

# **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING**

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

## Membership:

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

*The Chairman will assume that all Members will read the reports before attending the meeting. Officers are asked to assume the same when introducing reports.*

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## **AMENDED AGENDA**

**Page No.**

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

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**Issued on Tuesday 30 July 2019**

**Continued Over/:**

*Alison Broom*

**Alison Broom, Chief Executive**

- 15. Budget Strategy - Risk Assessment Update
- 16. Treasury Management Annual Review 2018/19
- 17. Capital Strategy
- 18. External Audit Fee Letter 2019/20
- 19. Final Statement of Accounts 2018/19 253 - 378

**APPENDIX 1 – EXTERNAL AUDITOR’S AUDIT FINDINGS**

**REPORT**

**APPENDIX 2 – AMENDED NARRATIVE REPORT**

**APPENDIX 2 – AMENDED AUDITED STATEMENT OF  
ACCOUNTS 2018/19**

**APPENDIX 3 – LETTER OF REPRESENTATION**

**PUBLIC SPEAKING AND ALTERNATIVE FORMATS**

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

In order to speak at this meeting, please contact Democratic Services using the contact details above, by 5 p.m. one clear working day before the meeting (i.e. Friday 26 July 2019). If asking a question, you will need to provide the full text in writing. If making a statement, you will need to tell us which agenda item you wish to speak on. Please note that slots will be allocated on a first come, first served basis.

To find out more about the work of the Committee, please visit [www.maidstone.gov.uk](http://www.maidstone.gov.uk).

## Appendix 1

### **Annual Governance Statement**

**2018-19**

## **Introduction**

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

## **Conclusion on Significant Governance Issues**

Overall, we can confirm that the Council has the appropriate systems and processes in place. We do not consider there are any significant governance issues arising from the review. Whilst we are satisfied the arrangements work well our review has identified actions to ensure good standards of governance are maintained. Updates on the actions will be provided to the Audit Governance and Standards Committee on a six monthly basis and kept under review by the internal Corporate Governance Group.

## **Areas for Improvement 2019-20**

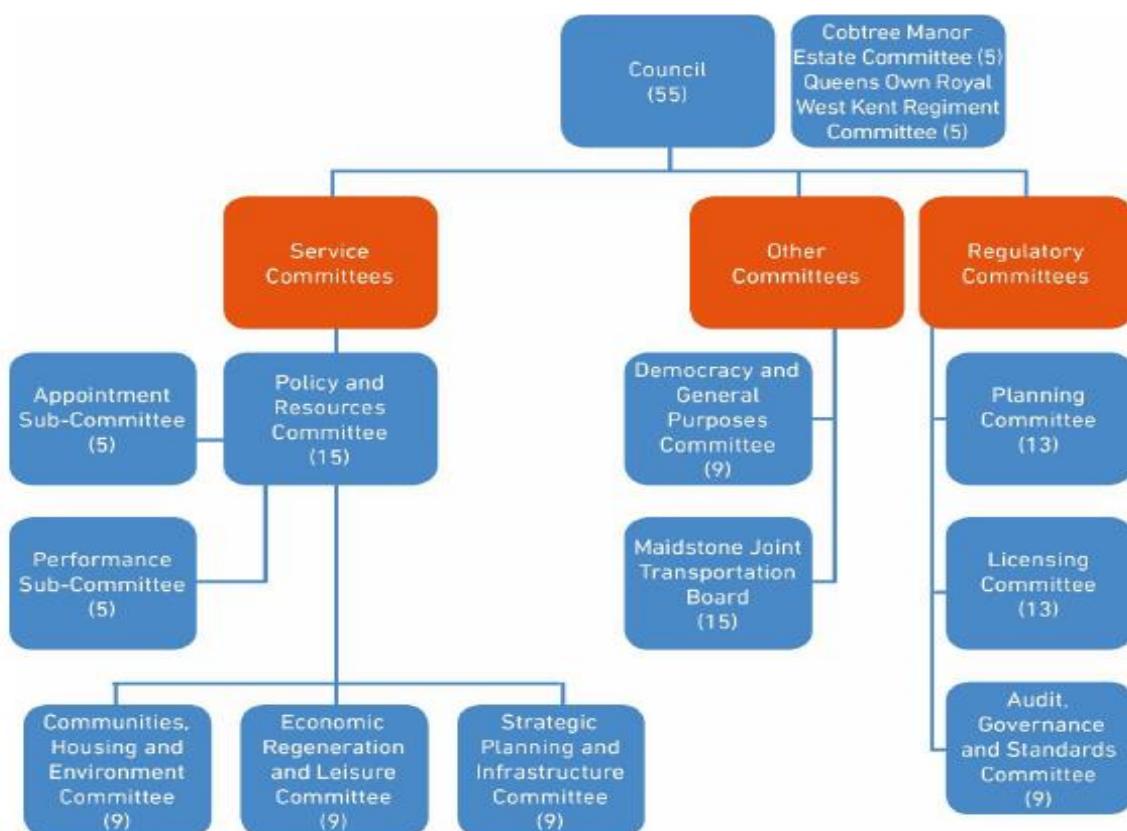
<b>Key improvement area</b>	<b>Lead Officer</b>	<b>To be delivered by</b>
Ensuring sufficient resource to deliver the ambition for embracing growth and enabling infrastructure priority (link to Corporate Risk Register)	Director of Regeneration and Place	1 March 2020
Ensuring there is protection against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

## **Scope of Responsibility**

Maidstone Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for. Maidstone Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This Annual Governance Statement for 2018-19 also meets the requirements of the Accounts and Audit Regulations 2015, regulation 6(1) which require an authority to conduct a review of the effectiveness of its system of internal control and the duty to prepare an annual governance statement.

## **Key Governance Roles and Responsibilities**

The Council operates a committee system of governance and the Leader is the focus for political direction and the chief spokesperson for the Council. The Leader is also Chair of the Policy and Resources Committee. The Council has four service committees taking decisions within their terms of reference as agreed by Council; individual Councillors do not have the power to make decisions. In addition there are committees that deal with licensing, planning, audit, governance and standards, democracy and employment and other regulatory matters. The numbers shown in the diagram below reflect membership.



The Council's section 151 Officer, Mark Green and the Monitoring Officer, Patricia Narebor are key members of the Corporate Leadership Team, reviewing all

decisions taken through Leadership Team, Committees and Full Council. The Section 151 officer has a number of statutory duties, including the duty to report any unlawful financial activity involving the authority (past, present or proposed) or failure to set or keep to a balanced budget. The Section 151 officer also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit.

The Monitoring Officer serves as the guardian of the Council's Constitution and the decision-making process. During the course of 2018-19 amendments to the Constitution have been referred to the Democracy Committee and revisions implemented in line with the decision of the Committee and under the monitoring officer's delegation. The Monitoring Officer is also responsible for advising the Council on the legality of its decisions and providing guidance to councillors and officers on the Council's Constitution and its powers. This includes dealing with complaints under the Councillors' Code of Conduct.

The Corporate Leadership Team is led by the Chief Executive who is Head of Paid Service and the Council's chief policy advisor with overall corporate management and operational responsibility.

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

In discharging this overall responsibility, Maidstone Borough Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance in 2017, which is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) and Society of Local Authority Chief Executive's (SOLACE) Framework [Delivering Good Governance in Local Government Guidance Notes for English Authorities 2016](#).

## **Our Governance Framework**

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and the activities through which it is accountable to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve the council's objectives, and therefore can only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise risks to the achievement of the council's objectives, to evaluate the likelihood of those

risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

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

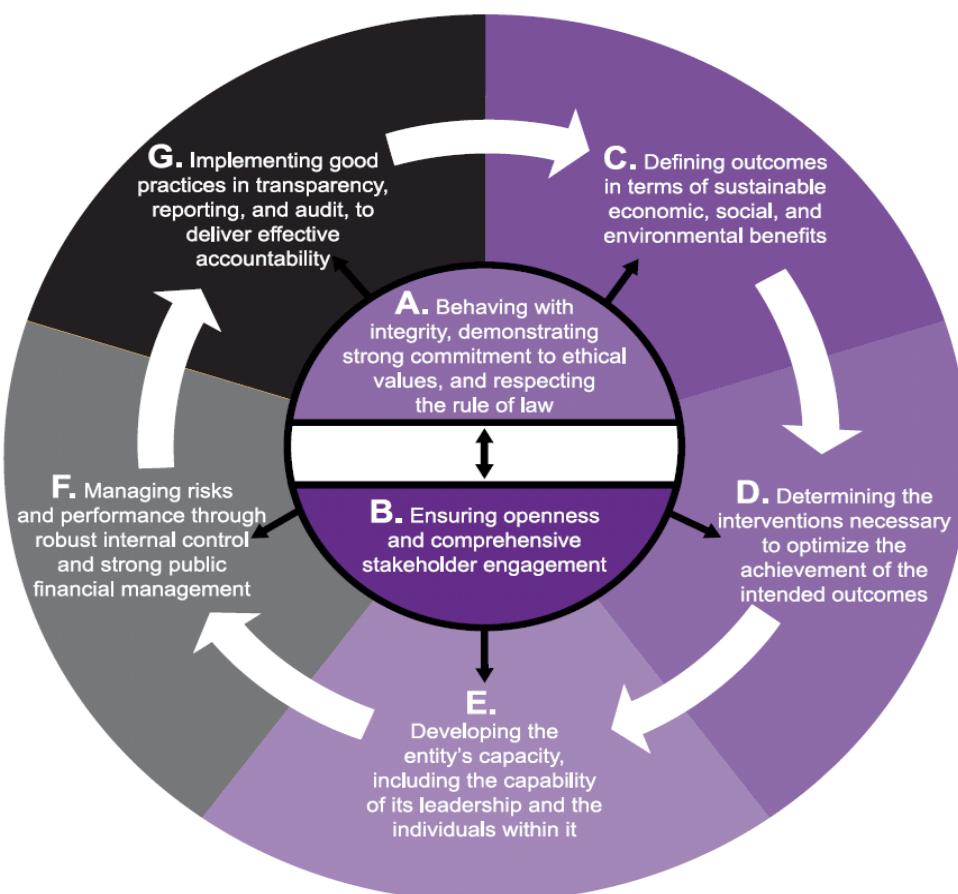
The International Framework: Good Governance in the Public Sector states that

"Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved."

Our Local Code sets out the framework within which we conduct our business and affairs and the governance structure we have in place. Whilst this code sets out principles, processes and policies, it is the application of the framework that will demonstrate good governance.

This statement sets out how we have demonstrated and met those principles in 2018-19.

### **The 7 principles within the Local Code of Corporate Governance**



## **Looking back at 2017-18**

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

The table below shows progress with these actions:

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

## **Review of Effectiveness 2018-19**

### **A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law**

The Council adopted a new local code of corporate governance in 2017 which complies with the latest CIPFA and SOLACE "Delivering Good Governance in Local Government".

The Council also has in place a local code of conduct for Councillors and a code of conduct for staff. Code of Conduct training is carried out annually for Councillors and included in the new councillor induction programme. The monitoring officer has had cause during the year to remind councillors about the obligations within the code relating to the disclosure of exempt and confidential information. During the municipal year 2018-2019, there were 11 code of conduct complaints dealt with under the Localism Act 2011 against parish councillors and 8 complaints against Borough Councillors. One complaint was referred to the Standards Committee for a formal investigation hearing and sanctions applied and guidance was given to the individual.

Information on the employee code of conduct is set out in the staff handbook and is included in the induction for all new employees.

A [Register of Interests](#) is maintained and training is offered to councillors on standards, interests and our code of conduct. Councillor and Officer codes of conduct are in place. A register of gifts and hospitality is maintained and staff are reminded to complete this. Information on conduct is included in our Staff Handbook. Under the Local Government Act 1972, section 117, the Council requires officers to disclose any direct or indirect pecuniary interests they may have in any contract or potential contract involving the Council. It has been identified that the process and policy for the register of interests by employees and gifts and hospitality needs to be revised in 2019-20

The [Audit, Governance and Standards Committee's](#) purpose is to promote and maintain high standards of Councillor and Officer conduct within the Council. The Committee has responsibility for adopting and reviewing the Annual Governance Statement; independent assurance of the adequacy of the financial and risk management framework and the associated control environment.

We have a clearly defined set of core values that are embedded at the Council, they form part of our competency framework, are used as part of the appraisal process. Annually we hold a staff awards event for those who have demonstrated they have exceeded the standards by going above and beyond the expected in their behaviour.

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

The Democracy Committee approved a member development programme that included training on interests and conduct. The Programme is focused on the following areas for Member Development:

- Support and build on existing skills for their role in the community now and in the future
- Support and build on existing skills for the various roles undertaken within and on behalf of the Council

The constitution is kept under review by the Democracy Committee and the Monitoring Officer, with changes agreed by full Council.

## **B. Ensuring openness and comprehensive stakeholder engagement**

The Policy and Information Team and Communications Team work together with teams across the Council to ensure consultations are run consistently and effectively and are well communicated to all stakeholders. This collaborative working enables the teams to more effectively manage the consultation process, and in particular, better manage barriers such as 'consultation fatigue' - where we are consulting the same people repeatedly and they lose interest in responding. The Council is a member of the Consultation Institute, which provides a wealth of resources and insight. Officers have undertaken accredited training via the Institute to further improve our approach and processes.

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

The Council has a Communication and Engagement Action Plan in place which is reviewed annually and approved by the Policy and Resources Committee. We also have a statement of community involvement in place for planning covering a whole variety of means of communicating with and involving residents in planning which was revised in December 2018. In 2018-19 we engaged with key stakeholders including Councillors, Parish Councils, businesses and residents on the development of our new Strategic Plan through surveys, meetings and events.

We believe in transparency and have a large amount of information available on the [data and information](#) pages of our website including details of payments to suppliers, decision notices, performance information, a list of our assets and senior staff salaries. We have dealt with a large volume of FOI requests: 704 in 2018-19 processing 94% on time. The Borough Insight magazine informs residents about our services and in 2018-19 we ran 365 days of good news promoting council services, activities and events throughout the year.

The Council takes up opportunities to engage with partners and stakeholders through avenues such as the Developers' forum, Parish Liaison meetings, Maidstone Destination Management Plan, BME forum, Children and Young People forum, Voluntary and Community Services focus group, disability network and older person's forum. We received positive feedback from the Kent Association of Local Councils on the Local Plan review. We have acted as community ambassadors in our capacity as the democratically elected body representing residents through events such as the workshop held with the Clinical Commissioning Group on GP provision.

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

The Council developed a new [Strategic Plan](#) in 2018-19 through a series of events, meetings and consultation with stakeholders. We have in place a new vision and four key priorities to 2045. Outcomes are measured through strategy action plan updates, performance measures and targets which are reported regularly to Wider Leadership Team and the Service Committees.

To ensure the delivery of the strategic plan priorities and actions

each service is required to produce a service plan and individuals also identify how they meet the priorities in their objectives for the year. Regular updates are given on progress with the Strategic Plan at our Staff and Manager Forums as well as at our annual One Council event.

Our corporate report template requires report authors to identify how decisions align with the Council's priorities and show the options that have been considered and the impact of the recommended course of action. The new template agreed in 2018-19 includes the four new priorities and the four cross



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

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

#### D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The [Council's Constitution](#) clearly defines the roles and responsibilities of Officers and Councillors. The Head of Legal Partnership has reviewed the constitutional arrangements and made recommendations for amendment in 2018-19.

The Council's four service committees are responsible for making decisions on the services delivered by the Council. The four service committees, Democracy Committee and Audit, Governance and Standards Committee have work programmes in place. These programmes detail the decisions and reports for the year and are reviewed monthly by each committee. Details of committees and their work can be found on our [website](#).

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

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

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

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

The highest level risks on the Comprehensive [Risk Register](#), were reported and monitored by Corporate Leadership Team throughout the year, and action taken to manage risks to an acceptable level. Further to this, risks updates were reported to Policy & Resources Committee and also to Audit, Governance and Standards Committee during the year for oversight and challenge.

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

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

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

#### **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

The Council in 2017 was accredited Silver following an Investors in People assessment. To achieve this level the Council had to demonstrate that we have in place regular appraisals, service plans, learning and development activities, recruitment and selection procedures as well as a clear strategic vision, good leadership and strong corporate values.

The appraisal process for staff includes a personal development section where staff are encouraged to think about development needs and identify training required. This information is then fed into the Learning and Development team and assists with the development of the programme for the year. The Council has a management toolkit and training programme and introduced the "Maidstone manager" in 2017-18 which sets out the behaviour and standards that are expected of managers.

The Council has a learning and development programme in place for officers and councillors. This has been assessed as good in the IiP assessment. There is a wide variety of training offered to staff and councillors.

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

#### **F. Managing risks and performance through robust internal control and strong public financial management**

The Council manages risk through a comprehensive risk management framework. This involves identification of risk at corporate and service levels,

ownership of individual risks by named officers, development of controls to mitigate risks, and regular reporting. Quarterly reports are presented to the Corporate Leadership Team and bi-annual reports to Policy and Resources Committee. Members take an active interest in the risk management process and engage fully in discussion about individual risks. The Council has in place a robust risk management framework and guidance, risk management is considered by the Audit Governance and Standards Committee.

Performance reports aligned to the Council's priorities are reported to the wider leadership team and service committees.

Service committees carry out policy and strategy development. Financial performance is reported to all the service committees on a quarterly basis.

Monthly budget spending is reported to budget holders and quarterly review meetings with the Director of Finance and Business Improvement are in place. The corporate report template requires information explaining the legal and financial impact of decisions and the S151 Officer and Monitoring Officer are required to comment on financial and legal implications of reports. Financial management whilst effective does need to be improved in the Planning Service with increased training and support for budget managers.

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

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

## **G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

The Council's website includes information that is required under transparency. We publish an [annual report](#) as part of our statement of accounts which includes our performance, progress against priorities and financial performance. We report the results of public consultation on our website and our committee meetings are webcast.

The Whistleblowing Policy was updated in 2016 and is due to be refreshed in 2019/20. The policy is available on the intranet and sets out a confidential reporting process for those who wish to raise concerns.

The annual governance statement and action plan is published on-line as part of the statement of accounts and reported to the Audit, Governance and Standards

Committee. The Local Code of Corporate Governance was rewritten in 2017 and will be refreshed in 2019-20.

Internal audit activity is reported on an annual basis to the Audit, Governance and Standards Committee to inform members of the internal audit activity that has taken place during the year.

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

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

#### Internal Audit Opinion

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

##### *Internal Control*

I am satisfied that during the year ended 31 March 2019 the Council managed a system of internal control that offers sound assurance on control effectiveness.

##### *Governance*

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

##### *Risk Management*

I am satisfied the risk management arrangements at the Council for the year ended 31 March 2019 are effective and provide sound assurance.

Signed:

Chief Executive:

Date:

Leader of the Council:

Date:

# The Audit Findings for Maidstone Borough Council

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Year ended 31 March 2019

30 July 2019



# Contents



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4. Independence and ethics	19

## Appendices

- A. Audit adjustments
- B. Fees
- C. Audit Opinion

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

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Maidstone Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:	Our audit work has been undertaken on site during July. Our findings are summarised on pages 5 to 14. We have identified one adjustment to the financial statements that has resulted in a £333k adjustment to the Council's Comprehensive Income and Expenditure Statement. There is no impact on the General Fund outturn. Audit adjustments are detailed in Appendix A.  We received draft financial statements by the end of May 2019 and following internal checks by management after this date we received a revised set of financial statements to audit on 21 June 2019. This version changed the Core Financial Statements as follows: <ul style="list-style-type: none"><li>• the (Surplus) / Deficit on provision of service was amended from a surplus of £1,390k to a deficit of £1,980k. This reduced the 'Total Comprehensive Income and Expenditure' surplus of £18,088k in the draft statement of accounts, published on 31 May 2019, to £14,718k. This has been adjusted to reflect a change in the treatment of income from Retained Business Rates (£2.9 million) and a late Rent Allowance Payment (£0.5 million).</li><li>• the Net Asset position on the Balance sheet reduced by £172k to £45,296k.</li></ul> Our work is ongoing, however at this stage there are no matters of which we are aware that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to the following outstanding matters: <ul style="list-style-type: none"><li>- completion of audit fieldwork in the following areas – expenditure, income, property, plant and equipment, debtors, creditors, Collection Fund and review of disclosures.</li><li>- completion of our internal review process</li><li>- receipt of management representation letter</li><li>- review of the final set of financial statements</li><li>- review of post-balance sheet events.</li></ul> We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.  Our anticipated audit report opinion will be unmodified.
Q2 52	We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Maidstone Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<b>Value for Money arrangements</b>	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Maidstone Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 15 to 18.
<b>Statutory duties</b>	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: <ul style="list-style-type: none"><li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>• To certify the closure of the audit.</li></ul>	We have not exercised any of our additional statutory powers or duties. We plan to certify the completion of the audit at the same time as the opinion is issued.

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## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

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

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

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is ~~not~~ based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019.

## Conclusion

Our audit work is ongoing however, subject to completion of this work and outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 30 July 2019, as detailed in Appendix C. These outstanding items are as listed on page 3.

## Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Maidstone Borough Council.

	Amount (£'000)	Qualitative factors considered
Materiality for the financial statements	1,800	This has been calculated based upon 2% of your prior year gross expenditure (rounded down)
Performance materiality	1,260	This has been calculated as 75% of headline materiality, based upon our assessment of the likelihood of a material misstatement in the financial statements
Trivial matters	90	This has been calculated based upon 5% of headline materiality.

# Significant findings – audit risks

	<b>Risks identified in our Audit Plan</b>	<b>Commentary</b>
1	<b>The revenue cycle include fraudulent transactions</b>	<p><b>Auditor commentary</b></p> <p>This risk was rebutted in our Audit Plan and there have been no changes to this assessment.</p>
2	<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Auditor commentary</b></p> <p>Our audit work included:</p> <ul style="list-style-type: none"> <li>• evaluating the design effectiveness of management controls over journals</li> <li>• analysing the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<b>3 Valuation of land and buildings</b> <p>The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<b>Auditor commentary</b>

Our audit work included:

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

Our audit work is currently being completed and we are not yet able to conclude on this risk.

However, our work to date has identified an error totalling £905k due to the Council's treatment of the depreciation charged in the year on assets that have been revalued in the year. The draft accounts included the 10 months of depreciation charged between April 2018 and January 2019 as part of the NBV of the assets. The Code requires this amount to be removed from the NBV as the revaluation should remove the accumulated depreciation as the new value is added to the asset register. This has resulted in an amendment to the Core Financial Statements as set out in Appendix A.

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>4 Valuation of pension fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£77 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>260</p>	<p><b>Auditor commentary</b></p> <p>Our audit work included:</p> <ul style="list-style-type: none"> <li>• updating our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluating the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;</li> <li>• testing the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and</li> <li>• undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> </ul> <p>In the 'Significant findings – other issues' on page 13 we set out the potential impact of the McCloud judgement on the pension fund net liability. We are satisfied that this has not resulted in a material difference in the 2018/19 accounts and the narrative disclosure in Note 32 has been updated to reflect the latest position.</p> <p>Our audit work has not identified any other issues in respect of the valuation of the pension fund net liability.</p>

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Revenue recognition	<p>Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable.</p> <p>The Council has three principal revenue streams:</p> <ol style="list-style-type: none"> <li>1) Taxation revenues in respect of council tax and business rates are recognised in the year that the tax was levied</li> <li>2) Grant income is recognised in accordance with the terms of the grant, whether specific or non-specific</li> <li>3) Income from fees and charges in the provision of services is recognised when the service has been provided or when the title to goods has passed.</li> </ol>	<ul style="list-style-type: none"> <li>• The revenue recognition policy is in line with the CIPFA 2018/19 Accounting Code. The Council use accruals based accounting recognising revenue when significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> </ul>	 Green
Provisions for NNDR appeals - £1.886m	<p>The Council is responsible for repaying a proportion of successful rateable value appeals. Management rely on the expert opinion of Analyse Local in order to determine the level of provision required. The calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. As part of the Kent pool, Maidstone BC's share of the total appeals provision is at 40%, hence the £1,886k. The provision has decreased by £421k in 2018/19.</p>	<p>We assessed management's provision for NNDR appeals by considering:</p> <ul style="list-style-type: none"> <li>• the appropriateness of the underlying information used to determine the estimate</li> <li>• the impact of any changes to valuation method</li> <li>• the consistency of estimate against peers</li> <li>• the reasonableness of increase/decrease in estimate</li> <li>• the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>We consider management's process is appropriate.</p>	 Green

## Assessment

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

# Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment	
<b>Land and Buildings – Other - £58.5m</b>	<p>Other land and buildings comprises specialised assets such as the leisure centre and theatre, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Harrisons Chartered Surveyor to complete the valuation of properties as at 31 January 2019 on a five yearly cyclical basis. The valuation of properties valued by the valuer has resulted in a net increase of £6,582k. Management have considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.</p>	<p>We have assessed management's estimate, considering;</p> <ul style="list-style-type: none"> <li>• an assessment of management's expert;</li> <li>• the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>• the consistency of estimate against near neighbours and a report produced by our auditors expert, Gerald Eve;</li> <li>• the reasonableness of the assumptions behind the valuations;</li> <li>• the reasonableness of increase in estimate; and</li> <li>• the adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>We consider management's process is appropriate,</p>	 Green

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**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
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# Significant findings – key judgements and estimates

	<b>Summary of management's policy</b>	<b>Audit Comments</b>	<b>Assessment</b>																								
263	<p><b>Net pension liability – £77.618m</b></p> <p>The Council's total net pension liability at 31 March 2019 comprises £77.618m (PY £77.481m) in relation to the Local Government Pension Scheme as administered by Kent County Council.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>Our assessment of the estimate has considered:</p> <ul style="list-style-type: none"> <li>Assessment of management's expert</li> <li>Use of PWC as auditors expert to assess actuary and assumptions made by actuary. The assumptions employed by the actuary have been assessed as reasonable.</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #54298C; color: white; text-align: left; padding: 5px;">Assumption</th> <th style="background-color: #54298C; color: white; text-align: left; padding: 5px;">Actuary Value</th> <th style="background-color: #54298C; color: white; text-align: left; padding: 5px;">Assessment</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;">Discount rate</td><td style="padding: 5px;">2.40%</td><td style="padding: 5px;"><span style="color: #54298C;">●</span></td></tr> <tr> <td style="padding: 5px;">Pension increase rate</td><td style="padding: 5px;">2.40%</td><td style="padding: 5px;"><span style="color: #54298C;">●</span></td></tr> <tr> <td style="padding: 5px;">Salary growth</td><td style="padding: 5px;">3.90%</td><td style="padding: 5px;"><span style="color: #54298C;">●</span></td></tr> <tr> <td style="padding: 5px;">Mortality assumptions – longevity at 65 for current male pensioners (years)</td><td style="padding: 5px;">22.0</td><td style="padding: 5px;"><span style="color: #54298C;">●</span></td></tr> <tr> <td style="padding: 5px;">Mortality assumptions – longevity at 65 for future male pensioners (years)</td><td style="padding: 5px;">23.7</td><td style="padding: 5px;"><span style="color: #54298C;">●</span></td></tr> <tr> <td style="padding: 5px;">Mortality assumptions – longevity at 65 for current female pensioners (years)</td><td style="padding: 5px;">24.0</td><td style="padding: 5px;"><span style="color: #54298C;">●</span></td></tr> <tr> <td style="padding: 5px;">Mortality assumptions – longevity at 65 for future female pensioners (years)</td><td style="padding: 5px;">25.8</td><td style="padding: 5px;"><span style="color: #54298C;">●</span></td></tr> </tbody> </table>	Assumption	Actuary Value	Assessment	Discount rate	2.40%	<span style="color: #54298C;">●</span>	Pension increase rate	2.40%	<span style="color: #54298C;">●</span>	Salary growth	3.90%	<span style="color: #54298C;">●</span>	Mortality assumptions – longevity at 65 for current male pensioners (years)	22.0	<span style="color: #54298C;">●</span>	Mortality assumptions – longevity at 65 for future male pensioners (years)	23.7	<span style="color: #54298C;">●</span>	Mortality assumptions – longevity at 65 for current female pensioners (years)	24.0	<span style="color: #54298C;">●</span>	Mortality assumptions – longevity at 65 for future female pensioners (years)	25.8	<span style="color: #54298C;">●</span>	<span style="color: #54298C;">●</span> Green
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**Assessment**

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

# Significant findings - Going concern

## Our responsibility

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

## Going concern commentary

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### Management's assessment process

The Council's accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.

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### Auditor commentary

- As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).
- We have subjected the 2019/20 budget and high level revenue MTFS to detailed scrutiny, and reviewed the planned savings proposals for 2019/20 and 2020/21 in our consideration of the appropriateness of management's use of the going concern assumption.

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### Concluding comments

### Auditor commentary

- Based on the audit work performed, we are satisfied that no additional disclosures relating to going concern are required within the Accounts.

# Significant findings - other issues

Issue	Commentary	Auditor view
<p><b>Potential impact of the McCloud judgement</b></p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1,282k, and an increase in service costs for the 2019/20 year of £126k.</p> <p>Management's view is that the impact of the ruling is not material for the Council, and will be considered for future years' actuarial valuations.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p>The Council has updated the narrative in Note 32 for this judgement.</p> <p>We have included this as an uncertainty within Appendix B.</p>

# Other communication requirements

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

<b>Issue</b>	<b>Commentary</b>
<b>1</b> <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>• We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
<b>2</b> <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>• We are not aware of any related parties or related party transactions which have not been disclosed.</li> <li>• However, our review of the related party declaration process identified that the Council does not follow good practice as our testing found a number of declarations from members were older than the 2018/19 year. The declarations should be made annually after the end of the financial year to ensure the accounts include all disclosures needed.</li> </ul>
<b>3</b> <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
<b>4</b> <b>Written representations</b>	<ul style="list-style-type: none"> <li>• A standard letter of representation has been requested from the Council.</li> </ul>
<b>5</b> <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>• We requested from management permission to send (a) confirmation requests to holders of the Council's investments and bank balances. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</li> </ul>
<b>6</b> <b>Disclosures</b>	<ul style="list-style-type: none"> <li>• Our review found no material omissions in the financial statements and amendments have been summarised on page 21</li> </ul>
<b>7</b> <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>• All information and explanations requested from management was provided.</li> </ul>

# Other responsibilities under the Code

	<b>Issue</b>	<b>Commentary</b>
1	<b>Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix C.</p>
2	<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
3	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold.</p>
4	<b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Maidstone Borough Council in the audit opinion, as detailed in Appendix C.</p>

# Value for Money

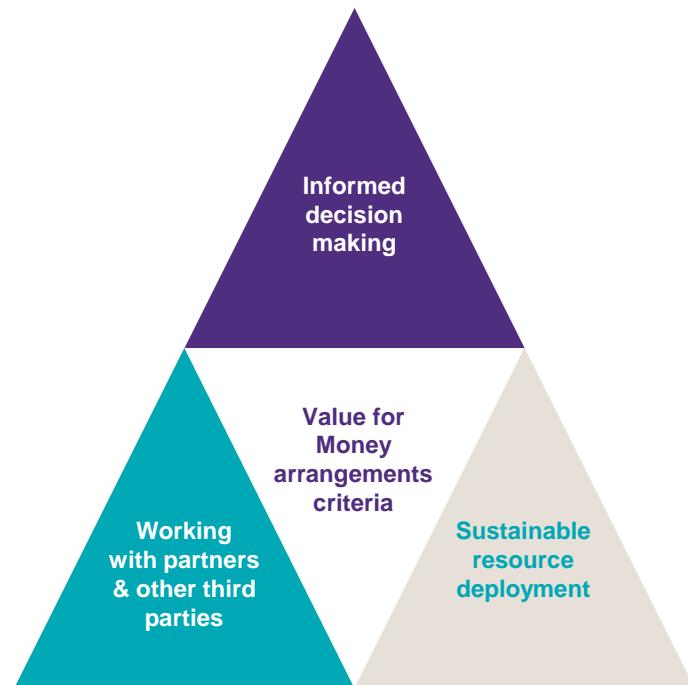
## Background to our VFM approach

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

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



## Risk assessment

We carried out an initial risk assessment in February 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan in March 2019.

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## Our work

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

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

- The Council's 2018/19 financial outturn;
- The robustness of the Council's 2019/20 budget and Medium Term Financial Plan, including savings and income proposals; and
- The Council's response to Brexit.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 17 to 19.

## Overall conclusion

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

The text of our report, which confirms this can be found at Appendix C.

## Significant difficulties in undertaking our work

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

## Significant matters discussed with management

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

## Key findings

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

	<b>Significant risk</b>	<b>Findings</b>
1	<b>Overall Financial Position – Medium Term Financial Strategy</b>	<p><b><u>Revenue outturn for 2018/19</u></b></p> <p>Despite the continued challenging funding settlement for local authorities nationally, you have continued your good track record of delivery of services within budget and attainment of planned targets.</p> <p>The Council has had a challenging year but has been able to deliver a provisional revenue budget underspend of £0.154m (after deducting resources to be carried forward). This represents good financial performance in the context of the reduction in central government funding, the need to make significant savings, and increasing pressure on services. (MTFS).</p> <p>We propose to:</p> <ul style="list-style-type: none"> <li>- review the assumptions behind the latest MTFS, covering the period up to March 2024;</li> <li>- consider the 2018/19 budget outturn, and any implications this may have for the MTFS, along with the latest outturn against the 2019/20 budget; and</li> <li>- review the savings proposals which have been identified to date in respect of the savings requirements, along with the plans that the Council has to identify the additional savings currently required for the life of the MTFS.</li> </ul>
270		<p><b><u>Budget for 2019/20 onwards</u></b></p> <p>The Council presented three budget scenarios as part of their Medium Term Financial Strategy – ‘adverse’, ‘neutral’ and ‘favourable’. The ‘neutral’ budget includes circa £1.17m of savings in 2019/20 and cumulative savings of £5.2m by 2023/24.</p> <p>We have analysed your detailed breakdown of the reductions in income and increased expenditure budgeted for 2019/20. We discussed the key items with management and looked at the assumptions behind these and concluded that they were realistically and prudently estimated but remain challenging.</p> <p>We have discussed with management the assumptions and estimates which underlie their estimates of the additional revenue which you plan to generate and the savings plans. We found the estimates were reasonable. The Council has a very good track record in setting budgets which are accurate and very close to the reality shown in the outturn position.</p> <p>We are satisfied that management have demonstrated that sound financial planning processes and robust financial controls are in place.</p>

## Key findings

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

Significant risk	Findings
1	<p><b>Fiscal Indicators and reserves levels</b></p> <p>The level of reserves in the Council's draft accounts is £45,468k comprising usable reserves of £15,221k and unusable reserves of £30,247k. The general fund and earmarked general fund reserves as a percentage of net service revenue expenditure is 56%. The level of usable reserves, which include the general fund, earmarked reserves and capital receipts reserve, has increased from 2017-18 by 23%.</p> <p>For the short to medium term, the Council's reserves level provides it with a sufficient cushion to weather the on-going financial challenges that you face over the next few years due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary controls on spending and ensure that savings plans are fully delivered.</p>

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## Auditor view

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On the basis of this work, we have concluded that the risk was sufficiently mitigated.

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## Key findings

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

Significant risk	Findings	Conclusion
<b>2 Brexit</b> <p>With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on the Authority and which it will need to plan for.</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"> <li>Review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments.</li> </ul>	<p>At the time of writing our audit plan, the UK was due to exit from the EU on 29 March 2019. This was delayed and Brexit is now expected to happen on a revised date of 31 October 2019. Therefore the expected risk related to the impact of Brexit has not materialised within the period covered by this report. However we have considered the level of preparedness and planning undertaken by the Council.</p> <p>The Council is part of the Kent Resilience Forum and work undertaken to assess the risk and prepare for Brexit have included work undertaken with in the Council as part of a multi agency approach. The overall approach has involved considering the risk from a no-deal scenario and the areas which it would impact;</p> <ul style="list-style-type: none"> <li>Co-ordination of the approach and risk assessment across the county through the Kent Resilience Forum. Through this body the Council has participated in exercises to test plans related to identified risks such as transport</li> <li>Brexit briefings have been provided to the Council in order keep members informed of progress.</li> <li>The Council has tested the ability of its systems to cope with staff working from home and the ability of sufficient staff to get to work for customer facing roles and to ensure the continuing provision of key Council services such as waste collection.</li> <li>The Council's website also provides helpful links to where residents and businesses can get the most up to date advice including government's official source for a wide-range of information for residents and businesses about the UK leaving the EU.</li> </ul>	

### Auditor view

On the basis of this work, we have concluded that the risk was sufficiently mitigated based on the information the Council has had in order to prepare for the impact of Brexit at this time.

# Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B

## Audit and Non-audit services

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

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefits grant	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Presentation to council on Grant Thornton's vibrant Economy index	nil	Self interest	This was performed by a separate team to that involved in the audit and there was no related fee income.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Governance and Standards Committee. None of the services provided are subject to contingent fees.

# Audit Adjustments

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

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
<b>1 Property, plant and equipment (note 18)</b>			
The Council revalues its assets as at 31 January 2019. The depreciation charge for the year includes £905k for the 10 months to January 2019. However, on revaluation this should be written out of the asset register as an accumulated depreciation adjustment.			
The accumulated depreciation was not written out which meant the valuation of the asset was misstated. The accounts have been amended as follows:			
Dr Accumulated Depreciation and Impairment – Accumulated Depreciation		905	
Cr Cost or valuation – revaluation increases/(decreases) recognised in the RR		(572)	
Cr Cost or Valuation – revaluation increases/(decreases) recognised in the Surplus/Deficit on provision of services	(333)		(333)
<b>2 Property, plant and equipment (note 18)</b>			
The PPE additions testing identified £373k of costs in Assets under Construction that should not have been capitalised as they were not enhancing the asset. The Council has obtained legal advice about the additional costs incurred on the project that are not capital in nature and have made a judgement that these can be recovered. The accounts have been amended as follows:			
Dr Debtors		373	
Cr PPE additions – Assets under Construction		(373)	
<b>Overall impact</b>	£ (333)	£ nil	£ (333)

There is nil impact on the Balance Sheet for the above amendment as there are capital accounting entries in the Movement in Reserves Statement which also impact on the Balance Sheet. These have not been shown in the table for simplicity.

# Audit Adjustments

## Misclassification and disclosure changes

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

Misclassification / disclosure	Detail	Auditor recommendations	Adjusted?
Property, Plant and Equipment (note 18) - misclassification	<p>The Revaluation increases/(decreases) recognised in the 'Revaluation Reserve' and 'Surplus/Deficit on Provision of Services' for Land and Buildings included:</p> <ul style="list-style-type: none"> <li>• Valuation of assets</li> <li>• Accumulated depreciation written out upon revaluation</li> </ul> <p>These amounts should not be netted off and should be disclosed on separate lines within the disclosure note. The 2018/19 accumulated depreciation was £2,714k which was deflating the true revaluation gain in the year in the note. The note has been amended to show the accumulated depreciation as Other movements in cost or valuation with an explanation below the table to explain the movement.</p> <p>The 2017/18 disclosure note has also been amended and shown as restated in the accounts. The 2017/18 accumulated depreciation was £2,600k.</p>	<ul style="list-style-type: none"> <li>• MBC have amended the misclassification in the final version of the accounts</li> </ul>	✓
External audit costs (note 15) - disclosure	The fees payable for the certification of grant claims during the year was understated for the 18/19 HB claim by £1k. Also, the fee did not include the additional fee for 2017/18 HB work of £10k. Total fee for grant claims is £20k.	<ul style="list-style-type: none"> <li>• MBC have amended the disclosure in the final version of the accounts</li> </ul>	✓
Capital commitments (note 18) - disclosure	The capital commitments disclosed in the note did not agree to the signed contracts as at 31 March 2019. The accounts have been amended to state the actual costs committed at year end.	<ul style="list-style-type: none"> <li>• MBC have amended the disclosure in the final version of the accounts</li> </ul>	✓
Trust Funds (note 27) - disclosure	The Trust Funds note was prepared on estimated figures as the draft accounts were not available. These have now been received and there are differences greater than our trivial level in the Gross Expenditure and Income totals and Balance Sheet.	<ul style="list-style-type: none"> <li>• MBC have amended the disclosure in the final version of the accounts</li> </ul>	✓
Disclosure only	Various	<ul style="list-style-type: none"> <li>• We have agreed a number of other minor disclosure changes such as typos, formatting and presentation.</li> </ul>	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The Audit, Governance and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below. At this stage of our audit fieldwork work we do not have any unadjusted misstatements to report.

## Impact of unadjusted estimates

We are not proposing an amendment for the below estimate but are bringing to your attention as it was a significant judgement in the accounts.

Detail	Impact	Reason for not adjusting	
<b>McCloud pension liability estimates</b> 	<p>Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. This will therefore constitute an unadjusted estimate.</p>	<p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £1,282k, and an increase in service costs for the 2019/20 year of £126k.</p>	<p>Management's view is that the impact of the ruling is not material for Maidstone Borough Council, and will be considered for future years' actuarial valuations.</p>

# Fees

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

## Audit Fees

	Proposed fee	Final fee
<b>Council Audit</b>	38,866	38,866
<b>Additional fees in relation to additional work required for the following issues in 2018/19: *</b> McCloud judgement		TBC
<b>Total audit fees (excluding VAT)</b>	<b>£38,866</b>	<b>£TBC</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

\*In common with all other councils there will be proposed additional fees related to McCloud and other regulatory requirements for 2018/19. We do not propose any additional fees for other matters. We have not yet discussed the additional fees with management and will do so once the audit is complete.

Fees in respect of grant work, such as reasonable assurance reports, are shown under 'Fees for other services' below.

## Non Audit Fees

Fees for other services	Fees
<b>Audit related services:</b>	
Certification of Housing Benefits claim 2018/19	10,000
Additional fee for 2017/18 Housing Benefits claim	10,000

# Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## Independent auditor's report to the members of Maidstone Borough Council Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Maidstone Borough Council (the ‘Authority’) for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Statements, Policies and Judgements, and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Business Improvement’s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Business Improvement has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The Director of Finance and Business Improvement is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider

whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### **Opinion on other matter required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

### **Responsibilities of the Authority, the Director of Finance and Business Improvement and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page [X], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Business Improvement. The Director of Finance and Business Improvement is responsible for

the preparation of the Statement of Accounts, which includes 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Business Improvement determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Business Improvement is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit, Governance and Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing 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.

### **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Maidstone Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume

responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Elizabeth Jackson, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
London

[Date]

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# NARRATIVE Report 2019

PRIDE IN OUR BOROUGH  
A Borough that works for everyone





## Key Facts about Maidstone

### POPULATION OF MAIDSTONE BOROUGH

2017	167,700
2016	165,700

### GROSS VALUE ADDED IN BOROUGH

2016	£3.8 billion
2015	£3.6 billion

### NUMBER OF ACTIVE BUSINESSES IN THE BOROUGH

2017	7,935
2016	7,755

### BUSINESS RATES GENERATED

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

### WEEKLY PAY FOR A FULL-TIME WORKER

2018	£589.50
2017	£562.90

### COUNCIL GROSS REVENUE

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

### COUNCIL REVENUE GENERATED LOCALLY

2018/19	93.3%
2014/15	82.3%

### COUNCIL SURPLUS AGAINST BUDGET

2018/19	0.9%
2017/18	1.1%

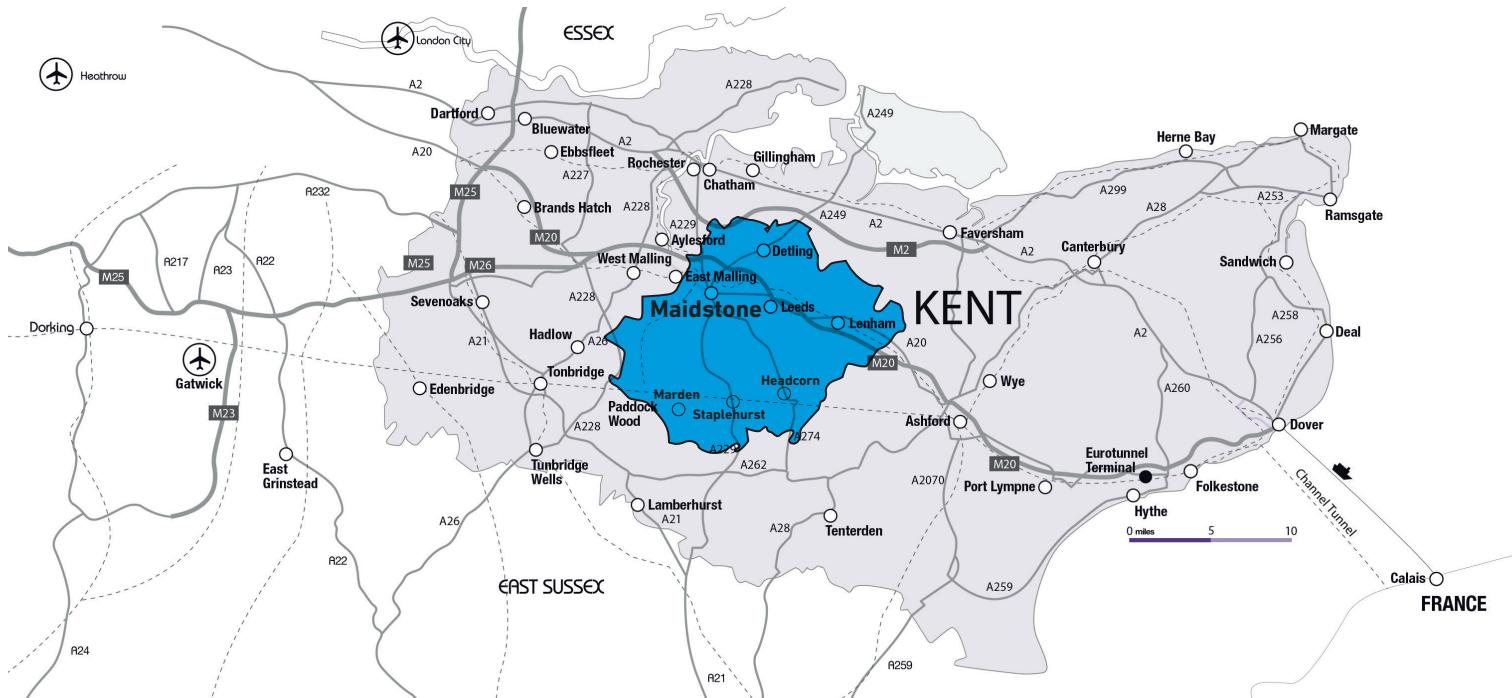
### COUNCIL INVESTMENT IN LONG TERM ASSETS

2018/19	£119.1 million
2017/18	£99.7 million

### COUNCIL'S USABLE RESERVES

2018/19	£15.7 million
2017/18	£13.1 million

## About Maidstone

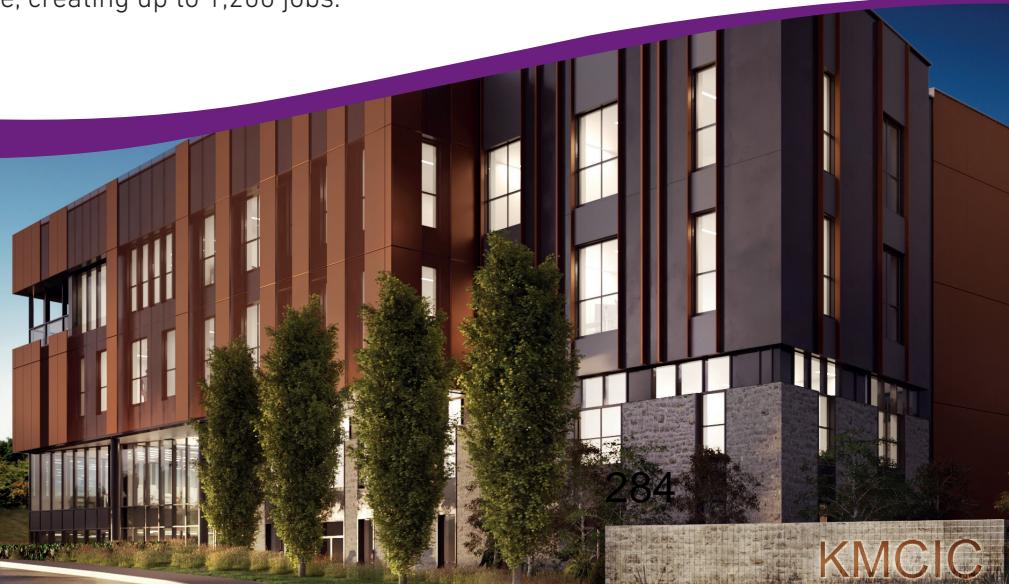


Maidstone is the largest borough council district in Kent, with an estimated 168,000 residents in mid-2017. Around 70% live in Maidstone, which is the County Town of Kent. In the surrounding rural area there are local service centres such as Staplehurst, Marden, Headcorn, Lenham, Harrietsham and many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

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

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

- The Kent Medical Campus, located just off Junction 7, is a 30-acre site designed to stimulate and support research-led health and life science businesses and clinical service providers, supported by universities and specialist training providers. Cygnet Hospital opened in late 2018 on the site, providing services for patients suffering from a variety of mental health problems. The Council is also building an Innovation Centre there, providing flexible office space, facilities and business support for businesses in the life science, healthcare and med-tech sectors, with a target opening date of summer 2021.
- Planning permission has been granted for a new commercial business park at Junction 8 of the M20, which will provide office, warehouse and light industrial space to serve the borough's growing economy. A new state-of-the-art commercial business park is planned which will deliver more than 47,500m<sup>2</sup> of employment space, creating up to 1,200 jobs.



- A strategic site south of the M20 at Junction 6 covering an area of 4,600m<sup>2</sup> will become an industrial park, comprising a local firm's head office and offering local employment opportunities to businesses looking to locate in the area.

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

## About the Council

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

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

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

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

## Maidstone's Strategic Plan

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

The 2015 Strategic Plan identified two overriding priorities – keeping Maidstone Borough an attractive place for all and securing a successful economy for the Borough. Within these overall priorities, three specific areas of focus were identified for 2018/19:

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



## Key achievements

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



### A HOME FOR EVERYONE

- **New housing developments**

Work is under way on two new housing developments in Maidstone town centre, at Union Street and Brunswick Street. When complete in Summer 2020, the developments will provide 94 new homes, comprising a mix of affordable housing, housing for market rent and housing for sale.

- **Lenworth House**

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

- **Temporary accommodation**

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



### A CLEAN, SAFE AND GREEN ENVIRONMENT

- **Mote Park**

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

- **Reducing flytipping**

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

- **Go Green Go Wild**

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



## REGENERATING THE TOWN CENTRE

- **Public Realm**

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

- **Maidstone East redevelopment**

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

- **Business Improvement District**

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

- **Opportunity areas**

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



## KEY PERFORMANCE INDICATORS

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

### PRIORITY: A Home for Everyone

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

### PRIORITY: Providing a Clean, Safe and Green Environment

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

Data only indicator - reported for information but no target set

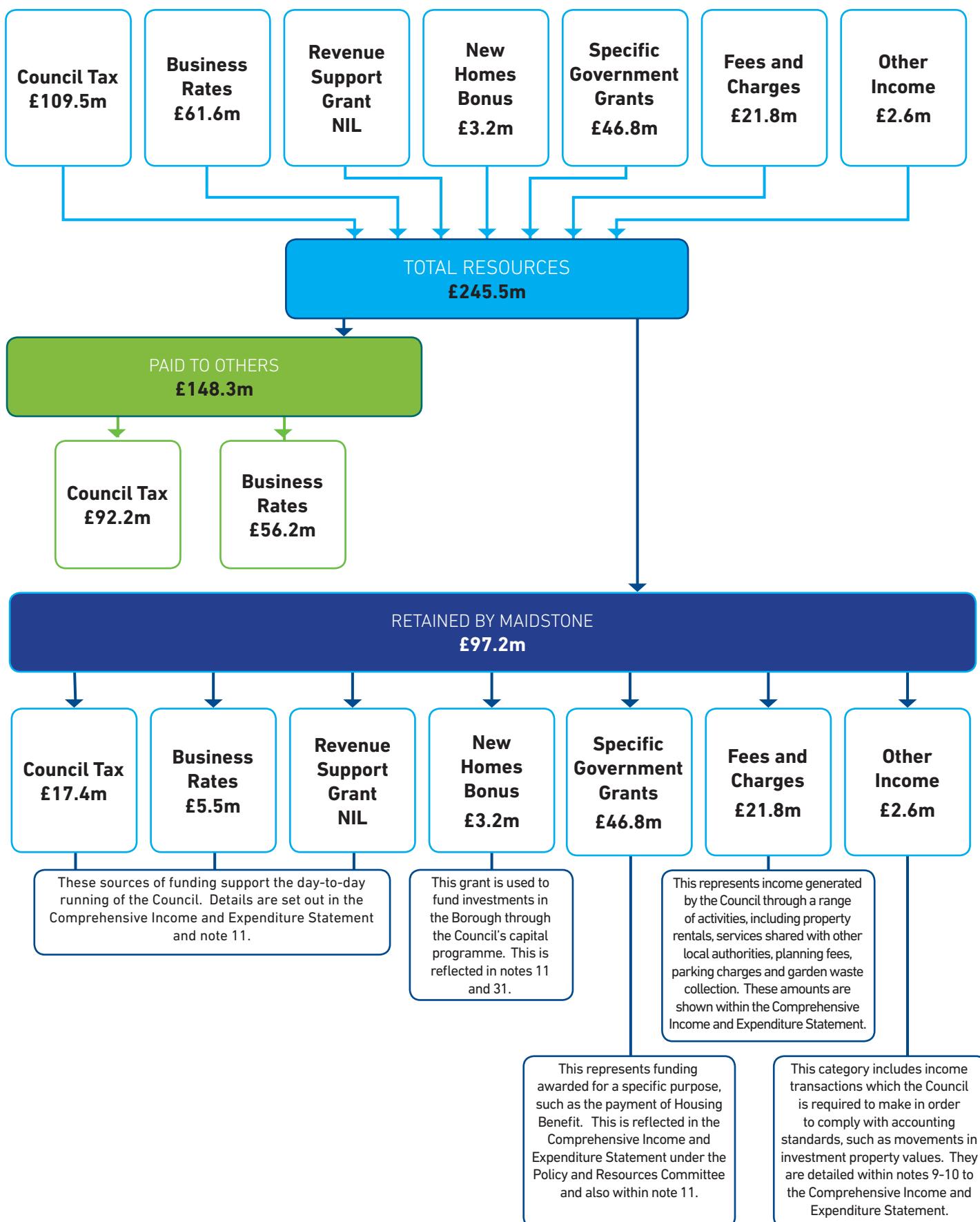
## PRIORITY: Regenerating the Town Centre

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



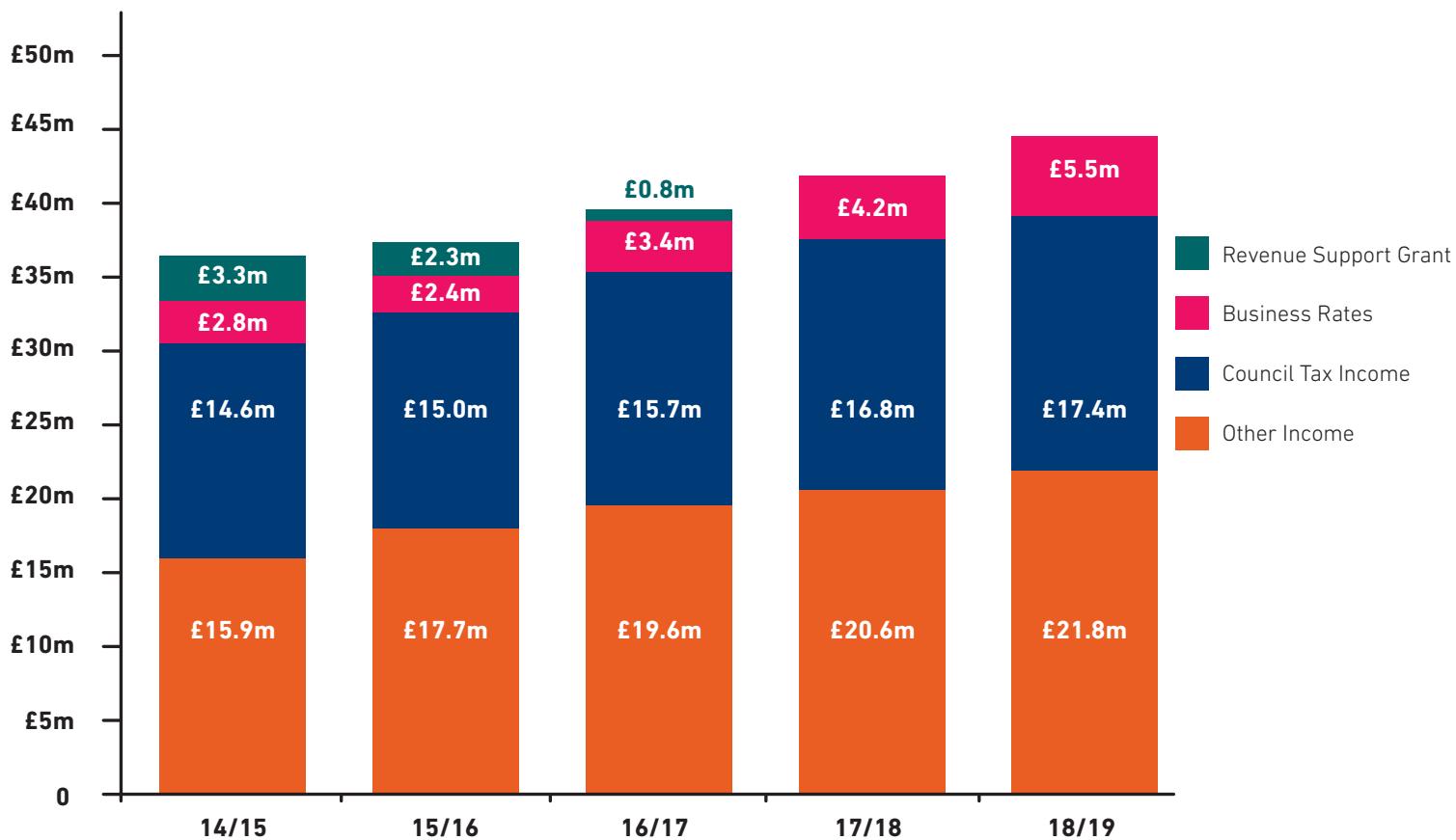
# Financial Performance

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



## Income

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



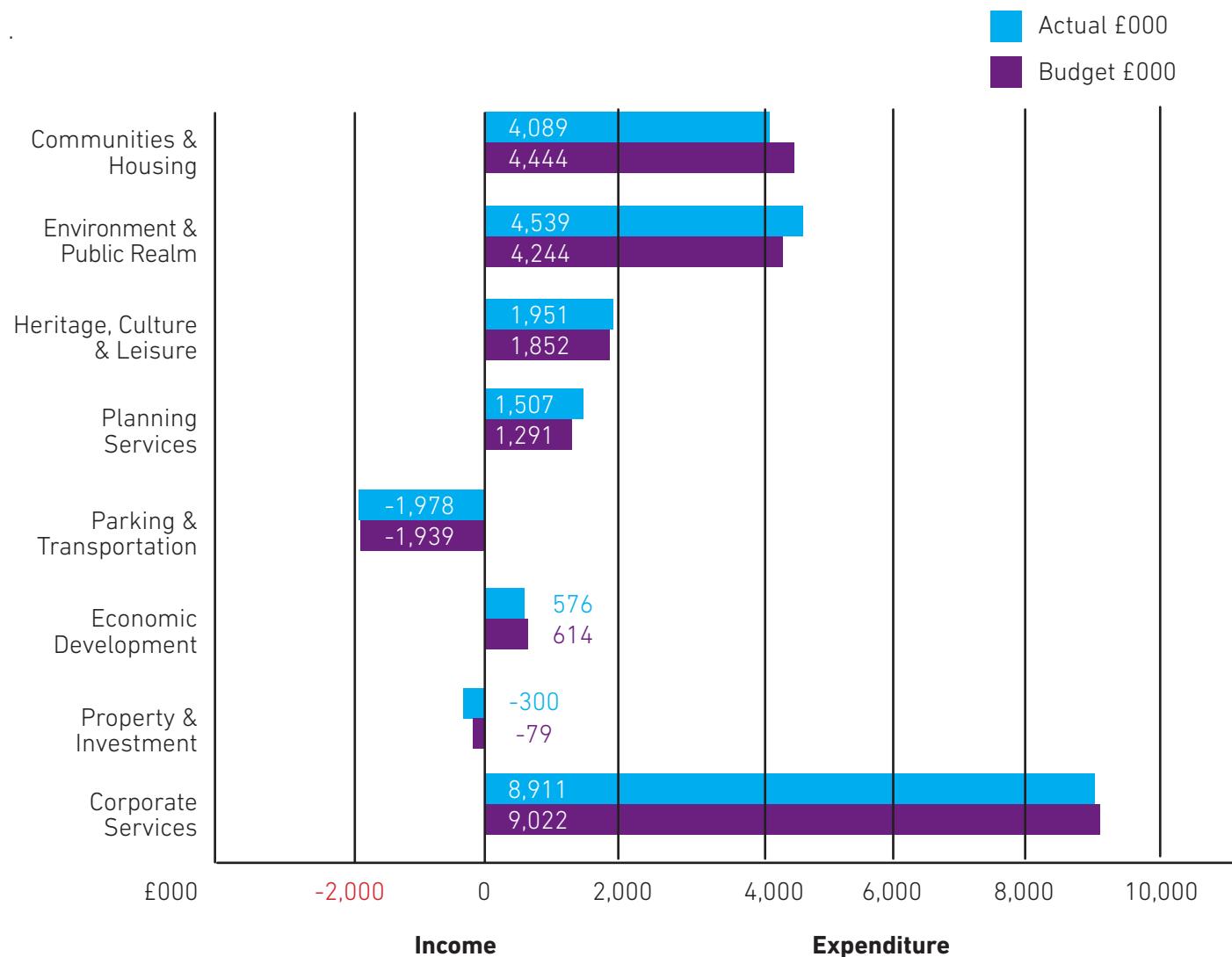
These sources of income are shown in note 11 to the Statement of Accounts, **Taxation & Non-Specific Grant Income**, and in the income totals for the relevant Committee in the **Comprehensive Income and Expenditure Statement**.



# Expenditure

The Council spends money to meet its statutory obligations - delivering services like refuse collection, and making transfer payments such as housing benefit – and to meet our strategic priorities.

Delivering expenditure in line with budget is an important performance indicator. This objective was achieved in 2018/19.



The Council's income and expenditure is shown in the **Comprehensive Income & Expenditure Statement** in the Statement of Accounts.





## Balance Sheet

The Balance Sheet shows the value of the Council's assets less its liabilities at the end of the year. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The Council's net assets increased from £29.1 million to £47.9 million, mainly because of upward revaluations of the Council's property assets and growth in pension fund assets managed by Kent County Council.

2017/18 £000		2018/19 £000
68,835	Property, Plant & Equipment	83,038
10,393	Heritage Assets	10,393
19,976	Investment Properties	23,014
517	Other Long Term Assets	2,648
31,645	Money owed to the Council	33,998
-20,089	Money owed by the Council	-30,216
-82,207	Long Term Liabilities	-74,983
<b>29,070</b>	<b>Net Assets</b>	<b>47,892</b>
13,052	Usable Reserves	15,657
16,018	Unusable Reserves	32,235
<b>29,070</b>	<b>Total Reserves</b>	<b>47,892</b>

**Property, Plant and Equipment** are assets held by the Council to deliver services or for administrative purposes. The increase reflects capital expenditure during the year. Further details of capital expenditure are shown overleaf.

**Money owed to the Council** includes amounts receivable from debtors and cash balances, being cash in hand, bank deposits and investments that are readily convertible to cash. The **Cash Flow Statement** provides an analysis of the movement in cash during the course of the year.

## Balance Sheet (continued)

**Money owed by the Council** includes amounts payable to creditors, provisions for business rates appeals and grants received in advance. The Council currently has no long term borrowing.

**Usable reserves** include money set aside for specific purposes and sufficient contingency to cover unforeseen events. In particular, the Council has decided that the New Homes Bonus that it receives will be set aside for capital investment to improve and enhance the borough. £4.6 million of New Homes Bonus has been used in this way during the year (17/18 - £9.8 million).

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

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

## Capital Expenditure

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

These projects include:

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

The Council has an ambitious capital programme for the coming five years, totalling £80 million. The two largest elements in the capital programme are the Council's housing and regeneration strategy and its commercial property investment strategy. The programme will be funded both through New Homes Bonus receipts and other internal resources, and through external borrowing, in line with the regulatory requirement that such borrowing be affordable, prudent and sustainable.

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

## FUTURE PLANS

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

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

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

The main financial risk to the Council arises from continued uncertainty about the shape of local government funding arrangements from 2020/21. Although Maidstone Borough Council no longer receives direct grant funding from central government, the framework for setting Council Tax, and the distribution of business rates collected locally between central government, precepting authorities and the Council itself is subject to change after 2020/21. The details will be critical in determining the level of resources available to the Council.

Given this uncertainty, the Council has planned for a range of feasible scenarios, characterised as favourable, neutral and adverse. In all scenarios, the Council will seek to continue making efficiency savings and generating additional income in order to optimise its financial position.



## RISK MANAGEMENT

The Council manages risk through a comprehensive risk management framework. This involves identification of risk at corporate and service levels, ownership of individual risks by named officers, development of controls to mitigate risks, and regular reporting. Quarterly reports are presented to the Corporate Leadership Team and bi-annual reports to Policy and Resources Committee. Members take an active interest in the risk management process and engage fully in discussion about individual risks.

The following table sets out what we have assessed as being the key corporate risks

Ranking	Risk description	Risk rating	
		Inherent risk	After planned mitigations
1	Housing pressures increasing	20	12
2=	Major project failure	16	12
2=	Financial restrictions	16	12
4	Poor partner relationships	16	9
5	Impact of Brexit	12	12
6=	Contraction in retail and leisure sectors	12	8
6=	Significant control failure	12	8
8=	Failure to implement Local Plan	9	9
8=	Environmental damage	9	9
10=	Governance failures	8	8
10=	IT security failure	8	8
12	Loss of community engagement	6	6
13	Workforce capacity and skills 296	4	4



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## **STATEMENT OF ACCOUNTS 2018/19**

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

### **The Council's Responsibilities**

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In the Council, that officer is the Director of Finance & Business Improvement.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### **The Director of Finance & Business Improvement's Responsibilities**

The Director of Finance & Business Improvement is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance & Business Improvement has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code.

The Director of Finance & Business Improvement has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31<sup>st</sup> March 2019.

**Signed:**

Mark Green, Director of Finance & Business Improvement

**Date: 31<sup>st</sup> July 2019**

## PRIMARY STATEMENTS

### COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

For the years ending 31<sup>st</sup> March 2018 & 2019

2017/18 (Restated)					2018/19		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Committee		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
59,100	(52,702)	6,398	Policy & Resources		62,187	(52,830)	9,357
13,869	(3,966)	9,903	Communities, Housing & Environment		15,817	(4,324)	11,492
9,796	(4,319)	5,477	Heritage, Culture & Leisure		10,096	(4,353)	5,743
8,286	(7,178)	1,108	Strategic Planning, Sustainability & Transportation		6,774	(7,075)	(301)
<b>91,051</b>	<b>(68,165)</b>	<b>22,886</b>	<b>Cost Of Services</b>		<b>94,874</b>	<b>(68,582)</b>	<b>26,292</b>
		936	Other Operating Expenditure (Note 9)		1,927	(698)	1,229
		1,609	Financing and Investment Income and Expenditure (Note 10)		2,040	(1,871)	169
		(25,752)	Taxation and Non-Specific Grant Income and Expenditure (Note 11)			(26,043)	(26,043)
			<b>(321) (Surplus) or Deficit on Provision of Services</b>				<b>1,647</b>
			<b>Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services</b>				
		(1,350)	(Surplus) or deficit on revaluation of property, plant & equipment assets				(7,832)
		(7,567)	Remeasurement of the Net Defined Benefit Liability				(9,438)
			<b>(8,917) Other Comprehensive Income and Expenditure</b>				<b>(17,271)</b>
			<b>(9,238) Total Comprehensive Income and Expenditure</b>				<b>(15,624)</b>

## MOVEMENT IN RESERVES STATEMENT

For the years ending 31<sup>st</sup> March 2018 & 2019

<b>Current Year</b>	<b>General Fund Balance</b>	<b>Unallocated</b>	<b>Earmarked GF Balances</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Total Usable Reserves</b>	<b>Unusable Reserves</b>	<b>Total Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 1st April 2018</b>	9,627	2,899	523	3	13,052	16,018		29,070
<b>Movement in Reserves during 2018/19</b>								
Total Comprehensive Income and Expenditure Adjustments between accounting basis & funding basis under regulation (Note 6)	(1,647)	0	0	0	(1,647)	17,271		15,624
	2,381	(1,404)	75	0	1,052	(1,052)		0
Movements between Reserves	(1,135)	4,333	0	0	3,198			3,198
<b>Increase or Decrease in 2018/19</b>	<b>(401)</b>	<b>2,929</b>	<b>75</b>	<b>0</b>	<b>2,603</b>	<b>16,219</b>	<b>18,822</b>	
<b>Balance at 31st March 2019</b>	<b>9,226</b>	<b>5,828</b>	<b>598</b>	<b>3</b>	<b>15,657</b>	<b>32,235</b>	<b>47,892</b>	

<b>Comparative Year (Restated)</b>	<b>General Fund Balance</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Total Usable Reserves</b>	<b>Unusable Reserves (Restated)</b>	<b>Total Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 1st April 2017</b>	17,343	437	66	17,846	902	18,748
<b>Movement in Reserves during 2017/18</b>						
Total Comprehensive Income and Expenditure Adjustments between accounting basis & funding basis under regulation (Note 6)	321	0	0	321	10,001	10,322
	(5,138)	86	(63)	(5,115)	5,115	0
<b>Increase or Decrease in 2017/18</b>	<b>(4,817)</b>	<b>86</b>	<b>(63)</b>	<b>(4,794)</b>	<b>15,116</b>	<b>10,322</b>
<b>Balance at 31st March 2018</b>	<b>12,526</b>	<b>523</b>	<b>3</b>	<b>13,052</b>	<b>16,018</b>	<b>29,070</b>

**BALANCE SHEET****As at 31<sup>st</sup> March 2018 & 2019**

<b>31st March 2018 (Restated)</b>		<b>Notes</b>	<b>31st March 2019</b>
	<b>£000</b>		<b>£000</b>
68,835	Property, Plant & Equipment	<b>18</b>	83,038
19,976	Investment Property	<b>19</b>	23,014
10,393	Heritage Assets	<b>20</b>	10,393
477	Intangible Assets		564
0	Long Term Investments	<b>21</b>	2,000
40	Long Term Debtors		84
<b>99,721</b>	<b>Long Term Assets</b>		<b>119,093</b>
7,000	Short Term Investments	<b>21</b>	2,000
110	Inventories		98
14,291	Short Term Debtors	<b>23</b>	20,717
10,244	Cash & Cash Equivalents	<b>24</b>	11,184
<b>31,645</b>	<b>Current Assets</b>		<b>33,998</b>
14,233	Short Term Creditors	<b>25</b>	23,413
959	Provision for Business Rate Appeals	<b>26</b>	1,179
296	Other Provisions	<b>26</b>	380
521	Deferred Liability	<b>28</b>	521
4,080	Capital Grants Receipts in Advance	<b>16</b>	4,723
<b>20,089</b>	<b>Current Liabilities</b>		<b>30,216</b>
1,348	Provision for Business Rate Appeals	<b>26</b>	707
184	Other Provisions		259
3,057	Deferred Liability	<b>28</b>	2,536
77,618	Other Long Term Liabilities	<b>32</b>	71,481
<b>82,207</b>	<b>Long Term Liabilities</b>		<b>74,983</b>
<b>29,070</b>	<b>Net Assets</b>		<b>47,892</b>
13,052	Usable Reserves		15,657
16,018	Unusable Reserves	<b>30</b>	32,235
<b>29,070</b>	<b>Total Reserves</b>		<b>47,892</b>

## CASHFLOW STATEMENT

<b>2017/18 (Restated) £000</b>		<b>2018/19 £000</b>
	Notes	
(321)	Net (surplus) or deficit on the provision of services	1,647
(8,240)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	<b>36</b> <span style="color: red;">(12,203)</span>
2,433	Adjustments for items included in the net surplus or deficit on the provision of services that are investing & financing activities	<b>37</b> 2,179
<b>(6,128)</b>	<b>Net cash flows from Operating activities</b>	<b>(8,378)</b>
11,104	Investing Activities	<b>38</b> 5,822
(3,609)	Financing Activities	<b>39</b> 1,616
1,367	<b>Net increase or decrease in cash &amp; cash equivalents</b>	<b>(940)</b>
(11,611)	Cash & cash equivalents at the beginning of the reporting period	(10,244)
<b>(10,244)</b>	<b>Cash &amp; cash equivalents at the end of the reporting period</b>	<b>(11,184)</b>

## NOTES TO THE ACCOUNTS

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### 1 – EXPENDITURE & FUNDING ANALYSIS

For the years ending 31<sup>st</sup> March 2018 & 2019

2017/18 (Restated)				2018/19		
Net Expenditure Chargeable to the General Fund (Restated) £000	Adjustments (Restated) £000	Net Expenditure in the Comprehensive Income & Expenditure Statement £000	Committee	Net Expenditure Chargeable to the General Fund £000	Adjustments £000	Net Expenditure in the Comprehensive Income & Expenditure Statement £000
7,415	(1,017)	6,398	Policy & Resources	8,047	1,310	9,357
7,588	2,315	9,903	Communities, Housing & Environment	8,627	2,864	11,491
1,777	3,701	5,477	Heritage, Culture & Leisure	1,951	3,793	5,744
(1,091)	2,199	1,108	Strategic Planning, Sustainability & Transportation	(471)	170	(301)
<b>15,688</b>	<b>7,198</b>	<b>22,886</b>	<b>Net Cost Of Services</b>	<b>18,154</b>	<b>8,137</b>	<b>26,292</b>
7,544	(30,750)	(23,207)	Other Income & Expenditure	2,952	(27,597)	(24,645)
<b>23,232</b>	<b>(23,552)</b>	<b>(321)</b>	<b>(Surplus) or Deficit</b>	<b>21,107</b>	<b>(19,460)</b>	<b>1,647</b>
		17,343	Opening General Fund Balance			12,526
		0	Movements between Reserves			3,198
		(5,138)	Less/Plus (Surplus) or Deficit on General Fund Balance in Year			977
		<b>12,526</b>	<b>Closing General Fund Balance at 31st March</b>			<b>15,054</b>

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

### **NOTE TO THE EXPENDITURE & FUNDING ANALYSIS**

<b>Adjustments between Funding &amp; Accounting Basis 2018/19</b>				
<b>Adjustments from General Fund to arrive at the Comprehensive Income &amp; Expenditure Statement amounts</b>	<b>Adjustments for Capital Purposes</b>	<b>Net Change for Pensions</b>	<b>Other Adjustments</b>	<b>Total Adjustments 2018/19</b>
	(Note i)	(Note ii)	(Note iii)	
Policy & Resources	3,175	3,301	(5,166)	1,310
Communities, Housing & Environment	1,522		1,343	2,864
Heritage, Culture & Leisure	2,383		1,410	3,793
Strategic Planning, Sustainability &	(1,506)		1,676	170
<b>Net Cost of Services</b>	<b>5,574</b>	<b>3,301</b>	<b>(738)</b>	<b>8,137</b>
Other income and expenditure from the Expenditure & Funding Analysis	(1,124)		(26,473)	(27,597)
<b>Difference between General Fund surplus or deficit and Comprehensive Income &amp; Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>4,450</b>	<b>3,301</b>	<b>(27,211)</b>	<b>(19,460)</b>

### **Adjustments between Funding & Accounting Basis 2017/18 (Restated)**

<b>Adjustments from General Fund to arrive at the Comprehensive Income &amp; Expenditure Statement amounts</b>	<b>Adjustments for Capital Purposes (Restated)</b>	<b>Net Change for Pensions (Restated)</b>	<b>Other Differences (Restated)</b>	<b>Total Adjustments 2017/18 (Restated)</b>
	(Note i)	(Note ii)	(Note iii)	
Policy & Resources	952	3,651	(5,620)	(1,017)
Communities, Housing & Environment	1,098		1,217	2,315
Heritage, Culture & Leisure	2,374		1,327	3,701
Strategic Planning, Sustainability & Transportation	254		1,945	2,199
<b>Net Cost of Services</b>	<b>4,678</b>	<b>3,651</b>	<b>(1,131)</b>	<b>7,198</b>
Other income and expenditure from the Expenditure & Funding Analysis	(419)		(30,331)	(30,750)
<b>Difference between General Fund surplus or deficit and Comprehensive Income &amp; Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>4,259</b>	<b>3,651</b>	<b>(31,462)</b>	<b>(23,552)</b>

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

### **Note i – Adjustments for Capital Purposes**

- This column adjusts Policy & Resources Committee for the statutory adjustments put through in respect of depreciation, amortisation of intangible assets, revenue funding from capital under statute, and other capital charges.

### **Note ii – Net Charge for Pensions Adjustments**

- This column adjusts Policy & Resources Committee for the statutory adjustments put through in respect of IAS 19 Employee Benefits pension related income and expenditure.

### **Note iii – Other Differences**

- This column adjusts the service committees for various recharges such as accommodation, telephones, staff recharges and IT recharges as when they are reported they only include direct costs.

### **EXPENDITURE AND INCOME ANALYSED BY NATURE**

	<b>2017/18 (Restated) £000</b>	<b>2018/19 £000</b>
<b>Expenditure</b>		
Employee Benefit Expenses	20,836	22,062
Other Services Expenses	85,904	88,771
Depreciation, Amortisation, Impairment	6,695	7,119
Interest Payments	125	110
Precepts & Levies	1,666	1,811
Gain/(Loss) on the Disposal of Assets	(1,389)	(1,446)
<b>Total Expenditure</b>	<b>113,837</b>	<b>118,426</b>
<b>Income</b>		
Fees, Charges & Other Service Income	(22,638)	(23,771)
Interest & Investment Income	(120)	(220)
Income from Council Tax & NDR	(38,741)	(42,753)
Government Grants & Contributions	(52,660)	(50,036)
<b>Total Income</b>	<b>(114,158)</b>	<b>(116,780)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>(321)</b>	<b>1,647</b>

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

## **2 - ACCOUNTING POLICIES**

### **General Principles**

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31st March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts & Audit Regulations (England) 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the UK 2018/19, supported by International Financial Reporting Standards (IFRS).

The following accounting concepts have been given precedence in the preparation of the accounts:

- Going concern
- Primacy of legislative requirements

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### **Revenue Recognition**

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **Income from Council Tax and Non-Domestic (Business) Rates:**

Revenue relating to council tax and business rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions. Revenue is recognised when it is probable that the economic benefits of the transaction will flow to the Council and the amount of revenue can be measured reliably.

The council tax and business rate income included in the CIES is the accrued income for the year, which consists of:

- The Council's council tax precept and business rate share from the Collection Fund i.e. the amount billed for the year; and
- The Council's share of the actual council tax and business rate surplus or deficit on the Collection Fund at the end of the current year, adjusted for the Council's share of the surplus or deficit on the fund at the preceding year end that has not been distributed or recovered in the current year.

The latter is not required by regulation to be credited to the General Fund and so is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement on the General Fund balance.

The Council as billing authority recognises a creditor in its balance sheet for cash collected from taxpayers and businesses on behalf of major preceptors but not yet paid to them, or a debtor for cash paid to major preceptors.

- Accruals are recognised where the value exceeds £5,000.

### **Overheads & Support Services**

The costs of support services and overheads are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2018/19. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion with the benefits used, with the exception of:

- costs relating to the Council's status as a multi-functional democratic organisation.
- the cost of discretionary benefits awarded to employees retiring early and impairment losses on assets held for sale.

These two cost categories are defined in the Service Expenditure Reporting Code of Practice 2018/19 and accounted for within the Policy & Resources Committee line on the Comprehensive Income & Expenditure Statement.

## **Prior Period Adjustments, Changes in Accounting Policies and Estimates & Errors**

Prior period adjustments may arise as result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current or financial years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

## **Value Added Tax**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue & Customs. VAT receivable is excluded from income.

Further accounting policies can be found throughout these accounts with the notes to which they relate.

## **3 - CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication of the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- A comprehensive review of all property leases was undertaken at the end of 2017/18 to determine whether they should be classified as an operating lease (which are off-Balance Sheet), or a finance lease (which is on-Balance Sheet). The result of this review was that the Council currently has no property leases which need to be classified as finance leases.
- A review of service contracts has been undertaken in accordance with the requirements of IFRIC 4 to determine whether any of the contractual

arrangements contain the substance of a finance lease. It was determined that the Park & Ride contract was classified as containing finance leases for the vehicles involved in the delivery of the service, and these have been included with Property, Plant & Equipment on the Balance Sheet.

- A review of the contract for waste collection has determined that the contractual arrangements do not meet the requirements of IFRIC 4.
- It has been determined that an arrangement between the Council and the managing contractor of the Leisure Centre is classified as a service concession arrangement. Under the terms of the arrangement the Council makes regular payments over a 15 year period to cover the costs of major refurbishment works which have been undertaken by the contractor.
- A judgement has been made as to which of the council's assets fall under the category of Heritage Assets, and the appropriate basis for valuation and disclosure. The outcome of this judgement is reflected in the Heritage Assets note.
- A review of operational assets not revalued this year has been undertaken to determine whether or not there could have been a material movement in the asset values. Using guidance from the external valuer, it has been concluded that the assets are materially fairly stated.
- As a wholly owned subsidiary of the council, Maidstone Property Holdings Limited falls within the group boundary on the grounds of control and significant influence in line with the Code. However the Council's interests in aggregate are not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. For this reason, group accounts are not deemed necessary within these statements.
- The Council has determined that it does not need to prepare group accounts to include Cobtree Manor Estate Trust, on the grounds that the Council neither controls, jointly controls, nor has significant influence over the Trust. Councillors who sit on the Cobtree Manor Estate Charity Committee act on behalf of the Trust in their decision making, rather than in the interests of Maidstone Borough Council. The objectives of the Trust derive from a separate trust, the Cobtree Charity Trust, and cannot be influenced by the Council's objectives. The Council does not control the Trust in its capacity as an investor, it is not exposed to variable returns from its involvement with the Trust, and the Trust does not provide any services which the council would otherwise be obliged to provide. The council provides services to the Trust in terms of the day to day administration of its affairs and grounds maintenance of Cobtree Manor Park. The Council recharges the cost of providing these services to Cobtree Manor Park, but does not seek to generate a surplus from the arrangement.

#### **4 - ASSUMPTIONS MADE ABOUT THE FUTURE & OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's financial statements at 31<sup>st</sup> March 2019 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

<b>Balance</b>	<b>Source of Uncertainty</b>	<b>Effect if actual results differ from assumptions</b>
<b>Asset valuations &amp; depreciation</b>	<p>Asset valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets and investment properties.</p> <p>The Council's external valuers provided valuations for the Council's entire investment portfolio and a proportion of its operational portfolio. The remaining balance of operational properties was also reviewed to ensure values were reflective of current appropriate values.</p> <p>Assets are depreciated over useful lives which are based on the level of repairs and maintenance that will be incurred in relation to individual assets. If current spending on repairs and maintenance were to be reduced, this could affect a change to useful lives assigned to the assets.</p>	<p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement (CIES). If the value of the Council's property portfolio were to reduce by 10%, this would result in a change of approximately £6.5m.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p> <p>Depreciation charges for operational buildings will change in direct relation to changes in estimated fair value. Furthermore, if the useful life of assets is reduced the annual depreciation charge increases and the carrying amount of the asset</p>

<b>Balance</b>	<b>Source of Uncertainty</b>	<b>Effect if actual results differ from assumptions</b>
		falls. It is estimated that the annual depreciation charge for buildings would increase by £1.0m for every year that useful lives had to be reduced.
<b>Pensions Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Barnett Waddingham) is engaged to provide the Council with expert advice about the assumptions to be applied.	The effect on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £3.260m. However, the assumptions interact in complex ways. A one year increase in the mortality age rating assumption would result in an increase to the pension liability of £6.676m.
<b>Arrears</b>	At 31st March 2019 the Council had a balance of sundry debtors for £15.904m. A review of significant balances suggested that an impairment allowance for bad debts of £3.630m was appropriate. There is uncertainty as to whether or not such an allowance is sufficient.	If collection rates were to deteriorate, a 50% increase in the level of impairment required for doubtful debts would require an additional £1.5m to be set aside as an allowance.
<b>Non-Domestic Rates Appeals</b>	The Collection Fund is liable for potential losses arising from appeals against the rateable value of business premises. A provision of £4.715m has therefore been created to recognise current and backdated appeals. The council's share of the provision of £1.886m is reflected on the balance sheet. This is deemed to be appropriate as it	If the yield losses from successful appeals were to increase by 10%, an additional provision of £0.471m would be required overall, and the council's share of the provision would increase by £0.188m.

<b>Balance</b>	<b>Source of Uncertainty</b>	<b>Effect if actual results differ from assumptions</b>
	<p>is based on a detailed analysis of information provided by the VOA.</p> <p>There is uncertainty regarding the value of potential losses against the 2017 valuation list. A provision of 2.1p per pound of rateable value is reflected in the above total.</p>	
<b>Brexit</b>	The planned deadline for Britain's exit from the EU has been extended to 31 October 2019. The exact timing and nature of Britain's departure from the EU remain uncertain. Current assumptions underlying asset valuations and pensions liability assume no significant impact from Brexit.	Depending on the circumstances of Britain's departure from the EU, it is possible that asset values may fall and/or that assumptions underlying the assessment of pensions liabilities may alter.

## 5 - ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

International Accounting Standard 8 requires the Council to disclose the expected impact of new standards that have been issued, but not yet adopted.

Accounting Standards that have been issued, but not yet adopted include:

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

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

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

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

## 6 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS & FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

### General Fund Balance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

### Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

### **Capital Grants Unapplied**

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which it can take place.

2018/19	Usable Reserves		
	General Fund balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
<b>Adjustments to the Revenue Resources</b>			
Amounts by which income and expenditure included in the Comprehensive Income & Expenditure Statement are different from the year calculated in accordance with statutory requirements:			
Pensions Costs (transferred to (or from) the Pensions Reserve)		(3,301)	
Council Tax and NDR (transfers to or from the Collection Fund Adjustment Account)		1,101	
Holiday Pay (transferred to the Accumulated Absences Account)		5	
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)		(6,522)	
<b>Total Adjustments to Revenue Resources</b>	<b>(8,716)</b>	<b>0</b>	<b>0</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	698	0	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	521		
Capital expenditure finance from revenue balances (transfer to the Capital Adjustment Account)	3,749		
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>4,968</b>	<b>0</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure		0	
Application of capital grants to finance capital expenditure	1,368		
<b>Total Adjustments to Capital Resources</b>	<b>1,368</b>	<b>0</b>	<b>0</b>
<b>Total Adjustments</b>	<b>(2,381)</b>	<b>0</b>	<b>0</b>

<b>2017/18 Comparative Figures</b>	<b>Usable Reserves</b>		
	<b>General Fund balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Capital Grants Unapplied £000</b>
<b>Adjustments to the Revenue Resources</b>			
Amounts by which income and expenditure included in the Comprehensive Income & Expenditure Statement are different from the year calculated in accordance with statutory requirements:			
Pensions Costs (transferred to (or from) the Pensions Reserve)	3,651		
Council Tax and NDR (transfers to or from the Collection Fund Adjustment Account)	(2,871)		
Holiday Pay (transferred to the Accumulated Absences Account)	(5)		
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	7,448		
<b>Total Adjustments to Revenue Resources</b>	<b>8,223</b>	<b>0</b>	<b>0</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(892)	897	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(654)		
Capital expenditure finance from revenue balances (transfer to the Capital Adjustment Account)	(10,274)		
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(11,820)</b>	<b>897</b>	<b>0</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	(811)		
Application of capital grants to finance capital expenditure	(1,541)	(63)	
<b>Total Adjustments to Capital Resources</b>	<b>(1,541)</b>	<b>(811)</b>	<b>(63)</b>
<b>Total Adjustments</b>	<b>(5,138)</b>	<b>86</b>	<b>(63)</b>

## Accounting Policy – Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation & impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible non-current assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation.

## 7 – EARMARKED RESERVES

Within the General Fund balance of £15.054m at the end of the year the Council maintains a number of Earmarked Reserves for specific purposes as follows:

	31st March Contributions 2018 (Restated) £000	to/from Balances £000	31st March 2019 £000
New Homes Bonus funding for Capital Local Plan Review	1,404 200	(1,404) 64	(0) 200
Neighbourhood Planning	70	(6)	64
Planning Appeals	0	300	300
Trading Accounts	51	(20)	31
Civil Parking Enforcement	482	(63)	419
Future Capital Expenditure	0	431	431
Housing Prevention & Temporary Accommodation	0	700	700
Business Rates Growth	692	2,990	3,682
<b>Total Earmarked Reserves</b>	<b>2,899</b>	<b>2,928</b>	<b>5,828</b>
Unallocated Balances	9,627	(401)	9,226
<b>Total General Fund Reserves</b>	<b>12,526</b>	<b>2,527</b>	<b>15,054</b>

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

### Description of Earmarked Reserves:

**New Homes Bonus funding for Capital** – the Council has chosen to set aside this funding from central government to fund large scale infrastructure projects in the capital programme.

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

**Neighbourhood Planning** – this is funding from central government to support the production of local Neighbourhood Plans.

**Trading Accounts** – these are ring-fenced surpluses from trading areas within the Council that by statute can only be used within these areas.

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

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

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

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

### **Accounting Policy - Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

The Council has created a series of Earmarked Reserves to manage more effectively the resources set aside for specific activities.

Certain reserves are kept to manage the accounting process for non-current assets, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

## **8 - MATERIAL ITEMS OF INCOME & EXPENSE**

There are no material items of income and expenditure that are not detailed in the notes below.

## **9 - OTHER OPERATING EXPENDITURE**

These are corporate items of income and expenditure that cannot reasonably be allocated or apportioned to services.

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

## **10 - FINANCING AND INVESTMENT INCOME & EXPENDITURE**

These are corporate items of income and expenditure arising from the Council's involvement in financial instruments and similar transactions involving interest and investment properties.

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

## **11 - TAXATION & NON-SPECIFIC GRANT INCOMES**

This note consolidates all the grants and contributions receivable, including those that cannot be identified to particular service expenditure.

<b>Credited to Taxation &amp; Non Specific</b>			
<b>Grant Income</b>	<b>2017/18</b>	<b>2018/19</b>	
	<b>£000</b>	<b>£000</b>	
Council tax income	16,839	17,354	
Income from Retained Business Rates	22,386	24,192	
Tariff Payable	(18,060)	(18,602)	
Levy Payable	(91)	(120)	
Non-ringfenced Government Grants	4,678	3,219	
<b>Total</b>	<b>25,752</b>	<b>26,043</b>	

<b>Credited to Services</b>			
Housing Benefit Subsidy	45,760	45,834	
Non-Domestic Rates - Cost of Collection	204	206	
Council Tax Administration	158	152	
New Legislation	322	0	
Other Grants	1,083	591	
<b>Total</b>	<b>47,527</b>	<b>46,784</b>	

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

### **Accounting Policy – Government Grants & Contributions**

Whether paid on account, by instalments or in arrears, government grants, third party contributions and donations are recognised as due to the Council when there is a reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants and contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income & Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or condition are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation & Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income & Expenditure Statement.

Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital

expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## 12 - TRADING OPERATIONS

The Council has established a number of trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of those units are as follows:

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

## 13 - MEMBERS' ALLOWANCES

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

The Council also produces a statement, in accordance with provision 1021 – 15(3) of the Local Authorities (Members Allowance) (England) Regulations 2003, giving details of allowances paid to Members for the year. This can be viewed on the Council's website:

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

## 14 - OFFICERS REMUNERATION

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

<b>2018/19</b>	<b>Salary (Including Fees) £000</b>	<b>Other Payments, Allowances &amp; Benefits in Kind £000</b>	<b>Total Remuneration excluding Pension Contributions £000</b>	<b>Pension Contributions £000</b>	<b>Total Remuneration including Pension Contributions £000</b>
Chief Executive	127	9	136	19	<b>155</b>
Director of Finance & Business					
Improvement	102	1	103	14	<b>117</b>
Director of Regeneration & Place	102	2	104	14	<b>118</b>
Director of Mid-Kent Services	90	2	92	13	<b>105</b>

<b>2017/18</b>	<b>Salary (including Fees &amp; Allowances) £000</b>	<b>Other Payments, Allowances &amp; Benefits in Kind £000</b>	<b>Total Remuneration excluding Pension Contributions £000</b>	<b>Pension Contributions £000</b>	<b>Total Remuneration including Pension Contributions £000</b>
Chief Executive	123	16	139	19	<b>158</b>
Director of Finance & Business					
Improvement	100	1	101	14	<b>115</b>
Director of Regeneration & Place	100	2	102	14	<b>116</b>
Director of Mid-Kent Services	86	2	88	12	<b>100</b>

Senior Officers are defined as those who sit on the Corporate Leadership Team. There are no other officers who report directly to the Chief Executive and receive more than £50,000 remuneration for the year.

The Director of Mid-Kent Services is jointly funded with Swale and Tunbridge Wells Borough Councils, each making equal contributions. Therefore Maidstone's share of the salary is one-third of the value above (£34,000).

The Monitoring Officer (Head of Mid Kent Legal Services) also sits on the Corporate Leadership Team but is paid by Swale Borough Council. Details of her remuneration are therefore within their accounts.

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

<b>Remuneration Band</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>No.of employees</b>	<b>No.of employees</b>
£50,000 - £54,999	5	5
£55,000 - £59,999	5	7
£60,000 - £64,999	3	4
£65,000 - £69,999	1	3
£70,000 - £74,999	2	1
£75,000 - £79,999	1	0
£80,000 - £84,999	2	3
£85,000 - £89,999	0	0
£90,000 - £94,999	0	0

### Exit Packages

The number of exit packages with total cost per band and the total cost of the compulsory and other redundancies are set out in the table below:

Exit Package Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
			£000	£000	£000	£000		
£0 - £20,000	0	0	0	0	0	0	0	0
£20,001 - £80,000	0	1	0	2	0	3	0	121
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>121</b>

### 15 - EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's external auditors, Grant Thornton UK LLP.

	<b>2017/18</b>	<b>2018/19</b>
	<b>£000</b>	<b>£000</b>
Fees payable with regard to external audit services carried out by the appointed auditor for the year	48	38
Rebate from Public Sector Audit Appointments Ltd.	(8)	0
Fees payable for the certification of grant claims and returns during the year	14	20
<b>Total</b>	<b>54</b>	<b>58</b>

## 16 – CAPITAL GRANTS RECEIPTS IN ADVANCE

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

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

## 17 - RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### Central Government

Central government has effective control over the general operations of the Council- it is responsible for providing the statutory framework within which the Council operates, and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 1 – the Expenditure & Funding Analysis.

### Members and Senior Officers

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' Allowances paid in 2018/19 is shown in Note 13.

All Members and Senior Officers were required to complete a declaration of interests that included details of any finance-related transactions with the Council. There were no declarations of significance.

The Director of Regeneration and Place and Head of Housing and Community Services are both Directors of Maidstone Property Holdings Ltd, which is a wholly owned subsidiary of the Council. The Balance Sheet as at 31st March 2019, reflects £75,313 which is payable from Maidstone Property Holdings to Maidstone Borough Council, relating to income and expenditure for the 2018/19 financial year.

## 18 - PROPERTY, PLANT & EQUIPMENT

### Movements on Balances

Movements in 2018/19	£'000	Infrastructure Assets	£'000	Land & Buildings	£'000	Plant, Machinery & Equipment	£'000	Vehicles	£'000	IT & Office Equipment	£'000	Community Assets	£'000	Assets Under Construction	£'000	Total Property, Plant & Equipment	£'000
<b>Cost or Valuations</b>																	
At 1st April 2018	4,321	53,253	14,465	1,724	4,802	3,241	4,454									<b>86,260</b>	
Additions	33	5,287	300	216	69	222	4,091									<b>10,218</b>	
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	9,385	0	0	0	0	0									<b>9,385</b>	
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(89)	0	0	0	0	0									(89)	
Derecognition of assets	0	(40)	(902)	(359)	(46)	(30)	0									(1,377)	
Other movements in cost or valuation *	0	(2,714)	36	(36)	0	0	0									(2,714)	
At 31st March 2019	4,354	65,082	13,899	1,545	4,825	3,433	8,545									<b>101,683</b>	
<b>Accumulated Depreciation &amp; Impairment</b>																	
At 1st April 2018	(3,147)	(3,298)	(6,907)	(1,174)	(2,899)	0	0									(17,425)	
Depreciation charge	(228)	(3,423)	(868)	(209)	(410)	0	0									(5,138)	
Depreciation written out to the Revaluation Reserve	0	2,381	0	0	0	0	0									2,381	
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	333	0	0	0	0	0									333	
Derecognition of assets	0	0	886	277	40	0	0									1,203	
At 31st March 2019	(3,375)	(4,007)	(6,889)	(1,106)	(3,269)	0	0									(18,646)	
<b>Net Book Value</b>																	
<b>At 31st March 2019</b>	<b>979</b>	<b>61,075</b>	<b>7,010</b>	<b>439</b>	<b>1,556</b>	<b>3,433</b>	<b>8,545</b>									<b>83,038</b>	
At 31st March 2018	1,174	49,954	7,558	550	1,903	3,241	4,454									<b>68,835</b>	

\* This represents the reversal of accumulated depreciation written out for assets that have subsequently been revalued during the year

<b>Movements in 2017/18 (Restated)</b>	<b>£000</b>	<b>Infrastructure Assets</b>	<b>Land &amp; Buildings</b>	<b>Plant, Machinery &amp; Equipment</b>	<b>Vehicles</b>	<b>IT &amp; Office Equipment</b>	<b>Community Assets</b>	<b>Assets Under Construction</b>	<b>Total Property, Plant &amp; Equipment</b>
<b>Cost or Valuations</b>									
At 1st April 2017	4,318	48,467	13,404	1,248	4,787	3,167	5,666	<b>81,057</b>	
Additions	7	3,860	1,063	476	18	74	2,023	<b>7,521</b>	
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	2,434	0	0	0	0	0	<b>2,434</b>	
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(396)	0	0	0	0	0	<b>(396)</b>	
Transfers between categories	0	(57)	0	0	0	0	0	<b>(57)</b>	
Other movements in cost or valuation	(4)	(1,055)	(2)	0	(3)	0	(3,235)	<b>(4,299)</b>	
At 31st March 2018	4,321	53,253	14,465	1,724	4,802	3,241	4,454	<b>86,260</b>	
<b>Accumulated Depreciation &amp; Impairment</b>									
At 1st April 2017	(2,936)	(4,657)	(5,983)	(788)	(2,471)	0	0	<b>(16,835)</b>	
Depreciation charge	(211)	(2,931)	(924)	(386)	(428)	0	0	<b>(4,880)</b>	
Depreciation written out to the Revaluation Reserve	0	3,684	0	0	0	0	0	<b>3,684</b>	
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	606	0	0	0	0	0	<b>606</b>	
Transfers between categories	0	0	0	0	0	0	0	<b>0</b>	
At 31st March 2018	(3,147)	(3,298)	(6,907)	(1,174)	(2,899)	0	0	<b>(17,425)</b>	
<b>Net Book Value</b>									
<b>At 31st March 2018</b>	<b>1,174</b>	<b>49,954</b>	<b>7,558</b>	<b>550</b>	<b>1,903</b>	<b>3,241</b>	<b>4,454</b>	<b>68,835</b>	
At 31st March 2017	1,382	43,810	7,421	460	2,316	3,167	5,666	<b>64,222</b>	

Figures in the Land and Buildings column have been restated to reflect the reversal of accumulated depreciation written out for assets that have subsequently been revalued during the year.

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

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

As Land & Buildings form the most significant element of Property, Plant & Equipment a more detailed analysis of the assets is shown in the table below, sub-totalled by asset class.

<b>Analysis of Land &amp; Buildings Movements 2018/19</b>	<b>Car Parks</b>	<b>Cemetery &amp; Crematorium</b>	<b>Depots, Workshops &amp; Toolsheds</b>	<b>Halls</b>	<b>Housing</b>	<b>Land</b>	<b>Leisure Centres &amp; Pools</b>	<b>Markets</b>	<b>Museums &amp; Galleries</b>	<b>Parks &amp; Open Spaces</b>	<b>Public Conveniences</b>	<b>Residential / Commercial</b>	<b>Theatres</b>	<b>Town Hall</b>	<b>Total Land &amp; Buildings</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
<b>Cost or Valuations</b>															
At 1st April 2018	7,401	1,639	1,833	3,424	5,173	197	8,100	1,050	12,295	643	1,680	4,808	3,960	1,050	53,253
Additions	13	557	22	11	4,434	0	0	9	22	0	0	0	212	7	5,287
Revaluation increases/(decreases) recognised in the Revaluation Reserve	6,325	0	0	0	0	0	2,307	0	0	319	0	0	434	0	9,385
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	(89)	0	0	0	0	0	0	0	0	0	(89)
Derecognition of Assets	0	(14)	0	0	(12)	0	0	0	(14)	0	0	0	0	0	(40)
Other movements in cost or valuation	0	0	0	0	(333)	0	(1,846)	0	0	(214)	0	0	(321)	0	(2,714)
At 31st March 2019	13,739	2,182	1,855	3,435	9,173	197	8,561	1,059	12,303	748	1,680	4,808	4,285	1,057	65,082
<b>Accumulated Depreciation &amp; Impairment</b>															
At 1st April 2018	12	(202)	15	(65)	(652)	(39)	(1,515)	(10)	(97)	(118)	(203)	(389)	(28)	(8)	(3,298)
Depreciation charge	0	(67)	(91)	(361)	(952)	0	(398)	(53)	(583)	(113)	(101)	(489)	(176)	(41)	(3,423)
Depreciation written out to the Revaluation Reserve	0	0	0	0	0	0	1,845	0	0	214	0	0	322	0	2,381
in the Surplus/Deficit on the Provision of Services	0	0	0	0	333	0	0	0	0	0	0	0	0	0	334
Other movements in cost or valuation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
At 31st March 2019	12	(269)	(75)	(427)	(1,271)	(39)	(68)	(63)	(679)	(18)	(304)	(878)	118	(49)	(4,007)
<b>Net Book Value</b>															
<b>At 31st March 2019</b>	<b>13,751</b>	<b>1,913</b>	<b>1,779</b>	<b>3,009</b>	<b>7,902</b>	<b>158</b>	<b>8,492</b>	<b>996</b>	<b>11,623</b>	<b>730</b>	<b>1,376</b>	<b>3,930</b>	<b>4,403</b>	<b>1,008</b>	<b>61,075</b>
At 31st March 2018	7,413	1,437	1,848	3,359	4,522	158	6,585	1,040	12,198	525	1,477	4,419	3,932	1,042	49,954

<b>Analysis of Land &amp; Buildings Movements 2017/18 (Restated)</b>	<b>Car Parks</b>	<b>Cemetery &amp; Crematorium</b>	<b>Depots, Workshops &amp; Toolsheds</b>	<b>Halls</b>	<b>Housing</b>	<b>Land</b>	<b>Leisure Centres &amp; Pools</b>	<b>Markets</b>	<b>Museums &amp; Galleries</b>	<b>Parks &amp; Open Spaces</b>	<b>Public Conveniences</b>	<b>Residential / Commercial</b>	<b>Theatres</b>	<b>Town Hall</b>	<b>Total Land &amp; Buildings</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
<b>Cost or Valuations</b>															
At 1st April 2017	6,662	1,505	1,748	2,864	1,462	197	8,071	1,050	14,042	583	1,680	3,385	4,085	1,133	48,467
Additions		133			3,697		29								3,860
Revaluation increases/(decreases) recognised in the Revaluation Reserve			247	1,521				128	70	60			302	106	2,434
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services					(396)										(396)
Other movements in cost or valuation	739		(162)	(961)	409			(128)	(1,817)		1,423	(427)	(189)	(1,112)	
<b>At 31st March 2018</b>	<b>7,401</b>	<b>1,639</b>	<b>1,833</b>	<b>3,424</b>	<b>5,173</b>	<b>197</b>	<b>8,100</b>	<b>1,050</b>	<b>12,295</b>	<b>643</b>	<b>1,680</b>	<b>4,808</b>	<b>3,960</b>	<b>1,050</b>	<b>53,253</b>
<b>Accumulated Depreciation &amp; Impairment</b>															
At 1st April 2017	12	(135)	(56)	(618)	(438)	(39)	(1,136)	(85)	(1,331)	(125)	(102)	(168)	(280)	(156)	(4,657)
Depreciation charge		(67)	(91)	(319)	(552)		(379)	(53)	(583)	(83)	(101)	(489)	(176)	(41)	(2,931)
Depreciation written out to the Revaluation Reserve			162	871				128	1,817	90			427	189	3,684
in the Surplus/Deficit on the Provision of Services					338							268			606
Other movements in cost or valuation															0
<b>At 31st March 2018</b>	<b>12</b>	<b>(202)</b>	<b>15</b>	<b>(65)</b>	<b>(652)</b>	<b>(39)</b>	<b>(1,515)</b>	<b>(10)</b>	<b>(97)</b>	<b>(118)</b>	<b>(203)</b>	<b>(389)</b>	<b>(28)</b>	<b>(8)</b>	<b>(3,298)</b>
<b>Net Book Value</b>															
<b>At 31st March 2018</b>	<b>7,413</b>	<b>1,437</b>	<b>1,848</b>	<b>3,359</b>	<b>4,522</b>	<b>158</b>	<b>6,585</b>	<b>1,040</b>	<b>12,198</b>	<b>525</b>	<b>1,477</b>	<b>4,419</b>	<b>3,932</b>	<b>1,042</b>	<b>49,954</b>
At 31st March 2017	6,674	1,370	1,692	2,246	1,024	158	6,935	965	12,711	458	1,578	3,217	3,805	977	43,810

Community Assets have all previously been revalued at £1 each, in accordance with the accounting policy set out below. The Code of Practice on Local Authority Accounting requires Community Assets to be recorded on the Balance Sheet at Historic Cost. Due to the age and nature of many of the Community Assets it is not possible to ascertain an accurate historical cost, but expenditure incurred is now added to the value of the asset. Any expenditure on Community Assets was previously written off as Revenue Expenditure charged to Capital under Statute.

The Code of Practice also requires that material classes of assets within Property, Plant & Equipment are now valued together and disclosed separately within the Statement, and this analysis is shown in the table on the previous page.

### **Capital Commitments**

As at 31<sup>st</sup> March 2019 the Council had the following capital commitments:

<b>Project</b>	<b>£000</b>
Brunswick Street housing development	7,173
Union Street housing development	4,939

### **Revaluations**

The Council carries out a rolling programme that ensures that all Property, Plant & Equipment required to be measured at current value is revalued at least every 5 years. All valuations were carried out externally by Harrisons Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of RICS. The latest revaluations were carried out as at 31<sup>st</sup> January 2019 in accordance with the requirements of the Code of Practice, and are considered to be materially accurate at the Balance Sheet date.

The table also shows the historic cost values of the various asset classes, which were established at 1<sup>st</sup> April 2007 when the current capital accounting requirements came into force.

	<b>Infrastructure Assets</b> <b>£000</b>	<b>Community Assets</b> <b>£000</b>	<b>Land &amp; Buildings</b> <b>£000</b>	<b>Plant, Machinery &amp; Equipment</b> <b>£000</b>	<b>Vehicles</b> <b>£000</b>	<b>IT &amp; Office Equipment</b> <b>£000</b>	<b>Assets Under Construction</b> <b>£000</b>	<b>Total</b> <b>£000</b>
Carried at historical cost	4,354	3,433	1,024	13,899	1,545	4,825	8,545	37,625
Valued at current value as at:								
31st March 2015				1,573				1,573
31st March 2016				1,592				1,592
31st March 2017				5,058				5,058
31st March 2018				29,650				29,650
31st March 2019				26,185				26,185
Total Cost or Valuation	<b>4,354</b>	<b>3,433</b>	<b>65,082</b>	<b>13,899</b>	<b>1,545</b>	<b>4,825</b>	<b>8,545</b>	<b>101,683</b>

## **Accounting Policy – Property, Plant & Equipment**

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant & Equipment is capitalised on an accruals basis in the accounts, provided that the asset value is over £10,000 and yields benefits to the Council and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of non-current assets which is charged directly to service revenue accounts.

### **Measurement**

Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in manner intended by management.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, Community Assets and Assets Under Construction - Depreciated Historical Cost
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every 5 years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income & Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income & Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income & Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income & Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss has not been recognised.

### **Depreciation**

Depreciation is provided for on all Property, Plant & Equipment assets by the systematic allocation of depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the useful life of the property as estimated by a suitably qualified officer. The useful lives range from 4 to 20 years.
- Vehicles, Plant, Furniture & Equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- Infrastructure - straight-line allocation over 20 years.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and depreciation that would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **19 - INVESTMENT PROPERTIES**

The following table summarises the movement in the fair value of investment properties over the year:

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

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

In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

The fair value for the council's investment property portfolio has been based on the market approach using current market conditions and recent sales or lettings evidence and other relevant information for similar assets in Maidstone Borough, or other suitably comparable locations. Where appropriate, adjustments have been made to the comparable evidence to relate these directly to the subject properties. Market conditions are such that similar properties are actively sold or let and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

There has been no change in the valuation techniques used during the year for investment properties.

### **Accounting Policy – Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset from the market participant's perspective. Investment properties are not depreciated and an annual valuation programme ensures that they are held at highest and best use value at the Balance Sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line

in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **Accounting Policy – Fair Value Measurement**

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council uses external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of a market participant.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

## 20 – HERITAGE ASSETS: RECONCILIATION OF THE CARRYING VALUE HELD BY THE COUNCIL

Cost or Valuation	Museum Exhibits £000	War Memorials £000	Statues & Sculptures £000	Other Items £000	Total Assets £000
1st April 2018	9,090	480	515	308	10,393
Additions				0	0
Disposals				0	0
<b>31st March 2019</b>	<b>9,090</b>	<b>480</b>	<b>515</b>	<b>308</b>	<b>10,393</b>
1st April 2017	9,090	480	515	308	10,393
Additions				0	0
Disposals				0	0
<b>31st March 2018</b>	<b>9,090</b>	<b>480</b>	<b>515</b>	<b>308</b>	<b>10,393</b>

### Museum Exhibits

The exhibits are held in two main locations, the Maidstone Museum & Bentlif Art Gallery, and the Carriage Museum. Further information on the museums and their collections can be seen on their dedicated website:

<http://www.museum.maidstone.gov.uk/>

The total of £9.090m represents those items that have formally been valued as at 1<sup>st</sup> April 2011 for insurance purposes by a number of reputable auction houses. The value of the total collection is likely to be far higher, and is valued for insurance purposes at £17.0m (which includes items on loan to the Council, and those held in Trust at the Museum), but it is considered that it would not be cost-effective or of any significant benefit to formally value the entire collection. The value is reviewed on an annual basis for insurance purposes.

### War Memorials

The Council is responsible for two war memorials, one in the Broadway and the other in Brenchley Gardens. A local stone mason has provided a replacement value for the two memorials. Upkeep and maintenance of the memorials is the responsibility of the Council's Property Services section.

### Statues and Sculptures

There are a number of statues and sculptures throughout the borough that the Council are responsible for. These are in a number of locations, and have been valued at their purchase cost, where this is known, although none of them individually have a significant value.

### Other Items

This relates to two items, the civic regalia used by the Mayor, and the 'Elemental' art installation on the bridge across the River Medway. The civic regalia have been valued by a local jeweller for insurance purposes, and the art installation has been valued at purchase cost.

### **Listed Buildings and Other Heritage Assets**

The Old College complex, comprising the Gateway, the Master's Tower and the Quarterdeck has been classified as a heritage asset. However due to the age and nature of the buildings it is not possible to ascertain an accurate valuation.

In addition the Council owns a number of other assets. These have not been valued as it would not be cost-effective in terms of time and financial resources to do so. These include the balance of the museum exhibits referenced earlier in this note.

### **Accounting Policy – Heritage Assets**

#### **Tangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)**

The Council's Heritage Assets are held principally for their contribution to knowledge and/or culture. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses and impairments) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets, and the valuation methods applied are as follows:

- Replacement Cost
- Purchase Cost
- Insurance Valuation

Where it is considered impractical (in terms of cost and/or benefit) to obtain a valuation there is no requirement to do so, but any assets that are treated in this way must be disclosed in the Heritage Assets note.

## 21 - FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Short-Term	
	31st March	31st March	31st March	31st March
	2018	2019	2018	2019
	£000	£000	£000	£000
<b>Treasury Investments</b>				
Financial Assets at Amortised Cost	0	2,000	0	13,014
Loans & Receivable	0	0	17,400	0
	0	2,000	17,400	13,014
<b>Non-Treasury Investments</b>				
Service Loans	25	61	0	12
<b>Debtors</b>				
Financial assets at amortised cost	40	84	9,560	12,961
<b>Creditors</b>				
Financial liabilities at amortised cost	0	0	5,578	11,473
<b>Other Long Term Liabilities</b>				
Finance Lease Liabilities at amortised cost	3,057	2,527	521	520

On the face of the Balance Sheet Financial Assets at Amortised Cost are split in Current Assets between Short Term Investments and Cash & Cash Equivalents. £13m short term investments treasury investments are invested in local authorities with a small amount of cash with highly rated banks. Long term investments is another £2m with a local authority. The Non-Treasury Investments consist of two service loans to third parties, Kent Savers £25k and One Maidstone £48k (Business Improvement District Levy). The Council has no loans or long-term creditors, and the fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

### Income & Expense

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

## Adoption of IFRS 9

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

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

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

## Accounting Policy – Financial Instruments

### Financial Liabilities:

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Interest is charged to the Financing and Investment Income & Expenditure line in the Comprehensive Income & Expenditure Statement.

### Financial Assets:

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

- Deposits with financial institutions and local authorities
- Money Market Funds; and
- Service Loans.

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

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

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

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

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

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

### **Fair Value**

Inputs to the measurement techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities
- Level 2 – fair value is calculated from inputs other than those quoted prices, that are observable for the asset or liability
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

All valuations on Council's investments uses level 2.

The accounts are required to show the fair value of the financial assets held by the Council. Fair value is defined as the amount for which an asset could be exchanged assuming that the transaction was negotiated between parties

knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

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

	31st March 2018		Fair Value	31st March 2019	
	Book Value £000	Fair Value £000	Level	Book Value £000	Fair Value £000
Long Term Investments	0	0	2	2,019	2,018
Short Term Investments (less than 1 yr)	17,430	17,430	2	13,050	13,050
<b>Total</b>	<b>17,430</b>	<b>17,430</b>		<b>15,069</b>	<b>15,068</b>

## 22 - NATURE & EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The council has adopted the Treasury Management in Public Services: Code of Practice 2011 Edition ('the Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Its overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Director of Finance & Business Improvement and the Finance Manager, under policies approved by the Council on 7 March 2018 in the Annual Treasury Management Strategy, which can be viewed on the Council's website – <http://www.maidstone.gov.uk> A summary of the main points of the 2018/19 Treasury Management Strategy is also shown below.

The Council also provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These are set out in the Council's Treasury Management Practices, which are a requirement of CIPFA's Treasury Management Code of Practice, which has been adopted by the Council. Treasury Management indicators have also been set to control key financial instruments risks in accordance with CIPFA's Prudential Code. The Treasury Management Practices can also be viewed on the Council's website, at the above link.

### Treasury Management Strategy 2018/19

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

- to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate;
- to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered. Greater use of Local Authority investments will be sought due to the high security of the borrower which enables

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

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice.

There are no credit limits set on the Council's customers, as the amounts involved are not considered sufficiently material to warrant the setting of such limits.

As at 31<sup>st</sup> March 2019 investments were held with the following institutions:

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

### Liquidity Risk

Liquidity risk arises from the Council having insufficient resources to meet its on-going commitments. The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money market, other local authorities and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. A borrowing provision of £4m exists for short term cash flow purposes, and there is also an overdraft facility of £0.5m available with Lloyds Bank. However, provision has also been made with the current Treasury Management Strategy to have an authorised debt limit of £14m (£10m for capital programme) to fund on-going schemes in the event of projected capital receipts not being realised. This was not needed during the year.

## Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments to provide stability of maturities and returns in relation to the longer term cash flow needs.

## Market Risk – Interest Rate Risk

As the Council did not find itself needing to borrow funds during 2018/19, except in the short term for cash flow reasons, its only risk is in relation to exposure to interest rate movements in its investments. This exposure is managed by use of Prudential Indicators, which set limits on the proportion of investments held at fixed and variable rates. These indicators are monitored on a daily basis. The main exposure to risk in this area is the use of investment Call Accounts and Money Market Funds which are linked to Base Rate. However, the risk is considered to be small as these accounts are generally only used for the short-term investment of funds for cash flow purposes, and funds can be withdrawn on a daily basis. The risk exposure is summarised in the table below.

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure.

The Council also makes use of interest rate forecasts and market data and advice provided by its Treasury Management advisors to ensure that investment income is maximised wherever possible.

### **Foreign Exchange Risk**

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

## **23 – DEBTORS**

### **Short Term Debtors**

	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Central government bodies	1,106	5,385
Other local authorities	4,159	3,303
Other entities and individuals	12,736	16,293
<b>Total</b>	<b>18,001</b>	<b>24,980</b>

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

### **Allowance for Bad Debts**

	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Excess Charges Impairment Allowance	625	635
Sundry Bad Debts Impairment Allowance	3,085	3,628
<b>Total</b>	<b>3,710</b>	<b>4,263</b>

The figure on the balance sheet represents Debtors less Provision for Bad Debts, which totals £20.71m.

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

	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Council Tax payers	948	1,050
Business Rate payers	1,358	1,603
Capital debtors	491	23
General debtors	8,280	11,997
Payments in Advance	696	678
Other miscellaneous amounts	963	941
<b>Total</b>	<b>12,736</b>	<b>16,293</b>

## 24 - CASH & CASH EQUIVALENTS

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

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

## Accounting Policy – Cash & Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

## 25 – CREDITORS

### Short Term

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

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

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

Other entities and individuals are broken down as follows:

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

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

## 26 - PROVISIONS

### Provision for Appeals

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

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

A provision has also been established to allow for costs that could arise from potential planning appeals.

The provision is split between long-term and short-term liabilities on the Balance Sheet.

## **Accounting Policy – Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant area.

Where some or all of the payment required to settle a provision is expected to be recovered from another party, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

## **27 - TRUST FUNDS**

The Council is required to set out details of the nature and amount of trust funds where it acts as sole trustee, the only one of which is the Cobtree Manor Estate. The object of this trust is to hold Cobtree Manor and Cobtree Manor Estate for the benefit of the inhabitants of Maidstone and other members of the general public.

The assets and liabilities of the Trust as at 31<sup>st</sup> March 2019 are summarised in the following table. The figures for 2017/18 are the audited figures, which differ from those in the 2017/18 Statement of Accounts, as the audit took place after that was published.

	<b>2017/18</b> <b>£000</b>	<b>2018/19</b> <b>£000</b>
<b>Fixed Assets:</b>		
Intangible Assets	13	0
Tangible Assets	2,509	2,675
Investment Property	825	825
Investments	856	863
	<b>4,203</b>	<b>4,362</b>
Current Assets	223	122
Current Liabilities	97	289
<b>Total assets less current liabilities</b>	<b>4,329</b>	<b>4,196</b>
<b>Total Charitable Funds</b>	<b>4,329</b>	<b>4,196</b>

Gross expenditure in 2018/19 totalled £691,614 (£611,150 in 2017/18). Gross income in 2018/19 totalled £752,564 (£547,797 in 2017/18).

The accounts of the Trust are subject to a separate external audit.

## 28 - PRIVATE FINANCE INITIATIVES & SIMILAR CONTRACTS

The Council has no Private Finance Initiative Schemes, but the following scheme is a similar contract as it is defined as a service concession arrangement.

The Council entered into an agreement during 2009/10 with Serco, the managing contractor of Maidstone Leisure Centre, to undertake a major refurbishment of the centre. Under the terms of the agreement Serco have initially funded the cost of the works through a loan, and the Council are then repaying this loan over a 15 year term, by equal monthly instalments. The principal element of this loan is reflected on the Balance Sheet, and will be written down annually by the amount of principal repaid. Interest paid on the loan is charged to the Comprehensive Income & Expenditure Statement.

The annual principal repayments are credited to the Comprehensive Income & Expenditure Statement, and then reversed out of the Movement in Reserves Statement to the Capital Adjustment Account to reflect the fact that this is a repayment of debt, as this arrangement is classed as borrowing under the terms of the CIPFA Prudential Code for Capital.

## Payments

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

These figures are shown on the face of the Balance Sheet as Deferred Liabilities, and are split between the Short Term and Long Term elements.

## Accounting Policy – Deferred Liability

Deferred Liabilities are recognised under the terms of IFRIC 12 (IFRS Interpretations Committee) and the arrangement is recognised as a service concession, and accounted for accordingly. This generally involves the grantor (the Council) conveying to the operator (Serco) for the period of the concession the right to provide services that give the public access to major economic and social facilities, in this instance Maidstone Leisure Centre.

## Accounting Policy – Minimum Revenue Provision

The Minimum Revenue Provision (MRP) is a statutory charge relating to the repayment of debt. It represents the Council's underlying need to borrow for capital expenditure. There is a general duty upon the Council to make an amount of MRP which it considers 'prudent'.

The Council has no borrowing, but has identified that it has contractual arrangements that are classified as finance leases under the requirements of IFRIC 4. The repayments under these leases therefore need to be treated as a borrowing arrangement. The MRP amount that is set aside is equivalent to the value of the annual principal repayments on the contracts.

## 29 – CAPITAL RECEIPTS RESERVE

This reserve contains the proceeds from the sale of non-current assets, which are used to fund capital expenditure, and forms part of the Usable Reserves section of the Movement in Reserves Statement. This section also includes Capital Grants Unapplied, Earmarked Reserves and the General Fund Balance.

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

### 30 - UNUSABLE RESERVES

	<b>31st March 2018 (Restated) £000</b>	<b>31st March 2019 £000</b>
Revaluation Reserve	29,120	36,768
Capital Adjustment Account	66,726	68,058
Deferred Capital Receipts Reserve	11	5
Pensions Reserve	(77,618)	(71,481)
Collection Fund Adjustment Account	(2,037)	(935)
Accumulated Absences Account	(184)	(179)
<b>Total Unusable Reserves</b>	<b>16,018</b>	<b>32,235</b>

#### a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant & Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only the revaluation gains accumulated since 1<sup>st</sup> April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	<b>31st March 2018 (Restated) £000</b>	<b>31st March 2019 £000</b>
<b>Balance at 1st April</b>	<b>26,751</b>	<b>29,120</b>
Upward revaluation of assets	2,622	7,831
Downward revaluation of assets	(188)	
Additions and Disposals	(4)	
Difference between fair value depreciation and historical cost depreciation	(61)	(184)
<b>Balance at 31st March</b>	<b>29,120</b>	<b>36,768</b>

### b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income & Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant & Equipment before 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

	<b>31st March 2018 £000</b>	<b>31st March 2019 £000</b>
<b>Balance at 1st April</b>	<b>60,768</b>	<b>66,726</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
Charges for depreciation of non-current assets	(4,880)	(5,138)
Amortisation of intangible assets	(114)	(124)
Prior Year Adjustments	(58)	
Revaluation Gains/Losses on Property, Plant & Equipment	0	(115)
Revenue expenditure funded from capital under statute	(1,109)	(3,247)
Write-off of non-enhancing capital expenditure	(195)	(75)
	<b>(6,356)</b>	<b>(8,699)</b>
Adjusting amounts written out of the Revaluation Reserve	(935)	1,651
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(7,291)</b>	<b>(7,048)</b>
Capital financing applied in the year:		
Sums set aside for Debt Repayment	654	521
Use of the Capital Receipts Reserve to finance new capital expenditure	811	741
Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	1,541	1,367
Capital expenditure charged against the General Fund balance	10,272	5,153
	<b>13,278</b>	<b>7,782</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	(29)	599
<b>Balance at 31st March</b>	<b>66,726</b>	<b>68,058</b>

### c) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income & Expenditure Statement as benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources that the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Opening balance at 1 April	81,534	77,618
Remeasurements of the net defined liability	(7,567)	(9,438)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	7,013	6,865
Employer's pensions contributions	(3,362)	(3,564)
<b>Closing balance at 31 March</b>	<b>77,618</b>	<b>71,481</b>

**d) Collection Fund Adjustment Account**

	<b>31st March</b>	<b>31st March</b>
	<b>2018</b>	<b>2019</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 1st April</b>	4,912	2,037
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income & Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements		
- Council Tax	(388)	205
- Non-domestic Rates	(2,487)	(1,307)
<b>Balance at 31st March</b>	<b>2,037</b>	<b>935</b>

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

### 31 - CAPITAL EXPENDITURE & CAPITAL FUNDING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it.

	2017/18 £000	2018/19 £000
<b>Opening Capital Finance Requirement</b>	<b>3,227</b>	<b>3,227</b>
<b>Capital Investment</b>		
Property, Plant & Equipment	7,521	10,165
Investment Properties	3,657	2,443
Intangible Assets	142	217
Non-enhancing capital expenditure	195	76
Revenue Expenditure Funded from Capital Under Statute	1,109	3,247
	<b>12,624</b>	<b>16,148</b>
<b>Sources of Finance</b>		
Capital receipts	(811)	(741)
Government grants & other contributions	(1,541)	(1,367)
New Homes Bonus	(9,815)	(4,623)
Other Revenue Contributions	(457)	(530)
	<b>(12,624)</b>	<b>(7,262)</b>
Increase in Capital Financing Requirement	0	8,887
<b>Closing Capital Finance Requirement</b>	<b>3,227</b>	<b>12,114</b>

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

#### Accounting Policy – Revenue Expenditure Funded from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of council tax.

## **32 - DEFINED BENEFIT PENSION SCHEMES**

### **Participation in Pension Schemes**

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time the employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS), administered locally by Kent County Council – this is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Due to the adoption of the 2011 amendments to the International Accounting Standard (IAS) 19 Employee Benefits, there are now classes of components of defined benefit cost to be included in the financial statements, i.e. net interest on the net defined benefit liability and re-measurements of the net defined benefit liability.

### **Transactions Relating to Post-employment Benefits**

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income & Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

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

## Curtailments

During the year two former employees became entitled to unreduced early retirement benefits. The capitalised cost of the additional benefits is calculated at £17,000. This figure has been included within the service cost in the statement of profit or loss.

## Settlements

There were no liabilities settled at a cost materially different to the accounting reserve as a result of members transferring to / from another employer over the year (2017/18 £nil).

### Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

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

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

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

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

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

### Local Government Pension Scheme Assets

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

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels, etc.

The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the Kent County Council Pension Fund are based on the full valuation of the scheme as at 31<sup>st</sup> March 2016.

The principal assumptions used by the actuary have been:

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

The long term assumption made by the actuary is that salaries will increase at 1.5% p.a. above CPI. However, a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI has been allowed for, which is broadly in line with the assumptions made by the Council at budget setting stage.

### Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases similarly for men and women. In practice, this is unlikely to occur. Changes in some of the assumptions may also be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumption used in preparing the sensitivity analysis below did not change from those used in the previous period.

<b>Sensitivity Analysis</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Adjustment to discount rate	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	181,919	185,179	188,500
- Projected Service Cost	4,700	4,821	4,945
Adjustment to long-term salary increase	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	185,518	185,719	184,842
- Projected Service Cost	4,821	4,821	4,821
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	188,157	185,179	182,253
- Projected Service Cost	4,945	4,821	4,700
Adjustment to life expectancy assumptions	+1 Year	None	-1 Year
- Present Value of Total Obligation	191,855	185,179	178,735
- Projected Service Cost	4,987	4,821	4,661

#### Transitional Protections:

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

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

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

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

## Scheme History

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

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £71.481m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2020 are £3.382m.

## Accounting Policy – Employee Benefits

### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any type of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Post-Employment Benefits

Employees of the Council are members of the Local Government Pensions Scheme, administered by Kent County Council (KCC). The Scheme is accounted for as a defined benefits scheme:

- The liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate specified by the actuaries (based on the indicative rate of return on high quality corporate bonds.)
- The assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value
- The change in net pensions liability is analysed into the following components:
  - Service cost which comprises:
    - Current service cost – the increase in liabilities as a result of years of service earned in the current year – allocated in the Comprehensive Income & Expenditure Statement to the services for which the employees worked.
    - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement.
    - Net interest on the net defined benefit liability, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing & Investment Income & Expenditure line of the Comprehensive Income & Expenditure Statement.
  - Re-measurements comprising:
    - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This charged to the Pensions Reserve as Other Comprehensive Income & Expenditure.
    - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability. This charged to the Pensions Reserve as Other Comprehensive Income & Expenditure.
  - Contributions paid to the Kent County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The most recent actuarial valuation to determine contributions was on 31 March 2016.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## **33 – LEASES**

### **Finance Leases – Council as Lessee**

The Council currently has a number of arrangements which it classifies as finance leases, including vehicles and the operation of the leisure centre.

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

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

### **Accounting Policy - Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

## **34 – CONTINGENT LIABILITY**

Business Rates: Automated Teller Machines (ATMs):

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

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

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

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

### **Accounting Policy – Contingent Liabilities**

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

## **35 – EVENTS AFTER THE REPORTING PERIOD**

The Statement of Accounts was authorised for issue by the Director of Finance & Business Improvement on 31<sup>st</sup> May 2019. Events taking place after this date are not reflected in the financial statement or notes. Where events taking place before this date provided information about conditions existing at 31<sup>st</sup> March 2019 the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### **Accounting Policy – Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

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

	<b>2017/18 £000</b>	<b>2018/19 £000</b>
Depreciation	(4,881)	(5,138)
Revaluation Gains & Losses	(396)	1,354
Amortisation of Intangible Assets	(114)	(124)
Movement in Creditors	(862)	(7,903)
Movement in Debtors	1,240	5,253
Movement in Inventories	10	(12)
Movement in Pension Liabilities	(3,651)	(3,301)
Other Non-Cash items	414	(2,333)
	<b>(8,240)</b>	<b>(12,203)</b>

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

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

**38 - CASH FLOW STATEMENT – INVESTING ACTIVITIES**

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

**39 - CASH FLOW STATEMENT – FINANCING ACTIVITIES**

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

## COLLECTION FUND STATEMENT & NOTES

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

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of this council in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. Respective shares of Balance Sheet items are consolidated into the accounts of billing and precepting authorities.

## Notes to the Collection Fund

### Note 1 – Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating, for this specific purpose, 1st April 1991 values. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, the Kent Police & Crime Commissioner, Kent Fire & Rescue Authority and this Council for the forthcoming year and dividing this by the Council Tax base which is the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts: 60,921.6 for 2018/19 (59,439.3 for 2017/18) (see table below.) This basic amount of Council Tax for a Band D property, £1,735.24 for 2018/19 (£1,654.93 for 2017/18), is multiplied by the proportion specified for the particular band to give an individual amount due. Parish Precepts are added to this basic amount.

The bands, number of dwellings in each, the multiplier for each and the resultant tax base are detailed in the table below.

<b>Band</b>	<b>Number of Dwellings</b>	<b>Multiplier</b>	<b>Council Tax Base</b>
Band A (incl disabled relief)	-13	5/9	-7.2
Band A	2,502	6/9	1,668.1
Band B	6,160	7/9	4,791.4
Band C	15,103	8/9	13,425.0
Band D	15,903	9/9	15,902.6
Band E	8,706	11/9	10,640.2
Band F	5,078	13/9	7,334.9
Band G	3,781	15/9	6,301.6
Band H	334	18/9	668.6
Other			196.4
			<b>60,921.6</b>

### Note 2 - Business (Non-domestic) Rates

The Council collects Business Rates for its area based on rateable values (as determined by the Valuation Office Agency) and multipliers set by Central Government. There are two multipliers:

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

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

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

A system of Tariff and Top-Up payments operates on the localised shares distributed to local government bodies. A significant proportion of Maidstone's retained share (£18.602m in 2018/19, £18.059m in 2017/18) is subsequently 'top-sliced' and returned to the Government for redistribution across local government.

A further Safety Net or Levy system acts to ensure that any local authority is protected from a net localised business rate yield of less than 92.5% of its Baseline Funding level set by the government. In these circumstances a local authority will receive a Safety Net grant. This grant is paid for by imposing a 50% levy on localised business rate receipts in excess of their Baseline Funding level.

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

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

Business Rates surpluses/deficits declared by the Billing Authority in relation to the Collection Fund are apportioned to the relevant precepting bodies and Government in the subsequent financial year in their respective proportions.

## **GLOSSARY OF TERMS**

### **ACCOUNTING POLICIES**

The specific policies and procedures used by the Council to prepare the Statement of Accounts. These include any methods, measurement systems and procedures for presenting disclosures.

### **ACCOUNTS**

Statement aggregating items of income and expenditure and assets and liabilities. The accounts may show detailed transactions for every activity (generally used for management and control purposes during a financial year) or be summarised to show the overall position at the end of the period. The latter are known as final accounts and show both the net surplus (profit) or deficit (loss) and a balance sheet of the assets, liabilities and other balances at the end of the accounting period. Councils are required to publish a Statement of Accounts as specified in the Accounts and Audit Regulations 2011.

### **ASSETS HELD FOR SALE**

Assets that the Council are actively marketing for sale, and for which there is a reasonable expectation that the sale will take place within one year of the Balance Sheet date.

### **BALANCE SHEET**

A statement of the assets, liabilities and other balances of the Council at the end of an accounting period.

### **BALANCES**

Capital or revenue reserves of the Council made up of the accumulated surplus of income over expenditure on the general fund or any other account. Revenue balances may be utilised to provide for unforeseen circumstances, to ensure that payments can be made pending the receipt of income, and if justified they may be used to reduce the collection fund levy.

### **CAPITAL EXPENDITURE**

Generally, expenditure which is of value to the Council in the provision of services beyond the end of the financial year in which it was incurred, e.g. purchase of land and buildings, construction or improvement of buildings.

### **CAPITAL FINANCING**

The raising of money to pay for capital expenditure. Usually the cost of capital assets is met by borrowing, but capital expenditure may also be financed by other means such as leasing, contributions from the revenue accounts, the proceeds of the sale of capital assets, capital grants, reserves and other contributions.

## **CAPITAL RECEIPTS**

Proceeds from the sale of capital assets. Capital receipts can be used to repay the debt on assets financed from loan or to finance new capital expenditure, subject to compliance with statutory requirements.

## **COLLECTION FUND**

Councils that collect precepts and non-domestic rates on behalf of other authorities are required to maintain a Collection Fund to summarise the collection and payments of precepts, and any associated adjustments.

## **CREDITORS**

Amounts owed by the Council for work done, goods received, or services rendered but for which payment had not been made at the date of the balance sheet.

## **DEBTORS**

Sums of money due to the Council but unpaid at the balance sheet date.

## **DEPRECIATION**

The measure of the wearing out, consumption, or other reduction in the useful economic life of a non-current asset, whether arising from use, passage of time or obsolescence through technological or other changes.

## **GENERAL FUND**

The main revenue account of a charging authority that summarises the cost of all services provided by the Council.

## **HERITAGE ASSETS**

Heritage Assets are defined as assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge or culture.

## **INTANGIBLE ASSETS**

Intangible assets are assets that do not have a physical substance but are identifiable and controlled by the Council, such as computer software.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

These are the accounting standards (as adapted for the public sector) that the Council are required to follow when preparing the annual Statement of Accounts.

## **INVESTMENT PROPERTIES**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

## **PROPERTY, PLANT & EQUIPMENT**

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

## **REVENUE EXPENDITURE FUNDED FROM CAPITAL BY STATUTE**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of property, plant or equipment, and is charged as expenditure to the relevant service revenue account in the year.

## **REVENUE SUPPORT GRANT**

A general grant paid by central government to local authorities to help finance the cost of services. It is paid to charging authorities for credit to the Collection Fund.

## **REVENUE ACCOUNT**

An account which records the day to day expenditure and income of the Council on such items as salaries and wages, running costs of services, the purchase of consumable materials and equipment, and the financing costs of capital assets.

## **SUPPORT SERVICES**

An allocation of the net cost of the administrative and professional departments which provide support for all the Council's services (e.g. Executive Services, Finance, Personnel), together with the costs of pooled administrative buildings.

## **USABLE CAPITAL RECEIPTS**

Funds received by an authority from the sale of capital assets that have yet to be used to finance capital expenditure or repay debt.

## **UNUSABLE RESERVES**

These are non-cash reserves that are kept to manage the accounting processes for non-current assets, retirement benefits and employee benefits and do not represent usable resources for the Council.

## **USABLE RESERVES**

These are funds available to the Council and represent specific amounts set-aside for future policy purposes or earmarked purposes, including the General Fund and the Capital Receipts Reserve.

**INDEPENDENT AUDITOR'S REPORT**

To follow

**Maidstone Borough Council**

Maidstone House,  
King Street,  
Maidstone, Kent ME15 6JQ

 maidstone.gov.uk  
 maidstonebc  
 maidstoneboroughcouncil

Grant Thornton UK LLP  
110 Bishopsgate  
LONDON  
EC2N 4AY

Your ref: MBC201819

30 July 2019

Dear Sirs

**Maidstone Borough Council**  
**Financial Statements for the year ended 31 March 2019**

This representation letter is provided in connection with the audit of the financial statements of Maidstone Borough Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

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

**Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vi. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

## **Information Provided**

- xiv. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

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

### **Annual Governance Statement**

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

### **Narrative Report**

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

### **Approval**

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on 30 July 2019.

Yours faithfully

Mark Green  
Director of Finance and Business Improvement  
30 July 2019

**Signed on behalf of the Council**