (page 26):  
**The Council should review the governance arrangements for Maidstone Property Holding to ensure that financial performance is reported to and monitored by the Council and that the potential conflict of interest between officers who are also Board members is reviewed. Specifically, we recommend that the Council:**

- approves an annual company business plan;
- confirms which committee is acting as the shareholder;
- improves the performance information included within the quarterly financial performance provided to Members, including performance against the agreed business plan; and
- review the potential conflict of interest created by the appointment of officers as company directors and ensure the risks are managed and mitigated.

## Auditor judgement

Our work has not identified any significant weaknesses in the Council's governance arrangements for insuring it made informed decisions and properly managed its risks.



# Financial governance

## Budget setting process

The budget setting process began in both 2021/22 and 2022/23 with the development of the MTFS, which also included the budget timetable. The MTFS was reviewed and discussed by the following, Corporate Leadership Team (CLT) and the Wider Leadership Team, before review by Members. In 2021/22 this was the Policy and Resources Committee whereas in 2022/23 Member involvement included the Corporate Services Policy Advisory Committee and Cabinet. The initial MTFS included high level assumptions.

In 2022/23 the 2023/24 MTFS and budget was reviewed by the Corporate Services Policy Advisory Committee, then the Executive (since renamed 'Cabinet') followed by Full Council.

The annual budget setting process included the impact of expected investment and borrowing activity. The Council also undertook an annual "Residents' Budget Survey" which informed the budget.

Officers and Members are appropriately engaged in budget setting, with discussions and planning beginning as early as June of the year before. With the budget not being agreed until February of each year, this allowed sufficient time for discussions and changes, as necessary. However, we note that Scrutiny were not involved in the budget setting process.

## Budget Monitoring

Detailed financial reports were prepared and provided to budget managers every month. Members received quarterly financial performance reports. In 2021/22 quarterly budget information was reviewed by the Policy and Resources Committee.

In 2022/23 quarterly financial performance information was reported to the Corporate Services Policy Advisory Committee (a non decision-making committee) prior to being reported to Cabinet. A range of different budget lines were monitored and reported to other Policy Advisory Committees, based on their area of focus.

The quarterly financial performance reports were detailed and included information on:

- revenue position – including explanation of significant variances
- capital budget position – overall position and by Policy Advisory Committee
- local tax collection – council tax and business rates
- reserves and balance – including movements
- treasury management – including the Council investments, borrowing and future capital commitment
- Maidstone Property Holdings – added in 2022/23 only brief headlines were given including that breakeven was expected for 2022/23.

## Auditor judgement

**We found the arrangements in place to both set and monitor the budget to be comprehensive.** The revenue and capital year end position are also discussed on page 9 of this report.

# Improvement recommendations



## Governance

### Recommendation 3

The Council should review the following frameworks and policies and update them in a timely manner:

- risk management framework, last reviewed and updated in 2019; and
- anti-fraud and corruption policy, last reviewed and updated in January 2020.

### Audit year

2021/22 and 2022/23

### Why/Impact

It is good practice to review and update, as necessary key policies and framework on a regular basis, within one to three years.

### Auditor judgement

This is not a significant weakness in arrangements but an area for improvement.

### Summary findings

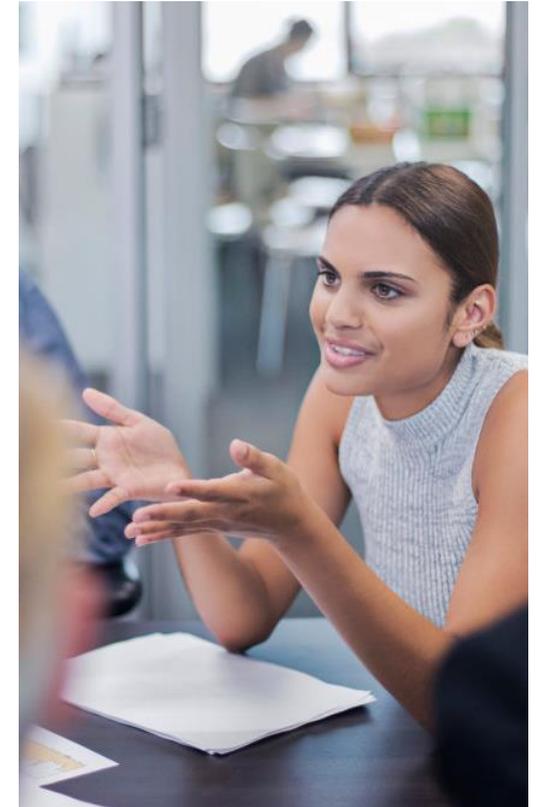
The Council has risk management framework that sets out how the Council identifies, manages, and monitors uncertainty and risk. The framework was reviewed, updated and approved by Policy and Resources Committee in April 2019.

The anti-fraud and corruption policy has not been reviewed or updated since January 2020.

Policies and frameworks should be reviewed and updated on a regular basis, either annually or on a cyclical rota.

### Management comments

A new risk management framework was discussed and agreed with the Corporate Leadership Team in Summer 2023 and is now awaiting sign-by members. Internal audit are aware of the need to update the anti-fraud and corruption policy and this is planned for in 2024/25.



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

# Improvement recommendations



## Governance

### Recommendation 4

The Council should consider how Mid Kent Audit could improve its performance and increase the proportion of audits completed in line with its plan. This consideration should include review of how the Council manages and ensures delivery of planned audits.

### Audit year

2021/22 and 2022/23

### Why/Impact

Internal Audit is a key service which undertakes reviews to both confirm and identify weaknesses in the internal control environment. This role is undermined if sufficient work is not undertaken.

### Auditor judgement

This is not a significant weakness in arrangements but an area for improvement.

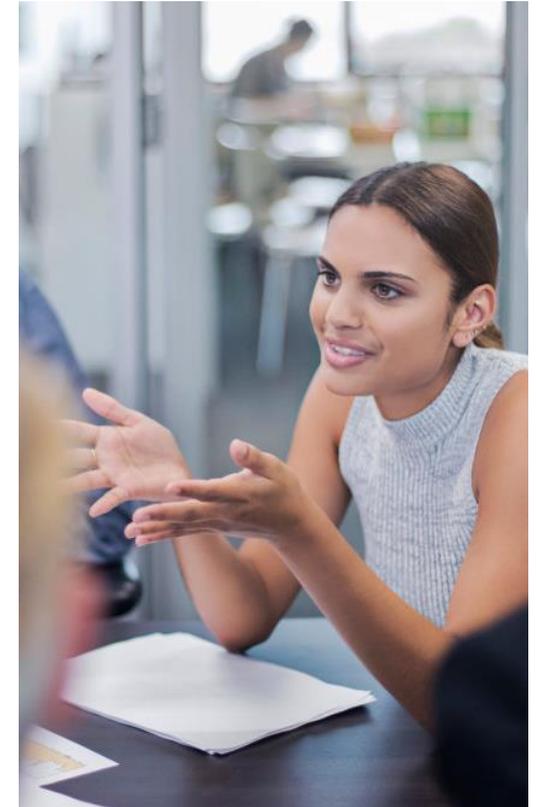
### Summary findings

In both 2021/22 and 2022/23 the number of planned internal audits completed was below 65%.

	Planned audits	Audits completed	% completed
2020/21	14	12	86%
2021/22	18	11	61%
2022/23	14	8	57%

### Management comments

The Council is currently reviewing its audit plan. The Council is also reviewing its internal audit manager roles. The audit roles are also being recruited to, with one new appointment so far. The position is being reported to the Audit Governance and Standards Committee and they support the proposed approach.



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

# Improvement recommendations



## Governance

### Recommendation 5

The Council should circulate its declaration of interest form to all employees and ensure this is undertaken every three years in line with the Council's Constitution.

### Audit year

2021/22 and 2022/23

### Why/Impact

Employee declarations should be checked to pick up any changes.

### Auditor judgement

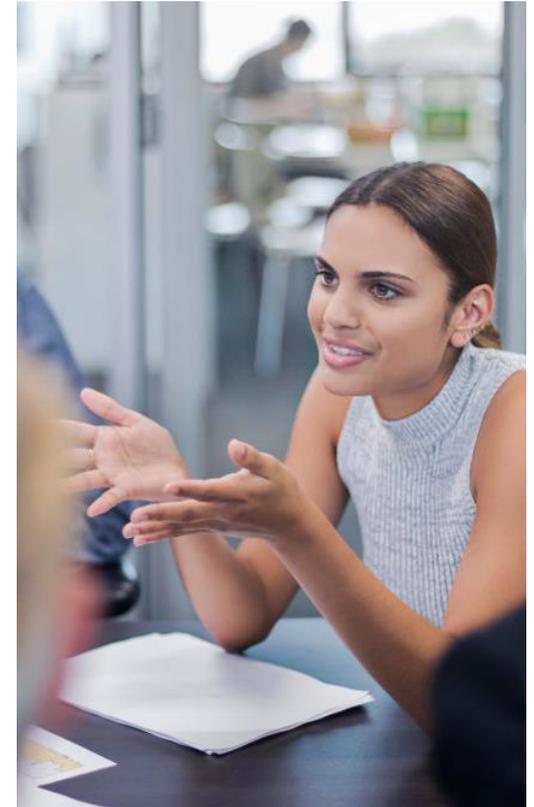
This is not a significant weakness in arrangements but an area for improvement.

### Summary findings

Officers are required to register their interests upon appointment and should resubmit their declaration when the Council recirculates the requirement every three years, as set out in the Constitution. However, this request has not been recirculated since 2019.

### Management comments

There is a process for employee declarations of interest to be reviewed every three years and this will be brought up to date.



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

# Improvement recommendations



## Governance

### Recommendation 6

The Council should consider its existing decision-making structure to ensure it is effective and provides value for money. The Council should take into account the following:

- the resources required to maintain this structure;
- the length of time it takes a decision to be made; and
- the role of scrutiny and whether a more effective approach might involve two scrutiny committees instead of the four Policy Advisory Committees.

### Audit year

2022/23

### Why/Impact

Review of the new governance structure would ensure that it is the most efficient structure to provide effective decision-making.

### Auditor judgement

This is not a significant weakness in arrangements but an area for improvement.

### Summary findings

From May 2022 the Council changed its governance arrangements from a 'committee system' to the 'executive system'. However, this structure differs from the executive system we have observed at many councils and follows a more hybrid approach with the introduction of four Policy and Advisory Committees (PAC). An Overview and Scrutiny Committee was also introduced. All decisions taken by Cabinet (apart from pledges by the administration) will go through a PAC.

The existing governance structure enables wider member involvement which would ordinarily be undertaken within the scrutiny function and audit committee, but has a number of disadvantages, such as:

- increasing the amount of resources, both officer and Member, required to support and maintain this hybrid structure
- duplicating and lengthening the decision-making process as decisions pass through a related PAC before the decision is made by Cabinet or the Leader
- undermining the authority of the portfolio holder
- marginalising the role of overview and scrutiny and not enabling scrutiny to develop.

### Management comments

A review of the current governance arrangements was launched in September 2023 by the Democracy and General Purposes Committee, which included specifically the size and type of overview and scrutiny arrangements within the existing model and arrangements for Policy Advisory Committees. The results of the review were reported back to the Committee in January 2024. A number of potential alternative models were presented and were considered by Council at its meeting on 21 February 2024. A slightly modified version of the existing arrangements will be introduced with effect from the start of the new municipal year 2024/25, reflecting comments of members and their experience with two years of operating the existing arrangements.

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

# Improvement recommendations



## Governance

**Recommendation 7** The Council should develop an overarching housing acquisition strategy which considers all property acquisitions, the full life cost, level of Council subsidy, outcomes and how progress will be assessed against these outcomes. Consideration should also be given to the skills and capacity required to manage:

- the Council's acquired housing stock in its various forms
- the Housing Revenue Account.

**Audit year** 2021/22 and 2022/23

**Why/Impact** Promote good governance and provide one document which set out the housing acquisitions plans and the impact on the Council.

**Auditor judgement** This is not a significant weakness in arrangements but an area for improvement.

**Summary findings** The Council has made a number of decisions to improve the housing provision of its residents which includes:

- the building of 1,0000 affordable homes over a 10-year period
- to extend the availability of housing within the private rented sector by building 200 such homes over a five-year period
- the purchase and repair of properties to use as temporary accommodation.

The 1,000 affordable homes is the most significant project, but combining all of the above the Council is looking at purchasing 1,280 additional homes.

Annual updates on how the Council is progressing its objectives to meet residents housing needs have been provided to Members and information is provided within the MTFs and the Capital Strategy. However, this is a complex issue and to fully understand the impact a range of documents need to be understood. We consider that an overarching summary document which brings together all this information would be beneficial. This would promote good governance, openness and transparency. Such a document should consider all housing schemes, the full cost of borrowing (as discussed on page 11), how the housing stock should be held and managed and its impact on other priorities such as climate change.

## Management comments

The Council's housing acquisition strategy is already set out as part of the Housing Strategy 2023-28, which is available on the Council's website. The strategy describes the borough's housing needs, and sets out a strategy that includes a range of different elements that address these, including the 1,000 Affordable Homes initiative, the proposed garden community at Heathlands, and purchase of our own temporary accommodation. The housing strategy is an overarching document and gives full details of the overall context and direction.

The recommendation refers to some specific aspects of the strategy, ie financing of purchases and management of housing stock. The first is dealt with as part of our Medium Term Financial Strategy and Capital Strategy, which address the issue of how to ensure that affordable housing can be delivered in a financial sustainable way. Management will ultimately be dealt with so far as the Council's social and affordable housing stock is concerned through the establishment of an HRA, and a report on the mechanism for doing this will go to members early in the new municipal year 2024/25.

# Improvement recommendations



## Governance

### Recommendation 8

The Council should review the governance arrangements for Maidstone Property Holding (MPH) to ensure that financial performance is reported to and monitored by the Council and that the potential conflict of interest between officers who are also Board members is reviewed. Specifically, we recommend that the Council:

- approves an annual company business plan
- confirms which committee is acting as the shareholder
- improves the performance information included within the quarterly financial performance provided to Members, including performance against the agreed business plan
- review the potential conflict of interest created by the appointment of officers as company directors and ensure the risks are managed and mitigated.

### Audit year

2021/22 and 2022/23

### Why/Impact

MPH is a separate legal entity, the governance arrangement should ensure that the best interests of the Council are considered which the Director's pay due attention to the Company's Act 2006.

### Auditor judgement

This is not a significant weakness in arrangements but an area for improvement.

### Summary findings

MPH is a limited company wholly owned by the Council. The Board consists of four Directors who are all employees of the Council. Whilst it is possible for officers to be directors of locally authority companies, it is important that potential conflicts of interest are considered and managed.

The last business plan, articles of association and services agreement were agreed by the Policy and Resources Committee in July 2019. It was at this meeting that it was also agreed that this committee would act as the shareholder representative.

Limited performance information is provided to Members on MPH through the Council's quarterly financial performance reports.

### Management comments

We support the recommendation. We have already made progress with new Directors being appointed to reduce the risk of conflicts of interest. There will be some additional training and guidance offered to all the directors in line with CIPFA best practice.

The monitoring of finances and performance does already happen, but we need to make it more transparent and ensure it fulfills the relevant roles with MPH and MBC. This will be progressed during 2024/25.

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

# 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 and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

## Service performance management

The Council has a Strategic Plan 2019-2045. It was adopted in December 2018 and the milestones within it have been refreshed in 2021, 2022 and 2023. The 2021 refresh also included a response to the pandemic and the Council's plan for recovery.

The Council has a guide to performance management, but this has not been updated since 2012, which was after the issue of the Strategic Plan.

Throughout 2021/22 service performance was reported to the Policy and Resources Committee and included within the Finance, Performance and Risk Monitoring Report.

In 2022/23 the revised areas of focus were presented to the Policy Advisory Committees (PAC) in January 2023. Monitoring arrangements remained the same as 2021/22 except following the change in the governance structure quarterly reports went to the Executive from June 2022 which was renamed the Cabinet from June 2023.

Performance monitoring reports were also provided to the service specific committee, which in 2022/23 were the new PACs.

The reporting included monitoring against key performance indicators (KPIs). These KPIs relate to the Strategic Plan but do not directly correlate to the objectives within the Strategic Plan.

The quarterly performance information included KPIs focused on three areas; Communities, the Council's financial position, and the 'way we work'.

The reports also include KPIs across the service committees which missed their target by more than 10%.

In both 2021/22 and 2022/23 the Council has not reported on delivery of its priorities, as set out in its Strategic Plan:

- Embracing growth and enabling infrastructure
- Safe, Clean and Green
- Thriving Place
- Home and Communities.

The KPIs within the quarterly monitoring reports may link to the Strategic Plan priorities, but this is not clear. For example, it does not include progress to date on delivering 1,000 affordable homes and maintaining the resilience and quality of the waste service.

Whilst we recognise that these priorities may be being monitored within the services or in other reports to Members, we consider that it would be beneficial to include monitoring of progress against the strategic priorities within the quarterly performance reports.

We have raised the following improvement recommendation (page 31): **The Council should monitor performance against its Strategic Plan within the quarterly performance reports as well as other elements of service performance. It should also update its guide to performance management.**

# Improving economy, efficiency and effectiveness

## Benchmarking

Benchmarking is a useful tool for comparing the Council's performance with other councils, although challenges such as access to quality and relevant data can arise. It helps identify best practice and areas requiring improvement.

We used our benchmarking tool, CFO Insights, to compare Council service unit costs. We identified one very high-cost area, central support services and two high-cost areas of:

- planning and development services, attributable to high costs in community development and development control
- housing services, non-HRA, attributable high costs in private sector accommodation leased by the Council, rent allowances (discretionary payments) and housing strategy.

The Council has not undertaken unit cost benchmarking in 2021/22 and 2022/23, but did include comparisons using the CIPFA financial resilience index within its budget setting reports. The information was used to assess its level of reserves in its 2022/23 and 2023/24 budget setting papers.

We are also aware that comparisons were made with the legal services to consider salary comparisons with other local councils.

In 2020/21, we recommended that the Council consider developing a programme of service reviews using such tools as benchmarking to identify best practice. This recommendation remains outstanding and further detail are included on page 36 of the report.

## Partnerships

Throughout 2021/22 and 2022/23 the Council operated a range of partnerships through both contract and shared service arrangements.

## Mid Kent Services

The Council continued to have a range of services delivered by Mid-Kent Services (MKS), a partnership between the Council, Swale Borough Council and Tunbridge Wells Borough Council, as illustrated in Figure 6 below:

Figure 6: Services within MKS

Service	Host	Other Authorities
Environmental Health	Tunbridge Wells	Maidstone
Human Resources Payroll	Maidstone	Swale Swale & Dartford
ICT	Maidstone	Swale & Tunbridge Wells
Internal Audit	Maidstone	Ashford, Swale and Tunbridge Wells
Land charges	Maidstone	Swale & Tunbridge Wells
Legal	Swale	Maidstone & Tunbridge Wells
Parking enforcement	No host	Maidstone & Swale
Planning support	Maidstone	Swale
Revs & benefits	Maidstone	Tunbridge Wells

As illustrated above MKS consists of a range of independent services which each have a Head of Service, with an overall Director of MKS. Management and culture within each service is varied.

The budget for each service was set by each individual Head of Service and forms the basis of the recharge payable by the other authorities to the host authority.

# Improving economy, efficiency and effectiveness

The governance arrangements for MKS included:

- MKS Management Board – includes two Members (Leader plus one other) and the chief executive from each of the councils and met three times each year. The aim is to define the objectives/strategic priorities and agree the financial envelope. This Board does not have decision making powers and decisions should be referred back to the individual councils' decision-making bodies.
- Executive Board – includes each council's chief executive, meets quarterly. Responsibilities include matters delegated to it from the MKS Board and referred to it from the Shared Services Board. It is also required to approve budgetary spend.
- Shared Service Board – includes each council's Section 151 officer and the Director of MKS, meets quarterly. Responsibilities include agreement of the annual budget, review performance of each shared service.

Service and financial performance were monitored within the arrangements set out above.

The Council along with the other MKS members have committed significant resources to the governance of the MKS. This approach includes significant commitment from both Members and senior officers, which in our experience is more intensive than we have seen in other authorities.

MKS have an agreement in place for the governance arrangements, between the Council, Swale Borough Council and Tunbridge Wells Borough Council, however this document is not signed so it unclear when this agreement is due for renewal. This agreement also includes the funding allocations between member authorities.

However, MKS does not have an overarching strategy and an annual report has not been prepared on the service. A MKS Strategy would need to be agreed with all partners but would provide a basis to set the strategic context; the objectives for the service, what the authorities want to achieve through MKS and what the MKS plans to do to achieve these objectives. A detailed delivery plan should support the strategy and could be included within a business plan and reported annually through an annual report.

Shared services, especially one that includes a disparate and varied range of services can be difficult to establish a consistency of service but also of culture and values, an overarching strategy and business plan should facilitate this.

In addition, unit cost benchmarking or benchmarking of service performance has not been carried out, which would enable the member authorities to assess if MKS continue to provide value for money.

Whilst the arrangements in place were appropriate in 2021/22 and 2022/23 to manage service delivery and costs, we consider that further improvements could be made to ensure MKS delivers value for money to its member authorities. We have raised the following improvement recommendation (page 32):

**The Council should in conjunction with its partners, review the governance arrangements for the MKS to ensure it remains fit for purpose and consider the following:**

- **setting an overarching strategy that would include the objectives and priorities**
- **introduce an annual business plan which would support and include the delivery plan/actions required to achieve the strategy**
- **introduce benchmarking on costs and performance to ensure a shared service remains value for money, but also to identify areas for improvement.**

## Mid Kent Waste Services

Another partnership we have considered as part of our work is the Mid Kent Waste Contract. Throughout 2021/22 and 2022/23 oversight of this partnership was carried out by a Partnership Board which consists of each member authority (Ashford, Maidstone and Swale Borough Councils), Biffa Municipal Ltd and Kent County Council (as the disposal authority).

An inter-authority agreement and joint working agreement were in place and set out the principles of partnership working. The Board is chaired by the supervising officer and this was an officer from Swale Borough Council in 2021/22 and an officer from the Council in 2022/23. The Board met quarterly and were responsible for resolving any disputes.

Below the Partnership Board is the Strategic Operations Group, this Group also met quarterly, ahead of the Board to enable issues to be escalated if necessary. This Group is more focused on operational issues, such as missed collections and rectification and default notices.

# Improving economy, efficiency and effectiveness

Membership of the Strategic Operations Group included the Service Managers for each member authority, Kent County Council's Liaison Manager and Biffa's Senior Business Manager.

As the service is delivered through a formal contract, contract monitoring meetings were also held between the contract monitoring officers for each member authority.

Contract meetings were also held by each individual member authority, between the Council's monitoring and management officer and Biffa's local management team. These meetings provided an opportunity to discuss performance at a local level and are weekly meetings at the Council.

During 2021/22 the Council had one contract monitoring officer focused on monitoring this contract, in 2022/23 arrangements were strengthened following a restructure and the Council now has two contract monitoring officers focused on this contract.

Performance on the Waste Service has been reported to elected Members in 2021/22 to the Communities, Housing and Environment Committee and from May 2022 the Policy Advisory Committee. Performance information was also provided to the Head of Service, Directors and Chief Executive on a quarterly basis.

**The Council has entered into a number of partnership arrangements to enable it to reduce costs and improve services, we are satisfied that the Council has proper arrangements in place to deliver its agreed partnership role.**

## Procurement and contract management

The Council's procurement service is provided through a shared service with Tunbridge Wells Borough Council. Contract Procedure Rules (PCR) are in place and set out within the Council's Constitution. However, the service does not have a procurement strategy. A procurement strategy should cover the joint service, all aspects of procurement and what the member authorities hope to achieve through the joint procurement service. This was raised as a recommendation in our previous report and remains outstanding. In addition, no procurement training has been available to officers since the procurement team was established in August 2020.

We have raised the following improvement recommendation (page 33): **The Council should work together with Tunbridge Wells Borough Council to provide a joint procurement strategy and provide procurement training those officer involved in procuring goods and services.**

The procurement service was reviewed by Internal Audit in 2021/22 and received a 'sound' opinion on the design and operation of the controls, the second highest opinion of the four available.

The Council had an authorisation process in place for the waiver of the CPRs (direct award of contracts) over £10,000. Authority was required by the Director of Finance and Business Improvement Officer. The procurement team were sighted on those waivers which were authorised, but a reporting and monitoring system was not in place.

To ensure the Council is aware of the extent of contract waivers the number and value by service area should be recorded and reviewed. This information should be presented to Members on a regular basis to ensure appropriate oversight and challenge. We have raised an improvement recommendation (page 34): **The Council should record and evaluate the number of contract waivers throughout the year and this information should be reported to Members, such as the Audit, Governance and Standards Committee on a quarterly basis.**

Contract management is undertaken by officers within the service areas. Our review of the Mid Kent Waste Partnership as discussed on the previous page provides an example of where the Council has strengthened its contract management arrangements. We have not identified issues relating to contract management.

## Auditor judgement

**Our work has not identified any significant weaknesses in arrangements to improve economy, efficiency and effectiveness. The Council had arrangements in place to manage its performance, administer its contracts appropriately and work effectively with partners.**

# Improvement recommendations



## Improving economy, efficiency and effectiveness

### Recommendation 9

The Council should monitor performance against its Strategic Plan within the quarterly performance reports as well as other elements of service performance. It should also update its guide to performance management.

### Audit year

2021/22 and 2022/23

### Why/Impact

These improvements should ensure that the Council clearly demonstrates progress against its strategic priorities and is able to identify where improvements are required.

### Auditor judgement

This is not a significant weakness in arrangements but an area for improvement.

### Summary findings

The Council has a Strategic Plan 2019-2045. Throughout 2021/22 service performance was reported to the Policy and Resources Committee and included within the Finance, Performance and Risk Monitoring Report.

In 2022/23 monitoring arrangements remained the same, except following the change in the governance structure quarterly reports went to the Executive from June 2022 which was renamed the Cabinet from June 2023. Performance monitoring reports are also provided to the service specific committees, which in 2022/23 were the new Policy and Advisory Committees.

In 2021/22 and 2022/23 the Council has not directly reported performance against the strategic priorities as set out in its Strategic Plan.

The Council has a guide to performance management, but this has not been updated since 2012, which was after the issue of the Strategic plan.

### Management comments

The Strategic Plan informs the Council's performance indicators, which (as noted by Grant Thornton) are reviewed annually and are the subject of regular quarterly reports. This allows performance against the Strategic Plan to be monitored. The performance indicators are complemented by a series of dashboards, which have been developed over the past two years and provide information that management uses to monitor performance on a regular basis service-by-service. A higher level review of performance is provided by an annual report every July to the Corporate Services PAC and Cabinet, which considers performance and assesses whether the Plan requires updating.

We acknowledge that the Performance Management guide should be updated. However, the wide publicity given to Performance Indicators and Dashboards means that there is a good understanding of performance management and a strong performance management culture around the organisation.

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

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 10

The Council should, in conjunction with its partners, review the governance arrangements for the Mid Kent Services (MKS) to ensure it remains fit for purpose and consider the following:

- Setting an overarching strategy that would include the objectives and priorities
- Introduce an annual business plan which would support and include the delivery plan/actions required to achieve the strategy
- Introduce benchmarking on costs and performance to ensure a shared service remains value for money, but also to identify areas for improvement.

## Audit year

2021/22 and 2022/23

## Why/Impact

These improvements should ensure that the MKS remains fit for purpose and delivers its agreed priorities.

## Auditor judgement

This is not a significant weakness in arrangements but an area for improvement.

## Summary findings

The governance arrangements for MKS included; the MKS Management Board, Executive Board and Shared Service Board. These Boards included a range of authority elected Members, and senior officers and met regularly to monitor performance.

MKS provides a range of disparate services with varied cultures and values. The introduction of an overarching strategy and business plan should facilitate a common approach, but would provide a basis to set the strategic context; the objectives for the service, what the authorities want to achieve through MKS and what the MKS is doing to achieve these objectives.

Benchmarking within the service has been limited.

## Management comments

As noted by Grant Thornton, MKS delivers a range of different services. As a result, business strategies have tended to be developed on a service-by-service basis. Most recently, a business plan has been developed for the Mid Kent Revenues and Benefits Service, as it is due to expand to cover three authorities (rather than two) with effect from 1 April 2024.

Consistency of governance across all the services is assured by the arrangements that have been referenced. In particular, the Shared Services Board takes responsibility for reviewing the MKS budgets on an annual basis. The Director of Mid Kent Services ensures that a strong collective approach to the day-to-day management of the partnership, through regular interaction with the service heads and management team meetings.

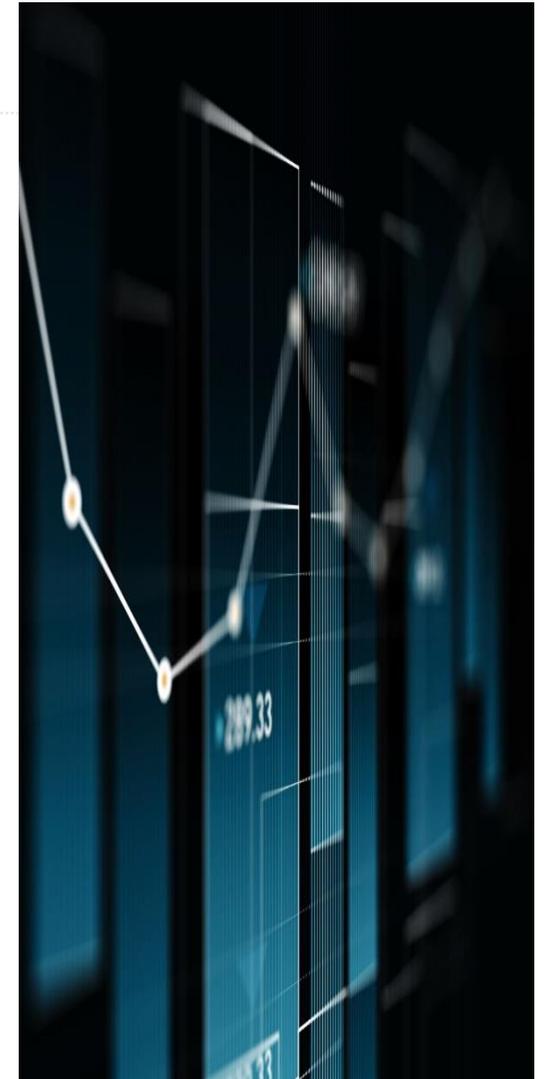
Benchmarking likewise tends to be carried out on a service-by-service basis, given that the metrics vary so much between teams. Taking revenues and benefits as an example again, Council Tax and Business Rates collection performance is compared regularly against that of our peers.

# Improvement recommendations



Improving economy, efficiency and effectiveness

<b>Recommendation 11</b>	The Council should work together with Tunbridge Wells Borough Council to provide a joint procurement strategy and provide procurement training those officer involved in procuring goods and services.
<b>Audit year</b>	2021/22 and 2022/23
<b>Why/Impact</b>	A joint strategy should ensure that aims and objectives of the service are agreed and understood by both parties
<b>Auditor judgement</b>	This is not a significant weakness in arrangements but an area for improvement.
<b>Summary findings</b>	The Council's procurement service is provided through a shared service with Tunbridge Wells Borough Council. Contract Procedure Rules (PCR) are in place and set out within the Council's Constitution. However, the service does not have a procurement strategy. A procurement strategy should cover the joint service, all aspects of procurement and what the member authorities hope to achieve through the joint procurement service. No procurement training has been available to officers since the procurement team was established in August 2020.
<b>Management comments</b>	<p>Procurement has an operational strategy to ensure that it is resourced and skilled to meet the demands of the service and meet new legislation requirements. This can be formalised as a Procurement Strategy.</p> <p>Training and support are given when people engage with the function. There is also core material on the intranet for staff. Contract management is not currently part of the function, but this is something we are looking to expand as part of the procurement remit to allow contract management oversight/support and training.</p>



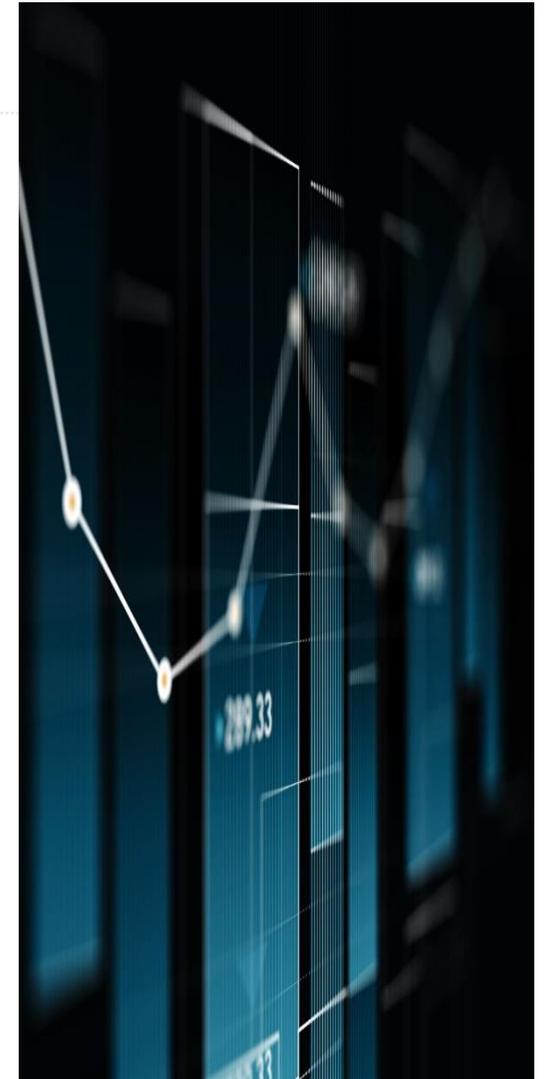
The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



Improving economy, efficiency and effectiveness

<b>Recommendation 12</b>	The Council should record and evaluate the number of contract waivers throughout the year and this information should be reported to Members, such as the Audit, Governance and Standards Committee on a quarterly basis.
<b>Audit year</b>	2021/22 and 2022/23
<b>Why/Impact</b>	Contract waivers should be centrally monitored and evaluated to ensure all awards are legitimate and to identify areas which require improvement.
<b>Auditor judgement</b>	This is not a significant weakness in arrangements but an area for improvement.
<b>Summary findings</b>	The Council had an authorisation process in place for contract waivers of over £10,000. Authority was required by the Director of Finance and Business Improvement Officer. The procurement team were sighted on those waivers which were authorised, but a reporting and monitoring system was not in place. To ensure the Council is aware of the extent of contract waivers the number and value by service area should be recorded and reviewed by officers and Members.
<b>Management comments</b>	This recommendation is agreed and reports will be submitted regularly to members.



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

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
1	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.	Improvement recommendation	November 2022	Members are made aware of the impact to statutory and discretionary services as part of the budget setting process, therefore the Council did not fully support this recommendation. The budget clearly links to corporate priorities, which is more informative. Therefore, the recommendation is closed.	No	No further action
2	A workforce plan or people strategy aligned to the corporate plan and MTFS should be prepared, formally approved and circulated to appropriate officers.	Improvement recommendation	November 2022	The Workforce Strategy is reviewed annually and by the Democracy and General Purposes Committee on 26 January 2022. Since then, the "Employment Committee" has been formed and the 1 February 2024 meeting considered the "Workforce Strategy 2024-2029" report.	Yes	No further action
3	While we feel that risk management arrangements are generally satisfactory, to further enhance the risk management approach the Council should consider: <ul style="list-style-type: none"> <li>Reporting current and mitigated risk score to Audit, Governance and Standards committee</li> <li>Reporting risk to the Audit, Governance and Standards Committee every six months</li> <li>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</li> <li>Developing a comprehensive risk management training programme for Members and staff.</li> </ul>	Improvement recommendation	November 2022	<p>The Corporate risk register is not reported to the Audit, Governance and Standards Committee, but is reported to the Cabinet on a quarterly basis. This process provides member oversight and management of the strategic risks.</p> <p>The risk owner is included on the corporate risk register, but not the target risk score or the direction of travel.</p> <p>Training during the year was delivered by Mid Kent Audit and included:</p> <ul style="list-style-type: none"> <li>84 sessions on the Council's new risk management software; and</li> <li>several sessions to managers and risk owners on the risk management processes, general training and risk principles.</li> </ul>	Partially	Management response: Risk management reporting remains under review and further enhancements will be considered. In particular, more work is planned on horizon scanning in 2024/25.

# Follow-up of previous recommendations

	<b>Recommendation</b>	<b>Type of recommendation</b>	<b>Date raised</b>	<b>Progress to date</b>	<b>Addressed?</b>	<b>Further action?</b>
5	Codes of conduct and the Whistleblowing Policy should be updated as soon as possible and annual thereafter.	Improvement recommendation	November 2022	The Members' code of conduct was updated and agreed by the Council in February 2024.  The Whistleblowing Policy has not been updated since 2016.	Partial	Management response: The Whistleblowing policy is due to be updated in 2024/25.
6	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 KIs against other Councils (starting in Kent initially to determine whether the exercise is useful).	Improvement recommendation	November 2022	Outstanding. The benchmarking undertaken has been limited to comparisons using the CIPFA financial resilience index within its budget setting reports in 2021/22 and 2022/23 and comparisons within the legal services to consider salaries with other local councils.	No	Management response: It is planned to address this as part of the Council's preparation of a Productivity Plan, as required by DLUHC.  This work will incorporate benchmarking and other approaches to improving productivity and efficiency.
7	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.	Improvement recommendation	November 2022	Outstanding. Data Quality policy has not been updated since 2011.	No	Management response: The data quality policy has been updated and the new policy is due to be signed off in April 2024 by the Corporate Leadership Team.

# Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
8	<p>We recommend a Procurement Strategy is developed and in addition to explaining the Council's approach to procurement it should include the following:</p> <p>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.</p> <p>A framework for how the delivery of the strategy will be achieved. An annual or biennial review against the SMART objectives reported to the Resources and Strategy Committee would allow the Council to assess how successful the strategy is in delivering the objectives.</p>	Improvement recommendation	November 2022	A procurement strategy for the Council has not been developed.	No	Refer to 2022/23 improvement recommendation 11, page 33.

# Opinion on the financial statements for 2021/22



## Grant Thornton provides an independent opinion on whether the financial statements:

- give a true and fair view of the financial position as at 31 March 2022 and of income and expenditure for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on Local Authority Accounting in the United Kingdom 2021-22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK);
- the Code of Audit Practice (2020), published by the National Audit Office; and
- applicable law.

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

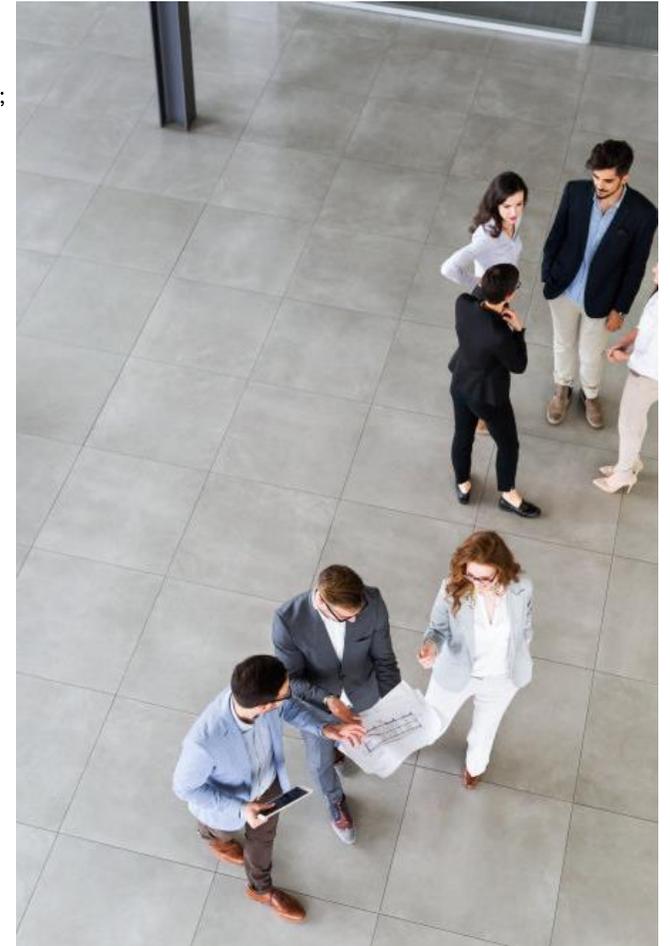
## Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 17 November 2023.

Detailed findings are set out in our 2021/22 Audit Findings Report, which was presented to Audit, Governance & Standards Committee on 13 November 2023.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. The Council is below the NAO threshold for 2021/22 and so detailed procedures are not required.



# Opinion on the financial statements for 2022/23



## Grant Thornton provides an independent opinion on whether the financial statements:

- give a true and fair view of the financial position as at 31 March 2023 and of income and expenditure for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on Local Authority Accounting in the United Kingdom 2022-23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK);
- the Code of Audit Practice (2020), published by the National Audit Office; and
- applicable law.

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

## Audit opinion on the financial statements

We anticipate issuing an unqualified opinion on the Council's financial statements in April 2024.

Detailed findings will be set out in our 2022/23 Audit Findings Report, to be presented to Audit, Governance & Standards Committee on 11 April 2024.

## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. The Council is below the NAO threshold for 2021/22 and so detailed procedures are not required.



# Appendices

# Appendix A – Responsibilities of the Council

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.

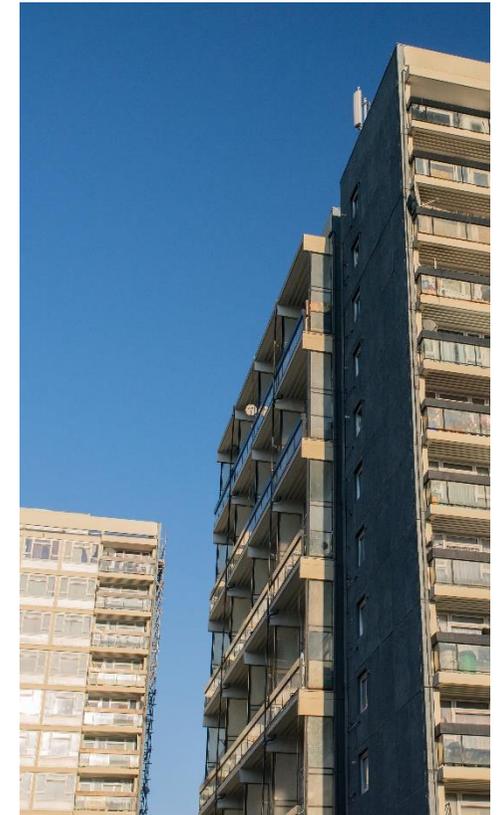
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records 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 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 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 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’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
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	N/A
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	Pages 12, 13, 21 to 26, 31 to 34

