

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Wednesday 28 July 2021
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Bartlett, Brindle, Coulling (Parish Representative), Cox, Cuming, Daley, Fissenden, Perry, J Sams, Titchener (Parish Representative) and Trzebinski

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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Issued on Tuesday 20 July 2021

Continued Over/:

Alison Broom

Alison Broom, Chief Executive

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PUBLIC SPEAKING AND ALTERNATIVE FORMATS

In order to ask a question at this meeting in person or by remote means, please call **01622 602899** or email committee@maidstone.gov.uk by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Monday 26 July 2021). You will need to provide the full text in writing.

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

In order to make a statement in relation to an item on the agenda, please call **01622 602899** or email committee@maidstone.gov.uk by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Monday 26 July 2021). You will need to tell us which agenda item you wish to speak on.

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MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON MONDAY 15 MARCH 2021

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

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

170. APOLOGIES FOR ABSENCE

Apologies were received from Councillors Cuming and Fissenden.

171. NOTIFICATION OF SUBSTITUTE MEMBERS

Councillor Garten was present as Substitute Member for Councillor Cuming.

172. URGENT ITEMS

The Chairman agreed to take the External Auditor's qualification letter, as Appendix 1 to Item 12 – Housing Benefit Subsidy Claim 2019-20, which was not available when the agenda was published.

173. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

174. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members and Officers.

175. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

176. EXEMPT INFORMATION

RESOLVED: That all items be taken in public as proposed.

177. MINUTES OF THE MEETING HELD ON 18 JANUARY 2021

The Head of Audit Partnership updated Members that the revised assurance rating framework would be presented to the Committee in the Spring of 2022, rather than 2021. The Minute was correct however.

RESOLVED: That the Minutes of the meeting held on 18 January 2021 be agreed as a correct record and signed at a later date, subject to an amendment to Minute 168 to read:

'reducing the cost of borrowing from the Public Works Loan Board by 1 percentage point'.

178. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from Member of the public.

179. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members to the Chairman.

180. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

The Senior Lawyer (Corporate Governance) introduced the report which covered the period 1 September 2020 to 1 March 2021. Since the last update had been provided to the Committee, three existing Parish Council (PC) complaints had been concluded; two through informal resolution and one was rejected.

A further four PC complaints had been received; three were rejected and one was not taken further due to a lack of engagement from the complainant. A complaint received against a Borough Councillor found that no breach of the code of conduct had occurred.

In response to questions, the Principal Lawyer highlighted that the Council's Constitution and Code of Conduct outlined the formal and informal routes in dealing with a code of conduct complaint.

RESOLVED: That the contents of the report be noted.

181. HOUSING BENEFIT SUBSIDY CLAIM 2019-20

The Head of Revenues and Benefits Shared Services introduced the report and stated that the Council provided Housing Benefit on behalf of the Department of Work and Pensions, a condition of which is annual certification by external audit. The certification was undertaken by Grant Thornton.

The number of amendments made by staff members exceeded 50,000 for the year, with three errors identified resulting in changes to the claim form originally submitted. These amounted to an alteration in the claim submitted to the DWP of £168.

RESOLVED: That the findings of the Housing Benefit Grant Claim Certification undertaken by Grant Thornton be noted.

182. FRAUD & COMPLIANCE TEAM UPDATE 2019/20

The Head of Revenues and Benefits Shared Service introduced the report, stating that the fraud and compliance team worked across the Maidstone, Swale and Tunbridge Wells Authorities. An understanding had been reached for the team to generate at least £400,000 in savings whilst being mainly funded by Kent County Council (KCC).

In 2019/20 the focus on the National Fraud Initiative data and small business rate relief accounts and New Homes Bonus had generated a total of £1.3 million in savings.

For the current year, the re-deployment of staff during the Covid-19 pandemic was highlighted, however £1.5 million had been identified in savings so far in the current financial year.

KCC had introduced debt brought back into recovery into the fraud and compliance figures through online tracing of those residents that had absconded. A report providing the final savings figures generated for the current financial year would be presented to the Committee in the Summer of 2021.

In response to questions, it was confirmed that the savings figure for New Homes Bonus of £543,200 had been generated across all three local authorities.

RESOLVED: That the contents of the report be noted.

183. ANNUAL RISK MANAGEMENT REPORT

The Deputy Head of Audit Partnership introduced the report and highlighted the importance of the Risk Management Framework (RMF) in delivering the Council's objectives. The RMF was last reviewed in 2019. In referencing Appendix 1 to the report, the three levels of risk identified were corporate, operational and project risks.

Risk owners were expected to actively manage the risks that fell above the Council's tolerance, which would be demonstrated through categorisation in the red or black areas within the risk matrix. A quarterly update on the corporate risks was provided to the Policy and Resources Committee.

The Risk Management Plan aimed to continually improve risk management, including the potential implementation of software to create, generate and increase the efficiency of the intelligence used for risk management purposes.

In response to questions, the Deputy Head of Audit Partnership confirmed that there had been increased engagement with the Corporate and Wider Leadership Teams from the outset of the pandemic on the corporate risk register. The Policy and Resources Committee now received quarterly

updates detailing all of the corporate level risks, as opposed to the previous 6-monthly updates.

Further explanation was given regarding the evaluation of risks against the impact categories, in that the risks were scored against all of the categories, not just finance. Detailed risk registers were maintained and would show individual impact scores against each category. The Deputy Head of Audit Partnership stated that the RMF was reviewed annually, which included risk appetite and tolerance, and that this took into account whether the levels of impact needed to be re-adjusted. The Corporate Leadership Team received quarterly updates on the RMF.

The Director of Finance and Business Improvement confirmed that the risks surrounding the Council's pensions scheme were considered from the Council's budget risks, rather than within the Risk Register, as it related to payroll costs.

RESOLVED: That the Risk Management Annual Report attached at Appendix 1 to the report, be discussed and noted.

184. INTERNAL AUDIT & ASSURANCE PLAN 2021/22

The Head of Audit Partnership introduced the report, referencing the importance of the Council's adherence to the Public Sector Internal Audit Standards. The consultations undertaken with various Council officers in producing the Audit Plan were outlined. It was noted that there was 500 available audit plan days for the period 2021/22, with 60% to focus on the core risk-based audit work. It was hoped that a staff vacancy within the service would be filled shortly.

It was stated that the Council had grown in complexity as an organisation, with the importance of providing the assurance needed with even greater efficiency and scope noted. However, the Head of Audit Partnership stated that he was satisfied that there was sufficient resources and capacity available to deliver the Internal Audit and Reassurance Plan and Head of Audit Opinion.

Particular attention was drawn to the High Priority Engagements within appendix 1 to the report, which had to be undertaken to produce a robust audit opinion. The Climate Emergency response had been delayed from the 2020/21 plan due to the Covid-19 pandemic, with Phishing responses included as a high priority due to the importance of managing the Council's IT system's integrity whilst staff were working remotely. Procurement had moved into a shared service with Tunbridge Wells Borough Council and it was important to assess its functionality. Residents' Parking had not been assessed for several years and with the transition from a paper-based to an electronic system, it was necessary to assess the service to ensure it retained a high level of control.

The medium priority engagements were referenced and would be updated throughout the year. The 'either/or' options for these engagements were

intended to moderate the impact of the work on other officers within the Council.

The follow-up actions were noted, with the possibility of verifying the Council's distribution of Covid-19 related business support grants highlighted, alongside the time allocated to Risk Management and Counter Fraud support. It was hoped that further training would be provided to Members and Officers on the latter, to include counter bribery.

The outcomes of the External Quality Assessment were referenced as the Committee had been provided with a Quality Assurance and Improvement Plan guide attached within Appendix 1 to the report. This included a list of the full audit universe.

The Head of Audit Partnership stated that every staff member in the Audit Team had either achieved or was working towards a professional qualification.

In response to comments, the Head of Audit Partnership stated that Contract Management was categorised as a medium priority due to Procurement having become a shared service, which had increased its priority. Contract Management would be prioritised within the medium priority actions. The Development [of] Capital Projects action could be included within the eight medium priority actions to be completed, depending on the level of progress made to the Council's capital programmes over the next year.

Business Continuity had not been considered since 2015/16 and the original list of areas to consider within the action had been significantly longer. The list had been reduced due to resource implications and it was felt that a retrospective exercise could be undertaken next year to assess Business continuity instead. Election Management would include postal voting, however the task would need to be conducted at a suitable time given the number of elections occurring in May 2021.

It was likely that Staff Performance Management would be considered. Tech Support was placed as a medium priority due to the importance of network security and phishing within the high priority action list. The Director of Finance and Business Improvement would continue to be consulted on Property Acquisition, for its inclusion in the Audit Plan when necessary. The flexibility of the plan was reiterated.

In response to questions, it was confirmed that the Councils' waste collection service was being considered. If Members wished to comment on any of the Council's services, they could contact the Head of Audit Partnership.

The Talent Management medium priority would consider how staff are supported in remote working and would likely be considered in next year's plan.

It was confirmed that the Committee would be presented with an executive summary of the work undertaken in completing Pre-Application Planning priority.

The Committee expressed their thanks for work undertaken.

RESOLVED: That

1. The Internal Audit and Assurance Plan for 2021/22, including that the Head of Audit Partnership be given delegated powers to keep the plan current as set out in Appendix 1 to the report, be agreed;
2. The Head of Audit Partnership's view that internal audit currently has sufficient resources to deliver the plan and a robust Head of Audit Opinion, be noted; and
3. The Head of Audit Partnership's assurance that the plan is compiled independently and without inappropriate influence from management, be noted.

185. EXTERNAL AUDITOR'S AUDIT PLAN 2020/21

Ms Tina James of Grant Thornton, the External Auditor, introduced the External Audit Plan for the year ending 31 March 2021. The significant risks related to expenditure recognition, management of override controls, valuation of land and buildings and valuation of net pension liability. The additional risks concerning expenditure recognition had been included following the annual risk assessment and review of the areas of focus.

The Committee were informed of the new Auditing Standards concerning Accounting Estimates and that additional work by Grant Thornton was necessary to provide assurance on the management approach and oversight from Members.

Ms James explained that the new Code of Audit Practice included a new approach to the Audit for Value for Money (VFM), which meant that further work concerning financial sustainability, governance and improving economy, efficient and effectiveness was needed. This was due to the widened scope of the VFM; however no significant areas of weakness had been identified thus far. An annual report would be presented to the Committee later in the year to outline the work undertaken in response.

There were concerns expressed that the triviality figure was too high and should be reduced. Ms James stated that the triviality figure was set in relation to the value of the Council's accounts and expenditure and that a 5% triviality figure was the standard value applied to Local Government Audits. Anything below £85,000 would be discussed with the finance team but not reported to the Committee.

In response to further questions, Mr Paul Dossett of Grant Thornton advised that the triviality factor could be reduced, but that the report produced as a result would be longer and that the purpose of an Audit was

to highlight matters of significance. Mr Dossett confirmed that the Audit Fee would unlikely be increased by reducing the triviality figure as the Audit testing was driven by materiality. The reporting threshold would not have an impact on the Audit Fees paid by the Council.

Mr Dossett explained that the 'Valuation of the pension fund net liability' as shown in Appendix 1 to the report, was a significant risk as it represented a significant value within the Council's accounts. Assessing the competence of the actuary that carried out the Council's pension fund valuation was completed through PWC (in this instance) as an Auditor's expert. Grant Thornton would then be given an assessment of the actuary's judgments and set a range in which the Council's valuations of the pension fund net liability should be situated.

By auditing standards, external auditors were not allowed to rely on the internal audit work on the Council's accounts, but that where reviews had taken place these would factor into the external auditor's risk assessments.

RESOLVED: That

1. The triviality figure be reduced to 2.5% for one year only; and
2. The External Auditor's Audit Plan be noted.

186. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Director of Finance and Business Improvement introduced the report and referenced the Medium Term Financial Strategy and Budget Proposals that had been agreed at the 24 February 2021 Council meeting. The aim was to eliminate the Council's £1.6 million budget gap over the next three years.

The risk of the resurgence of Covid-19 was highlighted, as the pandemic had significantly affected the Council's income streams. The importance of Central Government funding was noted, however there was no certainty of its longevity, with a new Local Government Funding Settlement to be announced for 2022-23.

The Committee were informed that the risk relating to the 'adverse financial consequence from a disorderly Brexit', as shown in Appendix 1 to the report, had been downgraded. This was as the short-term impacts, such as traffic disruption, had not been as significant as potentially possible. The 'Increased volume and complexity of government regulation' risk had been increased due to the resource implications of administering Covid-19 business grants, with the numerous data submissions required by Central Government highlighted. This was due to the additional responsibility placed upon Officers and the reputational risk of non-compliance.

In response to questions, the Director of Finance and Business Improvement confirmed that the likelihood column within Appendix 1 to

the report, whereby the budget risks were ranked, demonstrated the likelihood of the risk rather than the financial loss associated with each risk.

The risk of 'adverse impact from changes in local government funding' included the lack of assurance concerning central government funding in future years. The types of funding provided to Local Government through the pandemic, in reference to the Council's General Fund Balance, were referenced.

RESOLVED: That the updated risk assessment of the Budget Strategy, as shown at Appendix 1 to the report, be noted.

187. DURATION OF MEETING

6.30 p.m. to 8.24 p.m.

2021/22 WORK PROGRAMME

	Committee	Month	Origin	CLT to clear	Lead	Report Author
Code of Conduct Matters - Six Month Update	AGS	28-Sep-21	Officer Update	No	Patricia Narebor	Gary Rowland
Internal Audit Charter Update 2021	AGS	28-Sep-21	Governance	No	Rich Clarke	Rich Clarke
AGS Committee Annual Report 2020/21	AGS	28-Sep-21	Governance	No	Rich Clarke	Jennifer Warrillow
Final Statement of Accounts 2020/21	AGS	28-Sep-21	Governance	No	Mark Green	Paul Holland
Budget Strategy Risk Assessment Update	AGS	28-Sep-21	Officer Update	No	Mark Green	Mark Green
Annual Complaints Report 2020/21	AGS	15-Nov-21	Governance	Yes	A Woodhouse/P Narebor	A Collier/ O Sweeney/ L Connett
Annual Governance Statement Update	AGS	15-Nov-21	Governance	Yes	Angela Woodhouse	Angela Woodhouse
Data Protection Action Plan - Progress Update	AGS	15-Nov-21	Officer Update	No	Angela Woodhouse	Anna Collier
Internal Audit Interim Report 2021/22	AGS	15-Nov-21	Governance	No	Rich Clarke	Jennifer Warrillow
Treasury Management Mid Year Review 2021/22	AGS	15-Nov-21	Governance	No	Mark Green	John Owen
External Auditor's Progress Report and Sector Update	AGS	15-Nov-21	Governance	No	Mark Green	Ellie Dunnet
Budget Strategy Risk Assessment Update	AGS	15-Nov-21	Officer Update	No	Mark Green	Mark Green
Housing Benefit Subsidy Claim 2020/21	AGS	17-Jan-22	Governance	No	Steve McGinnes	Sheila Coburn
Treasury Management, Investment and Capital Strategies 2022/23	AGS	17-Jan-22	Strategy Update	No	Mark Green	John Owen
External Auditor's Annual Audit Letter	AGS	17-Jan-22	Governance	No	Mark Green	Ellie Dunnet
External Auditor's Progress Report and Sector Update	AGS	17-Jan-22	Governance	No	Mark Green	Ellie Dunnet
Budget Strategy Risk Assessment Update	AGS	17-Jan-22	Officer Update	No	Mark Green	Mark Green

2021/22 WORK PROGRAMME

	Committee	Month	Origin	CLT to clear	Lead	Report Author
Code of Conduct Matters - Six Month Update	AGS	14-Mar-21	Officer Update	No	Patricia Narebor	Gary Rowland
Data Protection Action Plan - Progress Update	AGS	14-Mar-22	Officer Update	No	Angela Woodhouse	Anna Collier
Fraud and Compliance Team Update	AGS	14-Mar-22	Officer Update	No	Steve McGinnes	Sheila Coburn
Annual Risk Management Report 2021/22	AGS	14-Mar-22	Governance	Yes	Rich Clarke	
Internal Audit and Assurance Plan 2022/23	AGS	14-Mar-22	Governance	No	Rich Clarke	Rich Clarke
External Audit Plan 2021/22	AGS	14-Mar-22	Governance	No	Mark Green	Ellie Dunnet
External Auditor's Progress Report and Sector Update	AGS	14-Mar-22	Governance	No	Mark Green	Ellie Dunnet
Budget Strategy Risk Assessment Update	AGS	14-Mar-22	Officer Update	No	Mark Green	Mark Green
Update on Draft Model Code of Conduct	AGS	TBC	Officer Update	No	Patricia Narebor	Jayne Bolas

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AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

28 JULY 2021

REVISION OF THE COVERT SURVEILLANCE AND ACCESS TO COMMUNICATIONS DATA POLICY AND GUIDANCE NOTES

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Patricia Narebor, Head of Legal Partnership
Lead Officer and Report Author	Gary Rowland, Senior Lawyer Corporate Governance
Classification	Public
Wards affected	All

Executive Summary

This report seeks approval for the revised policy and guidance notes on Covert Surveillance and Access to Communications Data following the inspection of the Investigatory Powers Commissioner’s Office (“IPCO”) in January 2021. The revised policy incorporates the up-to-date guidance produced by the Surveillance Commission and the recommendations made by the inspector following the inspection.

This report makes the following recommendation to the Committee:

1. That the revised Covert Surveillance and Access to Communications Data Policy and Guidance Notes (“the Policy”) be approved. Whilst no specific revisions were requested following the inspection, the following revisions have been made to ensure the policy is up-to-date:
 - a) page 5 has been amended to reflect where training records are stored and the frequency at which training should be delivered; and
 - b) page 5 has been amended as the Office of Surveillance Commissioners (‘OSC’) have been replaced by the Investigatory Powers Commissioners’ Office (‘IPCO’).

Timetable

Meeting	Date
Corporate Leadership Team	15 June 2021
Audit, Governance and Standards Committee	28 July 2021

REVISION OF THE COVERT SURVEILLANCE AND ACCESS TO COMMUNICATIONS DATA POLICY AND GUIDANCE NOTES

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they support the Council's overall achievement of its aims by updating the Council's approach to RIPA as required by legislation and IPCO.	Principal Solicitor, Governance
Cross Cutting Objectives	<p>The four cross-cutting objectives are:</p> <ul style="list-style-type: none"> • Heritage is Respected • Health Inequalities are Addressed and Reduced • Deprivation and Social Mobility is Improved • Biodiversity and Environmental Sustainability is respected <p>The report recommendation(s) supports the overall achievement(s) of all the cross-cutting objectives by ensuring that the Council is complying with statutory requirements when undertaking investigations and surveillance.</p>	Principal Solicitor, Governance
Risk Management	The risk implications are set out in section 5 of the report.	Principal Solicitor, Governance
Financial	The proposals set out in the recommendation are all within already approved budgetary headings and so need no new funding for implementation.	Principal Solicitor, Governance
Staffing	No additional staffing.	Principal Solicitor, Governance
Legal	Accepting the recommendations will fulfil the Council's duties under Regulation of Investigatory Powers Act 2000 and meets the requirements of IPCO.	Principal Solicitor, Governance

Privacy and Data Protection	No implications.	Principal Solicitor, Governance
Equalities	No implications.	Principal Solicitor, Governance
Public Health	No implications.	Principal Solicitor, Governance
Crime and Disorder	Accepting the recommendations ensures that the Council complies with its obligations under RIPA, which are important in the Council's role in controlling crime and disorder.	Principal Solicitor, Governance
Procurement	No implications.	Principal Solicitor, Governance

2. INTRODUCTION AND BACKGROUND

- 2.1 The Home Office Covert Surveillance and Property Interference Revised Code of Practice 2010 requires that the Council reviews its use of RIPA and reviews the policy at least once every two years.
- 2.2 Following the IPCO's inspection, which was carried out in January 2021 and subsequently followed up with a report, it became apparent that the guidance needed minor revisions. Previous recommendations made in 2018 to deliver appropriate training for authorising officers, update the Central Record, and revisions to the RIPA policy document, have been complied with and as such these recommendations have now been discharged. Further training is scheduled to be delivered to all Authorising/Key Officers in December 2021.
- 2.3 The IPCO's report made the following recommendations:
- 1) It would be of significant benefit to have in place regular, minuted, meetings between the SRO and the RIPA Coordinating Officer. Through this approach, a record can be created of matters discussed concerning RIPA compliance and on which you can then rely, if required, and which can be produced in future IPCO inspections.

The first of these meetings was carried out in February 2021 and will continue to take place on a quarterly basis, with minutes being recorded and filed in the Central Register.

The full Inspector's report is attached at Appendix A. The revised policy is at Appendix B.

3. AVAILABLE OPTIONS

- 3.1 To approve the actions proposed as set out in the recommendations of this report. This will address the recommendations within the IPCO's report and meets the Inspector's requirements. This option also proposes accepting the non-RIPA process.
- 3.2 The Committee could approve such additional or alternative actions that it deems appropriate, provided such actions meet the Inspector's requirements.
- 3.3 Do nothing. This option would result in the recommendations not being implemented. This is likely to result in an adverse critical report following the next IPCO inspection.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Option 1 is the preferred option as it would implement the Inspector's recommendations.

5. RISK

- 5.1 Currently the risk implications are low as the Council has not authorised any activity under RIPA for some time. However, there is risk of litigation and challenge if authorisations are incorrectly given in the future without proper understanding of the current requirements. The actions set out in the Inspector's report and recommended in this report will mitigate any such risks.

6. REPORT APPENDICES

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

- Appendix A: Inspector's Report
 - Appendix B: Draft Covert Surveillance and Access to Communications Data Policy and Guidance Notes
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Investigatory Powers
Commissioner's Office

PO Box 29105, London
SW1V 1ZU

Ms Alison Broom
Chief Executive
Maidstone Borough Council
Maidstone House
King Street
Maidstone
Kent
ME15 6JQ
Alison.broom@maidstone.gov.uk

21 January 2021

Dear Ms. Broom,

Inspection of Maidstone Borough Council

Please be aware that IPCO is not a “public authority” for the purpose of the Freedom of Information Act (FOIA) and therefore falls outside the reach of the FOIA. It is appreciated that local authorities are subject to the FOIA and that they may receive requests for disclosure of our reports. In the first instance the SRO should bring the matter to the attention of the IPCO Data Protection Officer (at: info@ipco.org.uk), before making any disclosure. This is also the case if you wish to make the content of this letter publicly available.

Your Council was recently the subject of a video and desktop-based inspection by one of my Inspectors, Mr. Graham McCrory MBE. This has been facilitated through yourself as Senior Responsible Officer (SRO), and your Senior Lawyer for Corporate Governance and RIPA Coordinating Officer – Mr. Gary Rowland. My Inspector is most grateful to Mr Rowland for providing the supporting information required, as well as his professional approach to the inspection.

The information provided has demonstrated a level of compliance that removes, for the present, the requirement for a physical inspection.

The last inspection was undertaken by IPCO Inspector, Mrs Grainne Athorn in June 2018. On this occasion three recommendations were necessary.

I am pleased to note that the recommendations made, to deliver appropriate training for authorising officers (AOs), update your Central Record, and refresh and add to your RIPA policy document, have been complied with and I therefore discharge these recommendations.

Your authority has continued to develop good compliance regimes under your leadership and with the significant efforts of Mr. Rowland.

Mandatory refresher training has been undertaken, with a private company delivering sessions in 2019 and with future training in the 'pipeline' and to be completed when a change in the environment in which we currently find ourselves, allows. My Inspector was pleased to note that when training was delivered, those who could not attend, for whatever reason, were not forgotten about and Mr. Rowland, who has responsibilities for several local authorities, ensured that those staff were included in refresher training undertaken by the other authorities. It is refreshing to note the eagerness of your RIPA Coordinating Officer, who acts on your behalf.

Whilst no RIPA authorisations have been granted by your staff for a considerable period and in excess of six years, nevertheless it is important that new investigation techniques available, which may require the consideration of an authorisation, are identified to your staff. Your RIPA policy has been updated and bolstered to include guidance on the use of social media by your staff. It was also mentioned to my Inspector that training undertaken, and planned, has and will concentrate on this evolving and important area. The use of the internet to conduct investigations is a useful and often necessary tool. Whilst care should be taken in its use, with the appropriate training, guidance and audit procedures in place, it is a tactic that need not be shied away from.

Your oversight takes the form of regular interaction with your AOs and Mr. Rowland, especially prior to and during training sessions. Whilst I am content that you are alive to issues affecting RIPA, it would be of significant benefit to have in place regular, minuted, meetings with Mr. Rowland in his capacity as RIPA Coordinating Officer. Through this approach, a record can be created of matters discussed concerning RIPA compliance and on which you can then rely, if required, and which can be produced in future IPCO inspections.

A specific focus for the inspection was the retention and destruction of data gathered when utilising the covert powers available. Whilst no RIPA activity has been undertaken, you have been proactive in the review of processes and procedures in this regard. Your Information Manager has been engaged with by Mr. Rowland, with the retention policy updated and the destruction of relevant, historic, material carried out. I commend you for the proactive approach taken to this important and necessary area of compliance. The continued application of this process, if RIPA powers are utilised, should allow your staff to comply with the safeguards as documented within the codes of practice for surveillance and CHIS. I trust you found the details within my previous letter sent to you, of benefit. Ultimately, it will be for you as SRO to ensure the requirements continue to be addressed.

There is no doubt that your authority is in a better place, since the last inspection in 2018, to maintain compliant regimes. I thank you, as SRO, and Mr Rowland as RIPA Coordinator, for your efforts to develop a strong ethos of compliance within your Council.

My Office is available to you should you have any queries following the recent inspection, or at any point in the future. Contact details are provided at the foot of this letter.

I shall be grateful if you would acknowledge receipt of this letter within two months.

Yours sincerely,



The Rt. Hon. Sir Brian Leveson
The Investigatory Powers Commissioner



COVERT SURVEILLANCE AND ACCESS TO COMMUNICATIONS DATA POLICY AND GUIDANCE NOTES

Scope

This policy and guidance notes apply to authorisations for the Access to Communications Data and to Surveillance by the Council carried out under Parts I and II of the Regulations of Investigatory Powers Act 2000 (RIPA).

RIPA Senior Responsible Officer: Alison Broom (Chief Executive)

RIPA Co-ordinating Officer: Gary Rowland (Senior Lawyer, Corporate Governance)

Revised: April 2021
Review: April 2023

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POLICY STATEMENT

The Regulation of Investigatory Powers Act 2000 (RIPA) provides the legislative framework within which covert surveillance and access to communications data operations must be conducted in order to ensure that investigatory powers are used in accordance with human rights. This Policy Statement is intended as a practical reference guide for Council Officers/Investigators who may be involved in such operations.

Officers/Investigators involved in covert operations must familiarise themselves with the Home Office Codes of Practice on:

- Covert Surveillance
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/384975/Covert_Surveillance_Property_Interference_web_2_.pdf
- Covert Human Intelligence Sources
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/384976/Covert_Human_Intelligence_web.pdf

to ensure that they fully understand their responsibilities.

The Council is committed to implementing the provisions of RIPA to ensure that any covert surveillance and/or access of communications data that is carried out during the course of investigations is undertaken properly and that the activity is necessary and proportionate to the alleged offence/s. Following the implementation of the Protection of Freedoms Act 2012 investigatory powers can only be used in relation to activities that would receive a minimum sentence of six months imprisonment or are in relation to the underage selling of alcohol or tobacco. If such action is contemplated, initial consultation with the Council's Co-ordinating Officer should be undertaken at the earliest opportunity.

The Council seeks to ensure that this Policy Statement remains consistent with the Council's objectives.

This Policy ensures:

- that proper procedures are in place in order to carry out covert surveillance or to obtain communications data;
- that an individual's right to privacy is not breached without justification;
- that proper authorisation is obtained for covert surveillance or access to communications data;
- that proper procedures are followed; and
- that covert surveillance is considered as a last resort having exhausted all other avenues.

1. BACKGROUND

Scope and Control

- 1.1 RIPA is the law which governs the use of a number of covert techniques for investigating crime and terrorism. Using covert techniques allows public authorities, which range from the police and security agencies to local authorities and organisations, such as the Office of Fair Trading, to investigate suspected offences without alerting an individual that they are part of that investigation.

- 1.2 Local authorities can use three techniques. They can **obtain Communications Data, use Directed Surveillance and use Covert Human Intelligence Sources (CHIS)**.
- 1.3 RIPA requires that an authorisation is needed for the use of these investigatory techniques and that they can only be used where it is considered proportionate to what is sought to be achieved.
- 1.4 Local authorities can only use these investigatory techniques if they are necessary to prevent or detect crime or prevent disorder.
- 1.5 These guidance notes provide a summary of the main points from the Home Office Covert Surveillance Code of Practice that are relevant to Maidstone Borough Council. They apply to authorisations for covert surveillance and access to communications data made by the Council under Part I and II of the Regulation of Investigatory Powers Act 2000.
- 1.6 To improve awareness this guidance also briefly refers to activities that the Council has determined **should not** be undertaken.
- 1.7 Before undertaking any covert surveillance these guidelines should be read and, if it is considered necessary, further reference to the code and training should be sought. Members of the public who enquire about covert surveillance procedures should be referred to the Home Office Covert Surveillance code of practice, copies of which are available for viewing at Council offices from the RIPA Co-ordinating Officer. Contract staff employed by the Council and who are involved in covert surveillance should be made aware of these guidelines and of the Code of Practice.
- 1.8 The use of the Regulation of Investigatory Powers Act 2000 by the Council will be overseen by the Senior Responsible Officer supported by the Co-ordinating Officer. These positions will be held by:
- Senior Responsible Officer – Alison Broom
 - Co-ordinating Officer – Gary Rowland

Senior Responsible Officer

The Senior Responsible Officer will have overall responsibility for the integrity of the RIPA process within the Council. In addition they will:

1. be responsible for compliance with RIPA and its regulatory framework;
2. engage with the Commissioners and Inspectors when they conduct inspections;
3. oversee the implementation of any recommendations made by **the Investigatory Powers' Commissioner's Office ('IPCO')**;
4. carry out periodic oversight of the authorisations; and
5. report to Members on the usage of RIPA within the Council.

Co-ordinating Officer

The Co-ordinating Officer will be responsible for the day to day RIPA process, in particular they will:

1. keep the Central Record and collate the documentation received;

2. exercise the day to day oversight over the RIPA process by ensuring the quality of the documents submitted;
3. to monitor the Council's use of its appointed S.P.O.C agent (NAFN) in line with contract agreement
4. monitor the timeliness of the officers in making returns, carrying out reviews and effecting renewals and cancellations;
5. keep a record of the RIPA training programme **as part of the Central Record**; and
6. **raise general RIPA awareness within the Council whilst ensuring that detailed awareness and training is provided to applicants and authorising officers in accordance with the IPCO recommended timeframes.**

*NB: applicants and authorising officers are required to undertake regular training **at least once in every three year period.***

Definitions

- 1.9 **Covert surveillance** is any surveillance carried out in a manner calculated to ensure that the persons subject to the surveillance are unaware that it is or may be taking place.
- 1.10 General observation forms part of the duties of the Councils enforcement officers i.e. **overt surveillance**, and is not usually regulated by the 2000 Act (for example observations during routine planning enforcement matters where the property owner has been 'put on notice' that inspections may be carried out). Such observation may involve the use of equipment to merely reinforce normal sensory perception, such as binoculars, or the use of cameras, where this does not involve systematic surveillance of an individual.
- 1.11 The use of noise monitoring equipment to measure noise audible in a complainant's premises does not amount to covert surveillance because the noise has been inflicted by the perpetrator who it is likely has forfeited any claim of privacy. The use will only become covert when sensitive equipment is used to discern speech of other noisy activity that is not discernible to the unaided ear. Further advice can be obtained from the SRO.
- 1.12 Although, the provisions of the 2000 Act do not normally cover the use of overt CCTV surveillance systems, since members of the public are aware that such systems are in use, there may be occasions when the Council's overt CCTV system is used for the purpose of a specific investigation or operation. Such cases should be discussed with the authorising officer who will decide whether it is directed surveillance and requires to be authorised.
- 1.13 The primary purpose of surveillance is to secure evidence to bring offenders before the courts. The proper authorisation of surveillance should ensure the admissibility of such evidence in criminal proceedings.
- 1.14 **Directed surveillance** is the type of covert surveillance that Maidstone Borough Council employees will be permitted to undertake on an exceptional basis and only within the Council's responsibilities for the prevention and detection of crime, or for the prevention of disorder. Authorisation for directed surveillance **must** first be obtained.
- 1.15 Directed surveillance is defined as surveillance which is covert, but not intrusive, and undertaken:

- a) for the purpose of the prevention or detection of crime or to prevent disorder
- b) for the purpose of a specific investigation or specific operation.
- c) in a manner as is likely to result in the obtaining of **private information** about a person (whether or not one specifically identified for the purpose of the investigation or operation). Private information is defined at paragraph 1.19 below.
- d) otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation under Part II of the 2000 Act to be sought for the carrying out of the surveillance. For example, you may be in a Post Office obtaining information in relation to a particular customer when you observe a different person committing a benefit fraud. You are allowed to follow that person, if necessary, to establish their identification and any other information that may help with the subsequent investigation.
- 1.16 A similar situation may occur whilst visiting an employer under section 110 powers, Social Security Administration Act 1992 (which requires separate authorisation). For example, if during a visit to an employer you recognise an individual benefit claimant, authorisation for watching the person working would not be required. This is because you have come across the information incidentally and in the course of your normal duties. However, if you visited an employer with the precise intention of observing an identified individual at work (whilst claiming benefit) written authorisation would be required before the visit.
- 1.17 Directed surveillance includes covert surveillance within office and business premises.
- 1.18 It should be noted that Local Authorities may only make an authorisation permitting the use of directed surveillance under RIPA where:
- it is for the purpose of the prevention or detection of crime or the prevention of disorder, and
 - the offence being investigated meets the crime threshold; i.e. criminal offences which attract a minimum custodial sentence of six months or more or criminal offences relating to the underage sale of alcohol or tobacco.
- 1.19 **Private information** includes:
- a) any information relating to a person's private or family life, or
- b) information relating to aspects of a person's professional and business life.
- The concept of private information should be broadly interpreted to include an individual's private or personal relationship with others. Family life should be treated to extend beyond the formal relationships created by marriage.
- 1.20 **Intrusive surveillance** is defined as covert surveillance that:
- a) is carried out in relation to anything taking place within any residential premises or any private vehicle; and
- b) involves the presence of an individual on the premises or in the vehicle or is carried out by means of a surveillance device; or
- b) involves premises where legal consultations take place.

Under no circumstances should this type of surveillance be undertaken. An alternative means of obtaining the information should be sought.

- 1.21 **Interception of post, e-mail and recording of telephone conversations.** The interception of communications sent by post or by means of public telecommunications systems or private telecommunications systems attached to the public network are outside of the remit of Maidstone Borough Council officers.
- 1.22 **Covert Human Intelligence Source (CHIS)** is the term used for a person who is tasked by the Council to establish or maintain a relationship with a person for the purpose of covertly obtaining or disclosing information i.e. it is someone working “under cover” who has been asked to obtain information, to provide access to information or to otherwise act, incidentally for the benefit of the Council.
- 1.23 A relationship is established or maintained for a covert purpose if and only if it is conducted in a manner that is calculated to ensure that one of the parties to the relationship is unaware of the purpose.
- 1.24 A person is considered to be a CHIS if:
- (a) s/he establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything falling within paragraphs (b) or (c) below.
 - (b) s/he covertly uses such a relationship to obtain information or provide access to any information to another person; or
 - (c) s/he covertly discloses information obtained by the use of such a relationship, or as a consequence of the existence of such a relationship.
- 1.25 The Council has taken a policy decision that it will be the general practice **not to** undertake this type of surveillance activity. An alternative means of obtaining the information should be followed. However, it is necessary that the Council be equipped to deal with CHIS if the situation arose.
- 1.26 If it is necessary to request an authorisation under CHIS advice should first be sought from the RIPA Senior Responsible Officer. Conduct that may be authorised is any conduct that:
- (a) remains within the scope of the activity authorised within the CHIS authorisation;
 - (b) relates to the person identified and authorised as a CHIS; and
 - (c) is carried out for the purposes of the investigation as detailed within the CHIS authorisation.
- 1.27 As with directed surveillance a local authority may only make an authorisation permitting the use of CHIS on the ground that it is necessary for the purpose of the prevention or detection of crime or the prevention of disorder.
- 1.28 It should be noted that where members of the public volunteer information to council officers, either as a complaint or as part of their civic duties i.e. use contact numbers set up for the reporting of suspected benefit fraud or for whistle-blowing etc. they would not generally be regarded as covert human intelligence sources. In addition, if someone is keeping a diary record of nuisance, this will not amount by itself to use of a CHIS.

1.29 In order for the Council to carry out surveillance using CHIS (should the need arise) it is necessary to have officers designated as Controllers and Handlers. These posts will carry out the following functions:

- Controller – will at all times have general oversight of the use made of the source.
- Handler – will have day to day responsibility for dealing with the source on behalf of the authority, and for the source's security and welfare.

In all cases the Controller will be the RIPA Senior Responsible Officer.

Handlers will include investigators and enforcement officers that have received the relevant training and have been authorised by the RIPA Senior Officer to undertake this role. A register of those authorised as handlers will be kept by the RIPA Co-ordinating Officer.

In addition to the above the RIPA Co-ordinating Officer will have responsibility for maintaining a record of the use made of the source.

1.30 Accessing Communications Data

Local Authorities can obtain communications data for investigating crime under Part I Chapter II of the Regulation of Investigatory Powers Act 1990. Communications data includes land line and mobile telephone subscriber and billing data for telephone, web and postal customers.

1.31 Communications data can be obtained where it is necessary and proportionate to do so. Applications are primarily used to identify or locate suspects. Examples include applications to ascertain subscriber identity and address details of illegal fly tipping suspects from mobile phone number evidence.

1.32 The Council has appointed the National Anti Fraud Network (NAFN) to provide a RIPA Single Point of Contact (SPoC) service to obtain communications data. NAFN is authorised to carry out requests to telecommunications service providers for category B and C data for criminal investigations. This includes subscriber and billing information on telephone, web and postal services.

1.33 It should be noted that in order for Local Authorities to seek authority to acquire category B data, it must meet the new serious crime threshold. A serious crime is one which carries a prison sentence for a minimum of 12 months and meets the definition set out in section 81(3)(b) of the Act, i.e. conduct that involves the use of violence, results in substantial financial gain or is conduct by a large number of persons in pursuit of a common purpose. Category C data can still be acquired for any crime where necessary and proportionate to do so.

Category Table

A Data – Not accessible to Local Authorities	B Data – Available if serious crime threshold met	C Data – Available
Cell site IEMI Incoming caller data	Itemised Billing Call Diversion Data Downloading Outgoing call data	Subscriber detail including: Name and Address Method of Payments Customer info.

NB: Local Authorities are not able to obtain Category A data.

Social Networking Sites

- 1.34 **Social Networking Sites (SNS)** which include but are not limited to Facebook, Myspace, Twitter and Bebo can provide information that will aid an investigation. When using these sites to carry out surveillance it is essential to know how they work and officers should not assume that one service provider works in the same way as another.
- 1.35 In all cases it would be unwise to assume that the content came from an open source or was publically available, even where security settings are low, as the author would have some reasonable expectation of privacy where access controls are applied.
- 1.36 Where a site is being covertly accessed for monitoring purposes it may be necessary for an authorisation for directed surveillance to be obtained. As part of an investigation it is possible to take an initial look at an individual's social media activity, however, should there be a need to return to the site this may constitute surveillance. In such circumstances advice should be obtained from the RIPA Co-ordinating Officer before further surveillance is carried out.
- 1.37 If, when using social media, a relationship is established or maintained by an officer of the Council or by a person acting on the Council's behalf for a purpose which exceeds merely reading the site's content an authorisation for a CHIS may need to be obtained. See 1.24 above for full details of what constitutes a CHIS..
- 1.38 When conducting any surveillance of social media sites use of an officer's personal account is prohibited and advice should be sought from the Communications Team with regards to setting up a Council account.
- 1.39 The Central Record contains a register of any Council profiles utilised and a record of their use.
- 1.40 A brief summary of the relevant legislation governing covert surveillance has been included at Appendix A.

2. GENERAL RULES ON AUTHORISATIONS

- 2.1 Where an authorisation or renewal is sought for the use of Directed Surveillance, acquisition of Communications Data or the use of CHIS it will be necessary to obtain Judicial Approval, i.e approval from the Magistrates Court. It will still be necessary to go through the internal authorisation stage, detailed below, prior to an application for Judicial Approval. The procedure for obtaining Judicial Approval is detailed at paragraphs 4.12 to 4.14 below.

NB: A flowchart produced by the Home Office showing the authorisation procedure is shown at Appendix B.

2.2 Directed Surveillance and CHIS

- 2.2.1 You must seek an authorisation where the surveillance is likely to interfere with a person's rights to privacy (*Article 8 of the European Convention on Human Rights*) by obtaining private information about that person, whether or not that person is the subject of the investigation or operation. Obtaining an authorisation will ensure that

the action is carried out in accordance with law and subject to stringent safeguards against abuse.

- 2.2.2 In the event that the Council are required to conduct joint directed surveillance working with another agency, the tasking agency should obtain the authorisation. For example, in the event that the police require covert surveillance by the Councils CCTV system the police would normally seek the authorisation. A copy of the Authorisation, Renewal and Cancellation forms should be sought from the tasking agency to provide a record and justification for the Councils involvement.

2.3 Accessing Communications Data

- 2.3.1 Only authorised officers are able to use the National Anti Fraud Network (“NAFN”) Single Point of Contact (“SPoC”) service to access communications data. NAFN provides Maidstone officers with access to a secure online system for processing RIPA telecommunications requests. Authorised applicants and Designated Persons (“DP”) can submit, approve and track applications through one central secure website. NAFN review all applications for legal compliance prior to approval from Maidstones DP. NAFN is subject to inspection by the officers of the Interception Commission to ensure compliance with RIPA.

2.4 RIPA Authorising Officers

The authorising officers for the Council are:

- Alison Broom - Chief Executive / RIPA Senior Responsible Officer
- Mark Green – Director of Finance and Business Improvement
- William Cornell – Director of Regeneration and Place
- John Littlemore – Head of Housing and Community Services

No person designated as an Authorising Officer may act as an Authorising Officer unless they have undertaken appropriate training.

In addition to the above the following officers will be responsible for the authorisation of NAFN RIPA telecommunications requests:

- Alison Broom – Chief Executive
- William Cornell – Director of Regeneration and Place

2.5 Necessity and Proportionality

- 2.5.1 Obtaining an authorisation for surveillance will only ensure that there is a justifiable interference with an individual’s Article 8 rights if it is **necessary and proportionate** for these activities to take place. The 2000 Act first requires that the person granting an authorisation to believe that the authorisation is necessary for the purpose of preventing and detecting crime or of preventing disorder; therefore there is a requirement that applicants and authorising officers consider why the use of covert surveillance is necessary in the specific investigation and what it will achieve.

- 2.5.2 Then, if the activities are necessary, the person granting the authorisation must believe that they are proportionate to what is sought to be achieved by carrying them out. This involves balancing the intrusiveness of the activity on the target and others who might be affected by it against the need for the activity in the operational terms. Both the officer making the application and the authorising officer should consider the following test when deciding that the proposed covert surveillance is proportionate:

- a) Is the proposed covert surveillance proportionate to the mischief under investigation, and
- b) Is the proposed covert surveillance proportionate to the degree of anticipated intrusion on the target and others, and
- c) That the proposed covert surveillance is the only option, other overt means having been considered and discounted.

2.5.3 The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means. For example it may be acceptable in a benefit “living together” case for surveillance over seven days but not extended over three months. All such activity should be carefully managed to meet the objective in question and must not be arbitrary or unfair.

2.6 Collateral Intrusion

2.6.1 Before authorising surveillance the authorising officer should take into account the risk of intrusion into the privacy of persons other than those who are directly the subjects of the investigation or operation (collateral intrusion). Measures should be taken, wherever practicable, to avoid or minimise unnecessary intrusion into the lives of those not directly connected with the investigation or operation.

2.6.2 An application for an authorisation should include an assessment of the risk of any collateral intrusion. The authorising officer should take this into account, when considering the proportionality of the surveillance.

2.6.3 Those carrying out the covert surveillance should inform the authorising officer if the operation or investigation unexpectedly interferes with the privacy of individuals who are not covered by the authorisation. When the original authorisation may not be sufficient, consideration should be given to whether the authorisation needs to be amended and re-authorised or a new authorisation is required.

2.6.4 Any person granting or applying for an authorisation will also need to be aware of particular sensitivities in the local community where the surveillance is taking place and of similar activities being undertaken by other public authorities which could impact on the deployment of surveillance.

2.7 Central Record of all authorisations

2.7.1 A central retrievable record of all authorisations is required to be kept by the Council and regularly updated. Whenever an authorisation is granted, renewed or cancelled the original signed document must be passed to the Co-ordinating Officer who maintains the Central Record of Authorisations. On receipt of the documentation the required information will be recorded in the central register.

2.7.2 The record is required to be made available to the relevant Commissioner or an Inspector from the Office of Surveillance Commissioners, upon request.

2.7.3 These records should be retained for a period of five years from the ending of the authorisation and should contain the following information:

- the unique reference number (URN) – this will be provided by the Co-ordinating Officer when requested by the officer applying for the authorisation;

- the type of authorisation; (SBC officers can only conduct directed surveillance)
- the date the authorisation was given;
- the name of the authorising officer;
- the title of the investigation or operation, including a brief description and names of subjects, if known;
- the date for review
- the date review was undertaken
- if the authorisation is renewed, when it was renewed and who authorised the renewal, including the name of the authorising officer;
- whether the investigation is likely to result in obtaining confidential information;
- the date the authorisation was cancelled.

2.7.4 In all cases, the officer responsible for the investigation (Investigation Manager) must maintain the following documentation which need not form part of the central retrievable record:

- copy of the application and a copy of the authorisation together with any supplementary documentation and notification of the approval given by the authorising officer;
- copy of any renewal of any authorisation together with supporting documents
- record of the period over which the surveillance has taken place;
- any risk assessment raised in relation to a CHIS
- the circumstances in which tasks were given to the CHIS
- the value of the CHIS to the investigation
- the frequency of reviews prescribed by the authorising officer, recommended monthly;
- record of the result of each review of the authorisation;
- copy of any renewal of an authorisation, together with the supporting documentation submitted when the renewal was requested;
- date and time when any instruction were given by the authorising officer since using CHIS.

2.8 Retention and destruction of product

2.8.1 Where the product of surveillance could be relevant to pending or future criminal or civil proceedings, it should be retained in accordance with established disclosure requirements for a suitable further period, commensurate to any subsequent review.

2.8.2 There is nothing which prevents material obtained from properly authorised surveillance from being used in other investigations. Authorising officers must ensure compliance with the appropriate data protection requirements and that arrangements for the handling, storage and destruction of material obtained through the use of covert surveillance are followed.

2.8.3 Investigating officers are expected to keep accurate and full records of investigations. All notebooks (QB50 for Benefit Officers), surveillance logs and other ancillary documentation that relate to surveillance must be maintained for five years and available for management or regulatory inspection on demand.

3. SPECIAL RULES ON AUTHORISATIONS (Directed Surveillance and CHIS)

3.1 Care should be taken in cases where the subject of the investigation or operation might reasonably expect a high degree of privacy eg, where confidential information

is involved. Confidential information consists of matters subject to legal privilege, confidential personal information or confidential journalistic material. For example, extra care should be given where, through the use of surveillance, it would be possible to acquire knowledge of discussions between a minister of religion and an individual relating to the latter's spiritual welfare, or where matters of medical or journalistic confidentiality or legal privilege may be involved.

- 3.2 In cases where through the use of surveillance it is likely that knowledge of confidential information will be acquired, the use of surveillance is subject to a higher level of authorisation, and must be authorised by the Chief Executive, or in his absence his deputy; this being the RIPA Senior Responsible Officer or the Head of Service Delivery.
- 3.3 Where a juvenile or vulnerable person is to be used as a CHIS the Investigating Officer must, when seeking an authorisation:
- (a) make a risk assessment to demonstrate that the physical and psychological risks have been identified, evaluated and explained to the CHIS, and
 - (b) that an appropriate adult will be present at meetings of any CHIS under the age of 18.
- 3.4 Where the authorisation is for the employment of a juvenile or vulnerable CHIS the authorisation **must** be obtained by the Chief Executive or in his absence his deputy (as detailed in 3.2 above).

4. AUTHORISATION PROCEDURE FOR COVERT SURVEILLANCE (Directed Surveillance and CHIS)

The appropriate RIPA forms are available from the Intranet, under Documents; Policies and Governance; Covert Surveillance.

Application Forms:

- Application for the use of Directed Surveillance form
 - Application for the use of CHIS form
 - Judicial Application / Order form
- 4.1 Before covert surveillance can be conducted, an application for the use of directed surveillance form and/or an application for the use of CHIS form must be completed and authorised in writing by the authorising officer.
- 4.2 Local Authorities can no longer rely on the provision for urgent authorisation being given orally by the authorising officer as there is the requirement of obtaining judicial approval. There are however guidelines for obtaining urgent judicial approval and these are detailed below at paragraph 4.15. It should be remembered that no RIPA authority is required in situations where surveillance is an immediate response to events i.e. where criminal activity is observed during routine duties and officers conceal themselves to observe what is happening.
- 4.3 The application should include:
- the reason why the authorisation is necessary i.e. for the purpose of preventing and detecting crime or of preventing disorder (*this is the only permitted ground open to Local Authorities*)

- an adequate explanation of the reason why the surveillance is considered proportionate to what it seeks to achieve;
- the nature of the surveillance including what surveillance equipment is to be used (the operation must be spelt out in sufficient detail on the application form for the Authorising Officer to have a clear idea of exactly what they are being asked to authorise);
- a map showing where the surveillance will take place;
- details of other methods considered and why they were deemed not to be appropriate;
- the identities, where known, of those to be the subject of the surveillance;
- an explanation of the information desired from the surveillance;
- the details of any potential collateral intrusion and why the intrusion is justified;
- the details of any confidential information that is likely to be obtained as a consequence off the surveillance.
- the level of authority required (or recommended where that is different) for the surveillance;
- a subsequent record of whether authority was given or refused, by whom and the time and date.

Good practice hints:

- ensure all questions are answered properly and appropriate boxes ticked
- prior to submitting the application review the case file and discuss the case with the authorising officer to tease out additional information required and to fill any gaps, provide adequate information on the application form for it to stand alone.
- Information must be clear and un-ambiguous

- 4.4 To enable application forms for directed surveillance to be completed with sufficient detail drive bys are permitted to identify whether a location is suitable for surveillance. However, the practice should not be abused and repeated and/or systematic use of drive bys may require application for surveillance forms to be completed and authorisation granted by an Authorising Officer. If surveillance is to commence immediately authorisation **must** be sought first.

Authorisation:

- 4.5 Responsibility for authorising the carrying out of covert surveillance rests with the authorising officer and requires the personal authority of the authorising officer. **In no circumstances should an officer authorise until appropriately trained.**
- 4.6 Authorising Officers must insist on the operation being described in sufficient detail *on the application form* for them to have a clear idea of exactly what they are being asked to authorise and so that they have a sufficient *aide-memoir* to be able to withstand cross-examination in Court, maybe after a lapse of some years. The application form must stand alone in supporting the authorisation. Only what is written on the form would be used in Court to justify authorisation of surveillance being granted, therefore authorising officers must clearly describe exactly what activities they are authorising.

- 4.7 An authorisation can only be granted by the authorising officer where he/she believe that the use of covert surveillance is **necessary** in the investigation for the purposes of preventing and detecting crime or of preventing disorder and that the surveillance is **proportionate** to what it seeks to achieve, i.e it satisfies the test set out at 2.5 above.
- 4.8 In completing their authorisation the Authorising Officer should include a statement detailing their reasons for considering that application is necessary and proportionate incorporating the 5 “W’s”; these being: “who”, “what”, “where”, “when”, “why” and “how”.
- 4.9 In addition, when an authorisation is sought for the use of CHIS, the authorising officer must be satisfied that:
- (a) that there will at all times be a person holding an office, rank or position with the relevant investigating authority who will have day-to-day responsibility for dealing with the source on behalf of that authority, and for the source’s security and welfare;
 - (b) that there will at all times be another person holding an office, rank or position with the relevant investigating authority who will have general oversight of the use made of the source;
 - (c) that there will at all times be a person holding an office, rank or position with the relevant investigating authority who will have responsibility for maintaining a record of the use made of the source;
 - (d) that the records relating to the source that are maintained by the relevant investigating authority will always contain particulars of all such matters (if any) as may be specified for the purposes of this paragraph in regulations made by the Secretary of State; and
 - (e) that records maintained by the relevant investigating authority that disclose the identity of the source will not be available to persons except to the extent that there is a need for access to them to be made available to those persons.
 - (f) that a risk assessment has been carried out to determine the risk to the source of any tasking and the likely consequences should the role of the source become known. The ongoing security and welfare of the source, after the cancellation of the authorisation, should have also be considered at this stage.

For further information please refer to paragraphs 1.22 to 1.29 above.

- 4.10 Authorising Officers should always complete their authorisation by hand to avoid being challenged at a later date as to the authenticity of their authorisation.
- 4.11 Where a previously unidentified subject is identified or an additional subject is subsequently identified during the course of surveillance, the surveillance may continue in order to maintain contact. Thereafter, a revised authorisation will be required to cover the additional subject etc. New individuals **must not** be added to the original authorisation retrospectively.

Judicial Approval:

- 4.12 As soon as an authorisation has been granted through the internal procedure the following steps must be taken to obtain judicial approval:
1. HMCTS administration at the magistrates' court should be contacted by calling 01622 671041 for a hearing to be arranged – such hearings will be held in private.
 2. A copy of the original RIPA authorisation and supporting documentation should be provided to the JP (a District Judge or lay magistrate) and **should contain all information that is relied upon.**
 3. Two copies of the partially completed judicial approval/order form should be provided to the JP – one for the Court to keep and one for the Council.
 4. Attend hearing. For details of who should attend please see the following paragraph.
- 4.13 Consideration should be given as to who is the most appropriate person to attend the hearing to request judicial approval. As it is likely that the JP will have questions for whoever attends it should be someone with a detailed knowledge of the case. The OSC Guidance suggests that the most appropriate person to attend is the authorising officer as only they can explain their reasoning on necessity, proportionality, collateral intrusion and risk. It is recognised that this is not always practicable, and in these cases it is likely that the investigating officer should attend and promptly report back any comments made by the JP to the authorising officer. *Any officer that attends on behalf of the Council must be authorised to do so by the Head of Legal under section 223 of the Local Government Act 1972. A list of those authorised will be kept with the central record of authorisations.*
- NB: All evidence of necessity and proportionality **must** be in the RIPA/CHIS application form as it is not sufficient to provide oral evidence at the hearing where this is not reflected or supported in the papers provided.*
- 4.14 Following consideration of the case the JP will complete the order section of the judicial application / order form recording their decision to either approve or refuse the authorisation or to refuse and quash the original authorisation.
- 4.15 Whilst Home Office Guidance urges Local Authorities to make local arrangements to deal with out of hours access to a JP for urgent cases our local HMCTS legal staff have advised that they do not envisage there to ever be a need for the authority to require urgent access, therefore all applications should be made in Court hours. The Senior Responsible Officer will continue to review the situation and if it is proven that there is a need for local arrangements for urgent cases to be made we will contact the Court again.
- NB: It should be remembered that in most emergency situations it is likely that the police would have the power to act, and in such cases they would be able to authorise the activity without prior judicial approval.*
- 4.16 Authorising officers should not be responsible for authorising investigations or operations in which they are directly involved, although it is recognised that this may sometimes be unavoidable, especially in the case of small organisations, or where it is necessary to act urgently.

Directed surveillance conducted from premises

(ref: R v Kenneth Johnson)

- 4.17 In the event that covert surveillance is required to be conducted from premises the following guidelines must be followed:
- Prior to covert surveillance being conducted from premises the line manager (or above) responsible for the investigation must visit the premises to ascertain the attitude of the occupiers to the surveillance activities and to the possible disclosure of information which might enable them to be identified.
 - Immediately before trial the Head of Services (or above) must ascertain whether the occupiers of the premises are the same as when the surveillance took place and, whether they are or not, what their feelings are as to the disclosure of information which might cause them to be identified.

Reviews:

Forms:

- Review of the use of Directed Surveillance form
- Review of the use of CHIS form

- 4.18 Written authorisations granted under RIPA for a CHIS cease to have effect twelve months after the date of granting of the authorisation. All other written authorisations under RIPA cease to have effect three months after the authorisation was granted.
- 4.19 Regular reviews of authorisations should be undertaken by the officer responsible for conducting the investigation (Investigation Manager), and approved by the authorising officer, to assess the need for the surveillance to continue. *There is no requirement for the JP to consider internal reviews.* A copy of the review form should be retained by the officer responsible for conducting the investigation (Investigation Manager) and the original should be passed to the RIPA Co-ordinating Officer. Particular attention is drawn to the need to review authorisations frequently where the surveillance provides access to confidential information or involves collateral intrusion.
- 4.20 In each case the authorising officer should determine how often a review should take place. This should be as frequently as is considered necessary and practicable, *recommended at least monthly and immediately after the date the surveillance is due to end.*

Renewals:

Forms:

- Renewal of Directed Surveillance form
- Renewal of CHIS form

- 4.21 If at any time before an authorisation would cease to have effect, the authorising officer considers it necessary for the authorisation to continue for the purpose for which it was given, he may renew it in writing for a further period of **three or twelve months**.
- 4.22 A renewal takes effect at the time at which, or day on which the authorisation would have ceased to have effect but for the renewal. An application for renewal should not be made until shortly before the authorisation period is drawing to an end. Any person who would be entitled to grant a new authorisation can renew an authorisation.

- 4.23 Applications for renewal of an authorisation for covert surveillance should record:
- whether this is the first renewal or every occasion on which the authorisation has been renewed previously;
 - any significant changes to the information at paragraph 4.3
 - the reasons why it is necessary to continue with the directed surveillance;
 - the content and value to the investigation or operation of the information so far obtained by the surveillance;
 - the result of regular reviews of the investigation or operation.

4.24 Authorisations may be renewed more than once, provided they continue to meet the criteria for authorisations. A copy of the renewal forms should be retained by the officer responsible for conducting the investigation (Investigation Manager) and the original should be passed to the Co-ordinating Officer for the required information to be recorded in the Central Record of Authorisations (see paragraph 2.7).

4.25 **Following the internal authorisation for renewal process it will again be necessary to obtain judicial approval for the authorisation to be renewed and the same process detailed in 4.12 to 4.14 above should be followed.**

NB: Where renewals are timetabled to fall outside of court hours it is for the Local Authority to ensure that the renewal is completed ahead of the deadline.

Cancellations:

Forms:

- Cancellation of Directed Surveillance form
- Cancellation of CHIS form

4.26 A written authorisation granted by an authorising officer will cease to have effect (unless renewed) at the end of a period of **three months in relation to Directed Surveillance** or **twelve months in relation to CHIS** beginning with the day on which it took effect, however the authorising officer who granted or last renewed the authorisation must promptly cancel the authorisation if he is satisfied that the covert surveillance no longer meets the criteria for authorisation, including, but not limited to, where during the investigation it becomes clear that the offence being investigated no longer meets the crime threshold.

4.27 As soon as the decision is taken that covert surveillance should be discontinued, the instruction must be given to those involved to stop all surveillance of the subject(s) and a record made of the date and time when the instruction was given. A Cancellation of the use of directed surveillance form must be completed by the officer responsible for conducting the investigation (Investigation Manager) and signed by the Authorising Officer. *There is no requirement for the JP to consider cancellations.*

4.28 Cancellation forms should be retained by the Investigating Manager and the original should be passed to the RIPA Co-ordinating Officer for the required information to be recorded in the Central Record of Authorisations (see paragraph 2.7).

To ensure prompt cancellation Investigation Managers should advise the authorising officer as soon as surveillance activity has ceased.

5. AUTHORISATION PROCEDURES FOR COMMUNICATIONS DATA

- 5.1 Only officers authorised by the Council's Designated Person can submit applications via the NAFN secure website facility. Authorised officers are assigned a website username and password to access the NAFN SPoC application system.
- 5.2 Applications should detail the necessity, purpose and proportionality of each request for information, in addition to consideration of collateral intrusion arising from the request for information. The level of detail should be as required for covert surveillance and CHIS applications – See 4.3.
- 5.3 Applications which do not provide adequate detail will be returned to applying officers for reworking prior to submission to the Council's Designated Person for consideration and approval. Applications will only be approved where the DP considers the application to be necessary and proportionate to the investigation.
- 5.4 As soon as an authorisation has been granted through the internal procedure it will be for the Council to obtain judicial approval following the procedure detailed above at paragraphs 4.12 to 4.14. The JP will complete the order section of the judicial application / order form reflecting their decision after which the Council will then be required to upload a copy of this order to the NAFN SPoC system.

6. Authorisation Control Matrix/ Aide-memoire:

- 6.1 To assist officers responsible for conducting investigations (Investigation Managers) to maintain appropriate records and comply fully with the Regulations a suitable Authorisation Control Matrix has been included at Appendix C. Dates of Reviews and when Authorisations cease should also be diarised as a further aid-memoire so that Reviews, Renewals and Cancellations are properly completed in a timely manner.

7. Complaints Relating to the use of RIPA

- 7.1 The Investigatory Powers Tribunal is a court which investigates and determines complaints which allege that public authorities or law enforcement agencies have unlawfully used covert techniques and infringed an individual's right to privacy, as well as claims against the security and intelligence agencies for conduct which breaches a wider range of our human rights. Where a member of the public wishes to complain about the Council's use of, or conduct of these powers they should be directed towards the Tribunal's website at <http://www.ipt-uk.com/>.

8. Non-RIPA Surveillance

Where the crime threshold for surveillance cannot be met, surveillance can still be considered as a last resort if it is deemed to be both necessary and proportionate. In such cases the same internal procedure used for the authorisation, renewal, review and cancellation of a RIPA application set out on pages **15 to 19** are to be followed, however the relevant non-RIPA form is to be used with all documentation being held centrally by the RIPA Co-ordinating Officer. For non RIPA applications there is no requirement to obtain Judicial Approval.

Relevant Legislation and Guidance

The Data Protection Act 2018

The Act provides six principles to be observed to ensure that the requirements are complied with. They provide that personal data (which includes personal data obtained from **covert surveillance techniques**) must:

- 1 be used fairly, lawfully and transparently;
- 2 be used for specified, explicit purposes;
- 3 be used in a way that is adequate, relevant and limited to only what is necessary;
- 4 be accurate and, where necessary, kept up to date;
- 5 be kept for no longer than is necessary; and
- 6 be handled in a way that ensures appropriate security, including protection against unlawful or unauthorised processing, access, loss, destruction or damage.

The Human Rights Act 1998

Article 8, of the European Convention on Human Rights is relevant in the context of **covert surveillance** in that it states:

- everyone has the right to respect for his private and family life, home and correspondence;
- there is to be no interference with the exercise of these rights by the local authority, except where such interference is in accordance with the law and is necessary in a democratic society in the interest of national security, public safety or the economic well being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others

Article 6, of the Convention is also relevant in the context of **covert surveillance** in that everyone has the right to a fair trial, including internal procedures or hearings, and fairness extends to the way in which evidence is obtained.

The Regulation of Investigatory Powers Act 2000

- The Act strikes a balance between community responsibilities, including effective law enforcement and individual rights and freedoms. The principles of RIPA are as follows:
- Surveillance is an intrusion into the privacy of the citizen. It should not be undertaken unless it is necessary, proportionate to the alleged offence and properly authorised. Where there is an alternative legal means of obtaining information that is less intrusive on the rights of the citizen, the alternative course rather than surveillance should be taken.
- Surveillance will be conducted within the constraints of the Council. It will cease when evidence sought has been obtained or when it becomes clear that the evidence is not going to be obtained by further surveillance. At that point authorisation must be cancelled.

- In every instance where surveillance is authorised the officer who conducts surveillance will consider and make plans to reduce the level of collateral intrusion into the privacy of third parties.
- All outstanding surveillance authorisations will be reviewed at regular intervals and cancelled where there is no further need for surveillance.
- All officers involved in applying for, authorising or undertaking surveillance will understand the legal requirements set out in RIPA and the Code of Practice. They will personally take responsibility of their involvement.
- All authorisations, notebooks, surveillance logs and other ancillary documentation that relates to surveillance will be maintained to the required standard for three years. All documentation will be volunteered for any management or regulatory inspection on demand.
- Any failure of any part of the process will be brought to the attention of the manager responsible for the investigation.
- Wilful disregard of any part of the Surveillance Code of Practice or of internal procedures will be dealt with in line with Council policy.

Protection of Freedoms Act 2012

The Act amended the Regulation of Investigatory Powers Act 2000 (RIPA) to make local authority authorisation subject to judicial approval. It also limited a Local Authorities use of RIPA so that authorisations could only be obtained for directed surveillance to prevent or detect criminal offences that are either punishable, whether on summary conviction or indictment, by a minimum term of at least six months imprisonment or are related to the underage sale of alcohol and tobacco.

Investigatory Powers Act 2016

The Act will provide a new framework to govern the use and oversight of investigatory powers by law enforcement and the security and intelligence agencies. The aim of the Act is to bring together all of the powers already available to law enforcement and the security and intelligence agencies to obtain communications and data about communications and will make these powers and the safeguards that apply to them clear and understandable. In addition it creates a powerful new Investigatory Powers Commissioner to oversee how these powers are used and ensures powers are fit for the digital age.

Criminal Procedures & Investigation Act 1996 (CPIA)

The Act sets out legal obligations concerning criminal investigations. The principles of the Act are as follows:-

- **Record** - Information must be recorded in a durable and retrievable form. It must be full & factual. File notes must be contemporaneous, dated & preferably timed. There should be no personal comments, biased opinions, and prejudiced observations.
- **Retain** - All material obtained in the course of an investigation must be retained in the investigation file. The origin, date & if appropriate the time it was obtained must be recorded. The reasons for action must be recorded, including any request for authorised surveillance, and details of the risk assessment.

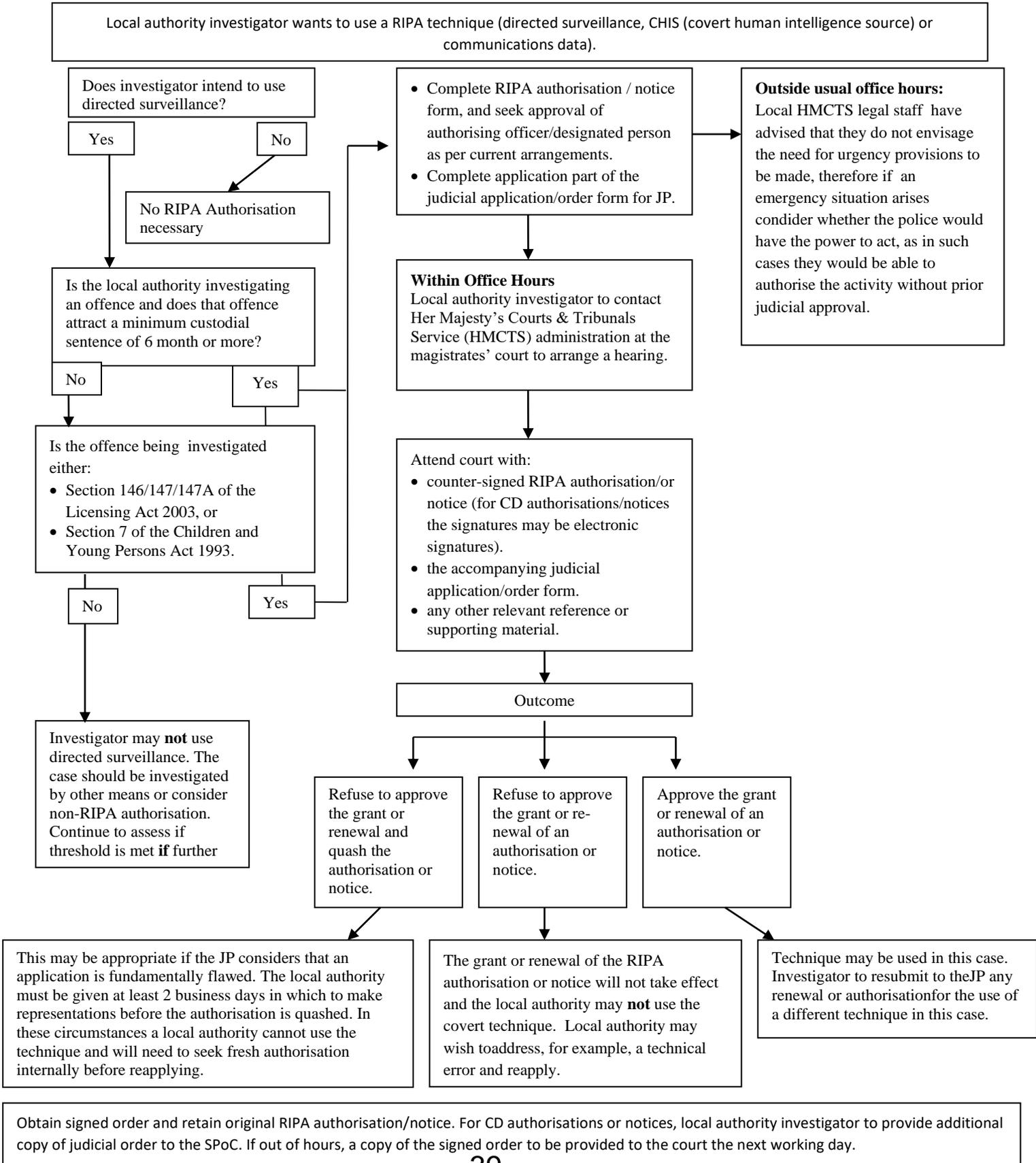
- **Reveal** - 3 clearly identifiable roles on all investigation files:-
 - Investigator
 - Officer in Charge of the Investigation
 - Disclosure Officer
- Unused material is listed on two schedules: -
 - Non-sensitive
 - Sensitive.

Guidance Notes and Codes of Practice:

- Covert Surveillance and Property Interference Code of Practice – Home Office
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/384975/Covert_Surveillance_Property_Interference_web_2_.pdf
- Covert Human Intelligent Source Code of Practice – Home Office
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/384976/Covert_Human_Intelligence_web.pdf
- Acquisition and Disclosure of Communications Data Code of Practice – Home Office
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/426248/Acquisition_and_Disclosure_of_Communications_Data_Code_of_Practice_March_2015.pdf
- Guidance to local authorities in England and Wales on the judicial approval process for RIPA and the crime threshold for directed surveillance – Home Office, October 2012
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/118173/local-authority-england-wales.pdf

Information can also be obtained from the website of the Investigatory Powers Commissioner's Office at <https://www.ipco.org.uk/> who has absorbed the powers of the Office of Surveillance Commissioners and the Interception of Communications Commissioners Office.

**LOCAL AUTHORITY PROCEDURE:
APPLICATION TO A JUSTICE OF THE PEACE SEEKING AN ORDER TO APPROVE THE
GRANT OF A RIPA AUTHORISATION OR NOTICE**



AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

28 July 2021

Annual Governance Statement 2020-21 and Refreshed Local Code of Corporate Governance 2021

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

Executive Summary

The purpose of the report is to present the Annual Governance Statement for 2020-21 and refreshed Local Code of Corporate Governance for consideration and approval of the Audit, Governance and Standards Committee. The Annual Governance Statement is a review of the effectiveness of the Council's governance arrangements, the statement concludes that the Council has effectiveness governance arrangements in place.

Purpose of Report

Decision

This report makes the following recommendations to this Committee:

To approve the Annual Governance Statement for 2020-21 at Appendix A and refreshed Local Code of Corporate Governance at Appendix B.

Timetable

Meeting	Date
Wider Leadership Team	8 June 2021
Corporate Leadership Team	20 July 2021
Audit, Governance and Standards Committee	28 July 2021

Annual Governance Statement 2020-21 and Refreshed Local Code of Corporate Governance 2021

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	<p>The four Strategic Plan objectives are:</p> <ul style="list-style-type: none"> • Embracing Growth and Enabling Infrastructure • Safe, Clean and Green • Homes and Communities • A Thriving Place <p>Effective corporate governance arrangements ensure the Council's priorities are understood and delivered</p>	Head of Policy, Communications and Governance
Cross Cutting Objectives	<p>The four cross-cutting objectives are:</p> <ul style="list-style-type: none"> • Heritage is Respected • Health Inequalities are Addressed and Reduced • Deprivation and Social Mobility is Improved • Biodiversity and Environmental Sustainability is respected <p>Effective corporate governance arrangements ensure the Council's priorities are understood and delivered</p>	Head of Policy, Communications and Governance
Risk Management	The most significant risks from the Corporate Risk Register are included within the action plan in the Annual Governance Statement.	Head of Policy, Communications and Governance
Financial	The proposals set out in the recommendation are all within already approved budgetary headings and so need no new funding for implementation.	[Section 151 Officer & Finance Team]
Staffing	We will deliver the recommendations with our current staffing.	Head of Policy, Communications and Governance
Legal	<p>Section 6(1) of the Accounts and Audit Regulations 2015 requires all local authorities to:</p> <p>a) conduct a review of the effectiveness of</p>	Head of Mid Kent Legal Partnership

	the system of internal control required by regulation 3; and (b) prepare an annual governance statement; Under the Council's Constitution one of the functions of the Committee is to oversee the production of the Council's Annual Governance Statement. The Annual Statement demonstrates measures are in place to ensure good governance arrangements which enable the Council to meet its statutory requirements.	
Privacy and Data Protection	Data protection is covered in the statement and action will continue into 2021-22.	Policy and Information Team
Equalities	Effective corporate governance arrangements include behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law as set out in the code of corporate governance.	Policy & Information Manager
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Head of Policy, Communications and Governance
Crime and Disorder	No implications.	Head of Policy, Communications and Governance
Procurement	Procurement processes and procedures are part of effective governance arrangements.	Head of Policy, Communications and Governance
Biodiversity and Climate Change	The review of the governance framework includes environmental impact.	Head of Policy, Communications and Governance

2. INTRODUCTION AND BACKGROUND

- 2.1 Each year the Council reviews its governance arrangements to ensure compliance with the Local Code of Corporate Governance. The purpose of the review is to provide assurance that governance arrangements are adequate, operating effectively and to identify action which is planned to ensure effective governance in the future. The outcome of the review takes the form of an Annual Governance Statement (AGS) at **Appendix A** prepared on behalf of the Leader of the Council and Chief Executive.
- 2.2 Overall, we can confirm that the Council has the appropriate governance systems and processes in place. Whilst we are satisfied the governance arrangements in general work well, our review has identified additional actions to ensure good standards of governance are maintained.

- 2.3 The most significant governance issues still relate to COVID-19 as they did when we carried out our review last year. The review of the Council’s governance arrangements also considers the requirements of the new financial management code and these have also been included in the action plan for 2021-22.
- 2.4 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.
- 2.5 The following areas have been identified for improvement for 2020-21:

Corporate Governance Area	Lead Officer	By When
Make data and information more freely accessible on the website and on request	Data Protection Officer	Project to be completed by March 2022
Data Protection Action Plan (previously reported to Audit Governance and Standards Committee)	Data Protection Officer	Action plan progress will be reported to this committee in November 2021
Raising awareness of the code of local governance and the Nolan Principles	Head of Policy, Communications and Governance	Updates in November 2021 and March 2022
Actions to ensure compliance with the Financial Management Code: <ul style="list-style-type: none"> • Develop and embed a policy on Social Value • Review and update the Commissioning Strategy • Hold Member workshops to inform the development of the 2022/23 budget • Review approach to investment appraisal for conformance with ‘Principles in Project and Investment Appraisal’ • Assess the usefulness of budget monitoring reports to the leadership team in supporting strategic decision making and 	Director of Finance and Business Improvement	Updates in November 2021 and March 2022

Corporate Governance Area	Lead Officer	By When
<p>identify scope for improving these as appropriate.</p> <ul style="list-style-type: none"> • Refresh the 2021/22 Capital Strategy 		
Learning from governance failings at other Local Authorities	Chief Executive	Updates in November 2021 and March 2022
Review of Church Road, Otham	Head of Policy, Communications and Governance	Report in November 2021
Change to Executive Model of Governance	Head of Policy, Communications and Governance	Updates in November 2021 and March 2022
Promoting decision making on Garden Communities ensuring information is publicly available and accessible and the role of the council as developer versus the role as the planning authority is clear.	Director of Regeneration and Place	Updates in November 2021 and March 2022
Corporate Risk: Contraction in retail and leisure sectors, the Council will be developing a Town Centre Management Strategy	Director of Regeneration and Place	Updates in November 2021 and March 2022
Corporate Risk: Financial Restrictions	Director of Finance and Business Improvement	Updates in November 2021 and March 2022
Corporate Risk: Environmental Damage	Head of Transformation and Property	Updates in November 2021 and March 2022
Corporate Risk: Brexit/EU transition	Director of Finance and Business Improvement	Updates in November 2021 and March 2022

Local Code of Corporate Governance

- 2.6 The Local Code of Corporate Governance was previously updated in 2020 has been refreshed this year to reflect changes regarding evidence and some other minor updates these are included as tracked changes in Appendix B.
-

3. AVAILABLE OPTIONS

- 3.1 The Annual Governance Statement is a requirement of statutory regulations and provides assurance about the Council's governance arrangements.
- 3.2 The Committee can approve the Annual Governance Statement as it has been presented or request amendments as it deems appropriate.
- 3.3 The Local Code of Corporate Governance was rewritten in 2017 and updated in 2020 the refreshed version attached at Appendix B has minor amendments for approval by the Committee, the Committee could request additional amendments or no amendment to the present code.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The Committee is recommended to review the Annual Governance Statement and action plan at **Appendix A** and approve the areas suggested for improvement for 2020-21. They are also asked to approve the refreshed Local Code of Corporate Governance as amended at **Appendix B**.
-

5. RISK

- 5.1 The Annual Governance Statement considers and gives assurance to the Council's approach to risk management.
-

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Heads of Service and the Corporate Leadership team and the Corporate Governance working Group have all been consulted on the council's governance arrangements for 2020-21, the views gathered have been included in the statement.
-

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 Following the Audit, Governance and Standards Committee's approval the statement will be included in the final statement of accounts and published

on the Council's website. The refreshed Local Code of Corporate Governance will be placed on the website and intranet.

8. REPORT APPENDICES

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

- Appendix A: Annual Governance Statement 2020-21
 - Appendix B: Local Code of Corporate Governance 2021 Refresh
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9. BACKGROUND PAPERS

None.

Annual Governance Statement

2020-21

Contents

Introduction

Key Governance Roles and Responsibilities

Our Governance Framework

Governance Review of Effectiveness 2020-21

Update on Areas Identified for Development in 2019/20 Annual Governance Statement

Corporate Governance Areas for 2020-21

Conclusion on Significant Governance Issues

Introduction

The Annual Governance Statement is a review of the Council's governance arrangements in 2020-21. The statement evaluates how we meet the governance framework and provides an opinion on whether the current governance arrangements are fit for purpose.

The past year has seen the council face challenges in-light of the COVID-19 pandemic and public health emergency. We have been put into the challenging position of managing response and initiating recovery, ensuring we are supporting our most vulnerable residents in immediate crisis and looking at how we can build back better as we emerge from the pandemic. A review of the effectiveness of our governance arrangements includes actions taken because of the pandemic which have been woven throughout each element of governance reviewed.

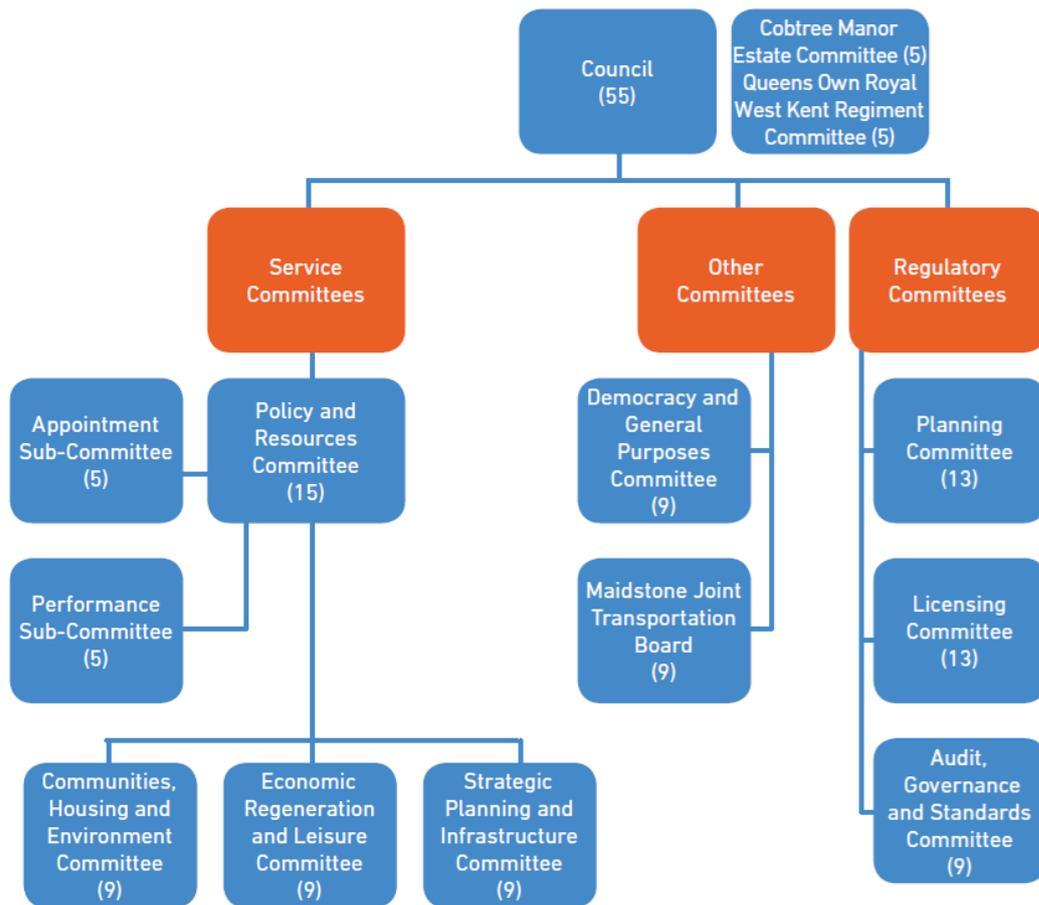
We've also considered the Council's compliance with the Chartered Institute of Public Finance and Accountability's new Financial Management Code and this will be reported to Audit Governance and Standards Committee in July 2021. Areas of improvement have been included in our action plan for 2021-22.

Key Governance Roles and Responsibilities

Maidstone Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. Maidstone Borough Council also has a duty under the Local Government Act 1999 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 2020-21 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.

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 the Chairman 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 delegated authority from Council 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. In May 2020 the Council agreed to change its model of governance to an Executive Model, with the Democracy and General Purposes Committee undertaking this work in 2021-22 for implementation at the May 2022 Annual General Meeting.

Council Governance Model



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 the Corporate 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 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 2020-21, amendments to the Constitution have been referred to the Democracy and General Purposes 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 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 had approved and adopted a Local Code of Corporate Governance in 2017 which has since been updated in 2020 and again this year. The code 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 2021 and up to the date of approval of the Statement of Accounts.

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

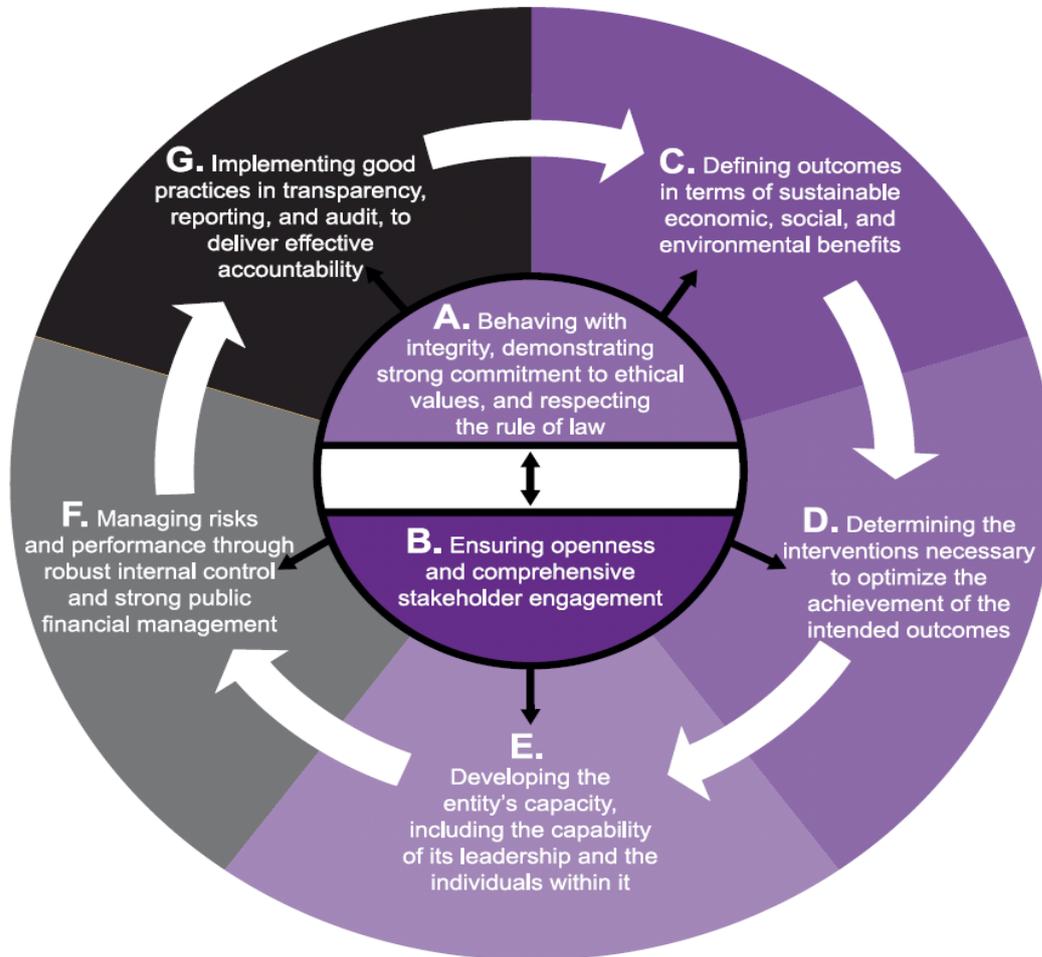
"Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved."

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 2020-21.

The 7 principles within the Local Code of Corporate Governance

Diagram from CIPFA and SOLACE Framework



Governance Review of Effectiveness 2020-21

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

Assured in part

The Council has strong values known and understood by officers one of which is integrity and promotes a culture of compliance. Councillors are trained on the Code of Conduct and guidance is offered from the Monitoring Officer, Corporate Leadership Team and Democratic Services Team.

The Council's Codes of Conduct sets out clear expectations and requirements for behaving with integrity, committing to ethical values, and respecting the rule of law for both Councillors and Officers. It has been identified by the Wider Leadership Team that there could be more awareness of the Nolan Principles and our governance framework throughout the organisation.

The Council adopted the local code of corporate governance in 2017 which complies with CIPFA and SOLACE "Delivering Good Governance in Local Government". This code was updated in June 2020 and has been refreshed in 2021 with input from the Council's Wider Leadership Team. The team identified that awareness should be raised of the code and this will be taken forward as an action in 2021-22.

The Council also has in place a local Code of Conduct for Councillors and a Code of Conduct for staff which includes the Nolan Principles. Code of Conduct training is carried out annually for Councillors and included in the new councillor induction programme to which all members are invited. During the municipal year 2020-21, there were 8 Code of Conduct complaints dealt with under the Localism Act 2011 against Parish Councillors and 1 complaint raised against Borough Councillors. In 2020-21 there continued to be times where confidential information given to Councillors to fulfil their committee and governance role was shared with the media. The Chief Executive continues to work with group leaders on this issue. Democracy and General Purposes Committee reviewed Councillors access to information including external counsel advice and did not make changes to the access to information procedural rules.

The Local Government Association updated the model code of conduct in 2020. Our own local Code of Conduct will be updated in 2021-22 and incorporated as part of the new arrangements.

Information on the employee Code of Conduct is set out in the staff handbook and is included in the induction for all new employees. Following discussion with Wider Leadership Team and a review of the requirements of the new financial code, it has been identified that more could be done to embed the Nolan Principles. This will be an area for improvement in 2021-22 and will be led by the Corporate Governance Working Group.

A [Register of Interests](#) is maintained and training is offered to Councillors on standards, interests and our Code of Conduct. A register of gifts and hospitality is maintained, and staff are reminded to complete this annually. 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.

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 against which staff are assessed annually. A staff survey was carried out at the beginning of 2020 which showed a clear understanding of the Council's priorities and values with 90% of those who responded saying they understand the Council's values. 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.

The statutory roles of the Chief Financial Officer (s.151 officer) and the Monitoring Officer are set out in the [Constitution](#) and in the scheme of delegation. They provide oversight of propriety and lawfulness. They have a direct reporting line to the Chief Executive and are involved in all major decision-making preparation through membership of the Corporate Leadership Team, as well as being signatories to all key and other significant decisions.

There is an [Equality Policy](#) in place for the organisation; the objectives and action plan were updated in 2020 and will be reviewed and updated again in 2021.

The [Constitution](#) is kept under review by the Democracy and General Purposes Committee and the Monitoring Officer, with changes agreed by full Council.

In 2019 the Council created a separation between the Local Plan Review and other Planning Functions as the Director for Regeneration and Place is leading on the proposal for a Council-led garden community. This has ensured a clear separation of roles.

During 2020-21 the Council consistently followed government advice in taking decisions on service delivery during the public health emergency. Consequently, a decision was taken to close several Council venues including the Museum and Lockmeadow. Play areas were closed and several services that were either non-essential or non-compatible with social distancing rules were suspended including food safety inspections and taxi driver knowledge tests. The Council's contractors also closed the leisure centre and the theatre in 2020 in response to the pandemic. Services have now resumed in accordance with government guidance.

B. Ensuring openness and comprehensive stakeholder engagement

Assured

The council is proactive in relation to transparency and stakeholder engagement.

The Communications team have issued 190 press releases in 2020-21 as well as our council magazine Borough Insight, including one special edition focussing on the impact of the pandemic and the services and support available. The need for good communication with residents and businesses was accentuated during the response phase to the COVID-19 public health emergency. The Communications team supported front line service delivery communication needs through over 50 design projects including signage, posters, newsletters, 44 press releases, 22 radio interviews and six radio adverts. Topics covered include changes to services e.g. parking, parks and new initiatives including business rate grants, virtual committee meetings and the community hub. The team have also been active across social media channels producing over 300 posts on both Facebook and twitter as well as 22 posts on Instagram. The team also encouraged the take-up of the COVID-19 vaccine with campaigns targeted at groups and areas where there is evidence they are less likely to get the vaccine.

During 2020/21 the Policy and Information team have carried out 25 consultations. Nine of these were internal, aimed at staff or members. Fourteen were public residents or stakeholder consultations, and two were undertaken on behalf of other local authorities. Overall, 19,100 responses were received to consultations run by the Policy & Information team in 2020/21.

Public consultations were undertaken on a variety of topics, some of which focussed on specific geographical areas in the borough such as Weaving Heath and the Town Centre. Other consultations sought information about specific policies or how residents feel about particular issues. For example, the impact of Covid-19 Survey, looked at behavioural changes caused by the pandemic and The Youth Crime Survey, explored how safe young people in Maidstone feel. The information gathered through these surveys has been used to support decisions on Council spending, licensing policy and renewal of the Council's Public Spaces Protection Orders. Survey data has also been used to identify and prioritise improvements, for example the Bus Station Improvement Survey, and to assess how our staff were feeling as a result of the pandemic and changes to ways of working through the Staff Wellbeing Survey.

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 matters.

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. This data has been reviewed in 2020-21 and a new project has been agreed to improve openness and transparency as an improvement area for 2021-22 to improve access to data, increase transparency and update information. The Council's website includes an [accessibility statement](#) to inform users how the site has been tested and audited to improve accessibility as well as identifying areas for improvement.

We have dealt with a large volume of Freedom of Information requests a total of 896 requests of which 96% were processed on time, a sustained performance compared to the previous year in which we dealt with 893 requests and 96% processed on time.

The Council applies the public interest test appropriately when deciding whether reports or other information the Council holds have to be confidential, and makes an effort to put as much information in the public domain as possible, including splitting confidential information into appendices to allow discussion of the broader topic in public. Over the last year the Council has been subject to increased scrutiny in relation to its Garden Community Proposal, and this has been identified as an area for continued improvement for 2021/22.

To ensure robust, effective and transparent decision making in 2020-21 the Council utilised remote technology to enable committee meetings to go ahead with full public access and engagement on-line. This ensured all councillors could attend meetings, and public could access was maintained alongside participation through question time. We continue to use remote working technology to allow public participation remotely.

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. We have acted as community ambassadors in our capacity as the democratically elected body representing residents with partners. We continue to build relationships with partner organisations including at a Councillor level as evidenced by Golding Homes' attendance at the Communities, Housing and Environment Committee meetings in 2020-21.

Involve, through a service level agreement with the Council continue to run a number of forums, including Service Providers, Voluntary and Community Sector, Children and Young People, Health, Wellbeing and Disability and a West Kent Multicultural Network which offer learning and insight through join up with practitioners and partner organisations. Involve also facilitate a wider reach for consultation and engagement with the wider community through its networks. This is achieved via its weekly newsletter and emails. During the pandemic the forums were brought together, as many of the challenges faced from social isolation to digital inclusion affected all the sectors covered by the forums.

For the Council, COVID-19 illustrated the need to be able to reach the community directly to understand its needs. Involve continue to play an important role in this going forward. However, the work of the Community Hub and the repository of community organisations that came forward to offer help during the pandemic continues to be built upon and developed. The Council are already engaging with this growing cohort and can include them in public consultations to provide invaluable insight.

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

Assured

The Council’s priorities and cross cutting objectives in the Strategic Plan 2019-45 seek outcomes with sustainable economic, social, and environmental benefits. In 2020-21 the plan’s areas of focus were updated in response to COVID-19

A Biodiversity and Climate Change Strategy and Action Plan was approved by policy and Resources Committee in 2020 and training is planned in 2021-22 to embed this in decision making

The Council developed a [Strategic Plan](#) in 2018 through a series of events, meetings and consultation with stakeholders. We have in place a clear 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 which are reviewed monthly. 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 template has been updated to include biodiversity and climate change considering the council's new biodiversity and climate change strategy. We also have a robust risk management framework in place; risks are reported to the Wider and Corporate Leadership Teams, Policy and Resources and Audit, Governance and Standards Committees.

In 2020-21 the Council revised the Strategic Plan's areas of focus updating them from 2019-24 to 2021-26 with the following changes:

- A focus on delivering those actions in the new Economic Delivery Strategy (EDS) that will promote economic recovery from COVID-19
- Delivering a sustainable and vibrant leisure and cultural offer
- Working with community groups and parish councils to develop community resilience and pride in our Borough
- Promote inward investment; and
- Identifying opportunities with partners to reduce health inequalities in the Borough.

A Biodiversity and Climate Change Strategy and Action Plan was approved in 2020 and is overseen by the Policy and Resources Committee through six monthly updates.

The Council has an inclusion board to support the delivery of its social inclusion and equalities responsibilities. In 2020-21 in response to the ongoing public health emergency, we supported the most vulnerable residents in the borough including over 10,500 people who have been identified as Clinically Extremely Vulnerable and a significant number of families who have been financially vulnerable. For example during the first wave over 1,200 food parcels were delivered in addition to the significant support provided through foodbanks and parish councils. The spatial distribution for these food parcels reflected the pattern of deprivation in the borough. Financial Inclusion has been identified as an area of work in our actions for recovery and renewal.

In September 2020 the Communities, Housing and Environment commissioned a review of access to services which is due to be completed in 2022 at the end of the municipal year. The review includes communications, digital accessibility and buildings.

In early 2019, the Council committed to be part of the [compassionate cities](#) programme working in partnership with the Heart of Kent Hospice. We held our first [compassionate community awards](#) in October 2020 to acknowledge individuals, groups and organisations who went above and beyond to make a difference to so many people in their communities throughout the COVID-19 lockdown.

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

Assured

Oversight and healthy challenge are provided through service committees, boards and working groups.

The Council's risk register has been reviewed and updated with key risks included in the action plan for 2021-22

The [Council's Constitution](#) clearly defines the roles and responsibilities of Officers and Councillors. It has been kept under regular review in 2020-21 with amendments made to the planning referral process in 2020.

The Council's four service committees are responsible for making decisions on the services delivered by the Council. The four service committees, Democracy and General Purposes 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](#).

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 2020-21. Performance management became critical in managing our response to the COVID-19 Pandemic, with unit managers providing daily reports of issues, risks and implications for service delivery performance. This enabled Corporate Leadership Team to review needs and pressures and redistribute resources as needed; a dashboard of Key Performance Indicators for key services was also established to enable evidence based oversight. Our emergency planning arrangements were also developed so that we had a plan in place to manage any other emergency that may occur simultaneously whilst we dealt with the response to COVID-19

The Council has a Transformation Team which carries out reviews to improve the efficiency of Council services. In 2020-21 reviews were carried out covering: Corporate Support Automation, the corporate induction, Council storage project new ways of working print review, building control review and corporate property review.

A clear separation of responsibility has been established for property maintenance and health and safety compliance, regarding our residential property (private sector and temporary accommodation) being managed by the Housing Team and commercial property by the Corporate Property Team. Regular checks are carried out to comply with the legal requirements for health and safety, including properties where the prime responsibility lies with the tenant. The outcomes are reported on a regular monthly basis to Corporate Leadership Team, and this continued to be reported on in 2020-21.

The highest level risks on the Corporate [Risk Register](#), were reported to and monitored by Corporate Leadership Team throughout the year, and action was 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.

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

Assured

The Council has a clear commitment to developing capacity with a well-developed Learning and Development Programme and an Established Members Charter in place.

Staff and Councillors have the opportunity to attend training relevant to their roles and there are agreed budgets for Member development and Staff.

In early 2020 a staff survey was undertaken in which 69% of respondents answered that they were able to access the right learning and development opportunities when they need to. 59% of staff identified that the learning and development activities completed in the last twelve months had helped to improve their performance.

The Council in 2020 introduced a new "check-in" system to manage one to ones, performance objectives and personal development plans. Managers are encouraged to discuss objectives monthly with their team members and review personal development plans regularly rather than at six monthly intervals. In 2021 the Learning and Development Team have met with managers to identify training needs and have developed a new management programme for 2021-22 based on the feedback received.

The Council has a learning and development programme in place for officers approved by the Wider Leadership Team and a Member Development Charter in place for Councillors. There is a wide variety of training offered to staff and Councillors. During 2020-21 training was adapted to cater for remote working

with a wide variety of bite size training and webinars offered online covering resilience, remote working, growth mindset and wellbeing. The Annual One Council staff event and awards was held on-line this year to allow as many staff as possible to access the event safely. In response to the new ways of working adopted because of the pandemic we introduced monthly all staff webinars which cover progress against our priorities, briefings on projects and updates for staff; these are led by the Chief Executive.

The Strategic Plan sets out a number of priorities and outcomes to be achieved by 2045. In 2021 Policy and Resources Committee agreed new areas of focus for these priorities for the next five years and are now in the process of developing actions for recovery and renewal in response to the pandemic.

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

Assured in part

Performance and risk are well managed and regularly reported to management team and committees.

Significant risks from the corporate risk register feature in the Annual Governance Statement Action Plan for 2021-22.

Several actions have been identified through reviewing council compliance with the new Financial Management Code

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

During the first 4 weeks of response to the pandemic, unit managers provided daily reports of issues, risks and implications for service delivery performance enabling CLT to review needs and pressures and redistribute resources as

needed; a dashboard of Key Performance Indicators for key services was also established to enable evidence based oversight.

As a result of the pandemic the Data Protection Officer was redeployed to lead the community hub and work was refocused in the Policy and Information Team to provide performance dashboards to manage risk and service delivery and insight and analytical support; the areas identified for data protection have not been progressed as planned in 2020-21. Critical work on data sharing agreements and data privacy impact assessments as well as complying with right requests was undertaken.

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. The Council took action in 2020-21 to mitigate the potential impact of budget pressures as a result of COVID-19, which when combined with the increased level of government support, has resulted in the overall out-turn for the General Fund (i.e. excluding the impact of Council Tax and Business Rates collection performance) as an underspend of £1.222 million. Several actions to improve financial management ahead of the introduction of the new Financial Management Code have been identified and these have been included in the action plan for 2021-22. Actions include reviewing the effectiveness of reports and training.

The Council has an anti-fraud and corruption policy in place and a whistle blowing policy, all of which are regularly reviewed by the Audit, Governance and Standards Committee.

The Council has a Data Protection Officer and 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. The Chairman of the Audit, Governance and Standards Committee also attends and contributes to the group. The group regularly monitors trends in rights requests, freedom of information requests, data breaches and cyber security.

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

Assured in part

The Council has a strong commitment to transparency. Regular consultation is carried out to improve and inform services.

A variety of information is available on the council's website

Partnership arrangements are robust

The Council's transparency web pages require updating

The Council's website includes information that is required under transparency. It has been identified that this data has now become out of date and we will be updating the pages as part of a project on open data and 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 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 a refreshed code was considered by Audit, Governance and Standards and Committee in July 2020 with a further revision being presented in July 2021.

Internal audit activity is reported regularly to the Audit, Governance and Standards Committee to inform members of the internal audit activity that takes place during the year.

We are part of the Mid Kent Services Partnership delivering several shared services; to ensure the partnership is operating effectively, regular board meetings are held quarterly to manage performance.

The Council has assessed its compliance with the new Financial Management Code and as a result several actions have been identified to improve transparency and reporting for financial information these have been included in the action plan for 2021-22.

Update on areas identified for development in 2019/20 AGS

Corporate Governance Area	Update
Ensure financial risk arising from the impact of COVID-19 are managed	The financial impact of Covid-19 is monitored in parallel with our regular monthly financial reporting and monthly reports are submitted to MHCLG setting out the impact of Covid-19. The impact of Covid-19 is specifically addressed in our quarterly financial performance monitoring reports to members.
Poor management of contracts or financial resilience of contractors leads to significant contract failure disrupting services and creating extra liabilities. Potential impact on the capital programme because of the resilience of our contractors.	Contract management is recognised as a specific skillset. Contract managers receive training and are familiar with the Council’s contract management toolkit. Financial variances on individual contracts are identified as part of the budget monitoring process and action taking accordingly. Supplier resilience is checked at the point of contract award and, where appropriate, during contract delivery.
Exit of EU on unfavourable terms results in adverse short-term Brexit impacts disrupting the Council's ability to offer services and increasing liabilities.	Officers with emergency planning responsibilities met regularly to plan for any short-term impacts from EU transition on 31/12/20. The Council is part of the Kent Resilience Forum and participates in its regular tactical and strategic coordination groups to plan for EU transition. Individual service area contingency plans were reviewed and updated considering potential threats arising from EU transition.
Data Protection Areas identified for Improvement in 2020-21: <ul style="list-style-type: none"> • Record of Processing Activity updated • CCTV • Information sharing guidance issued and training rolled out • Asset Register and Retention Schedule review completed, and changes implemented 	These actions are now included in the new Data Protection Action Plan which has been reported to Audit, Governance and Standards Committee. The Record of Processing Activity has been completed and the training has been carried out with key teams on data protection.
Capacity to deliver the investment and regeneration programme – (link to Corporate Risk Register).	Within the Council’s 5-year capital programme, around £60m has been allocated for investment in housing and regeneration type projects. The

Corporate Governance Area	Update
	<p>Regeneration & Economic Development service area has been refocussed to lead on this work.</p> <p>The team has taken on additional staffing resources to assist in delivery, as well as undertaken several specialist training programmes, and is now well supported by a trusted pool of specialist external consultancy firms too, providing the likes of Employers Agent and Architects services. There is an acceptable order book of potential suitable projects to deliver, but the challenge is that of taking these to contract stage with the required financial outputs.</p> <p>Approvals have been secured for to projects at King Street and the Former Royal British Legion Club in Parkwood, which will total around 35 new homes. The viability of these two projects has been aided by successful bids to the MHCLG's Brownfield Land Release Fund. A third scheme is due to be considered by Policy & Resources Committee in</p>
<p>Property Maintenance, Health and Safety Compliance.</p>	<p>Compliance with all legal requirements is monitored and reported regularly to CLT. Where the Council is not directly responsible (e.g. responsibility lies with our tenants) we nevertheless follow up with tenants to ensure that they are compliant.</p>
<p>Ensuring we are resilient and continue to build relationships with partners.</p>	<p>Communities, Housing and Environment Committee considered a report on community resilience and how the Council can build on the activity during the Pandemic. The committee agreed that a new community compact with the voluntary and community sector be put in place and the Parish Charter be refreshed in 2021-22 to recognise the roles played by these bodies in an emergency. A monthly newsletter for Parish Councils was introduced and the Council now has a repository of Voluntary and Community Sector Organisations.</p>

Corporate Governance Area	Update
Declaration of Interests.	The process is in the process of being digitalised
Promoting decision making on Garden Communities ensuring information is publicly available and accessible and the role of the council as developer versus the role as the planning authority is clear.	The Council continues to apply the public interest test to reports and information regarding the Garden Community Proposal. Regular update reports on the progress of the Garden Community are received by the Policy and Resources Committee. The Council continues to separate the roles of planning authority and developer with the appointment of a separate director to oversee the planning service and Local Plan Review, allowing the Director of Regeneration and Place to oversee the development of the Garden Community Proposal separately. Political decision making is also separated with the Policy and Resources Committee take responsibility for the Council's role as promoter of this proposition and the Strategic Planning and Infrastructure Committee for consideration of the Garden Settlement in options for the spatial development strategy 2022-2037

Corporate Governance Action Areas 2021-22

Corporate Governance Area	Lead Officer	By When
Make data and information more freely accessible on the website and on request	Data Protection Officer	Project to be completed by March 2022
Data Protection Action Plan (previously reported to Audit Governance and Standards Committee)	Data Protection Officer	Action plan progress will be reported to this committee in November 2021
Raising awareness of the code of local governance and the Nolan Principles	Head of Policy, Communications and Governance	Updates in November 2021 and March 2022
Actions to ensure compliance with the Financial Management Code: <ul style="list-style-type: none"> • Develop and embed a policy on Social Value 	Director of Finance and Business Improvement	Updates in November 2021 and March 2022

Corporate Governance Area	Lead Officer	By When
<ul style="list-style-type: none"> • Review and update the Commissioning Strategy • Hold Member workshops to inform the development of the 2022/23 budget • Review approach to investment appraisal for conformance with 'Principles in Project and Investment Appraisal' • Assess the usefulness of budget monitoring reports to the leadership team in supporting strategic decision making and identify scope for improving these as appropriate. • Refresh the 2021/22 Capital Strategy 		
Learning from governance failings at other Local Authorities	Chief Executive	Updates in November 2021 and March 2022
Review of Church Road, Otham	Head of Policy, Communications and Governance	Report in November 2021
Change to Executive Model of Governance	Head of Policy, Communications and Governance	Updates in November 2021 and March 2022
Promoting decision making on Garden Communities ensuring information is publicly available and accessible and the role of the council as developer versus the role as the planning authority is clear.	Director of Regeneration and Place	
Corporate Risk: Contraction in retail and leisure sectors, the Council will be developing a Town Centre Management Strategy	Director of Regeneration and Place	Updates in November 2021 and March 2022
Corporate Risk: Financial Restrictions	Director of Finance and Business Improvement	Updates in November 2021 and March 2022
Corporate Risk: Environmental Damage	Head of Transformation and Property	Updates in November 2021 and March 2022
Corporate Risk: Brexit/EU transition	Director of Finance and Business Improvement	Updates in November 2021 and March 2022

Conclusion on Significant Governance Issues

Overall, we can confirm that the Council has the appropriate systems and governance arrangements in place.

The S151 Officer has a personal duty under Section 114(3) of the Local Government Finance Act 1988 to report to the Council if it appears that the set budget will be exceeded. Key considerations for the Council include the need for an adequate contingency provision, the S151 officer's guidance on the financial prudence of options before members and ensuring that there are reasonable grounds for making decisions.

Updates on the areas for improvement 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.

Internal Audit Opinion to be updated

The Head of Internal Audit will present the annual report and opinion to Audit, Governance and Standards Committee on 28 July 2021. The specific extract of the covering report that includes the opinion reads:

"The Head of Audit Partnership is satisfied the Council can place assurance on the system of control in place during 2020/21. Further, he is satisfied the corporate governance framework complies in all significant respects with the best practice guidance issued by CIPFA/SOLACE. Finally, he is satisfied the Council's risk management processes are effective"

Signed:

Chief Executive:

Date:

Leader of the Council:

Date:

Maidstone Borough Council
Local Code of Corporate Governance

Updated June 2021

Introduction

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.”

Maidstone Borough Council is committed to the principles of good corporate governance and wishes to confirm its ongoing commitment and intentions through the development, adoption and continued maintenance of a Local Code of Corporate Governance.

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.

Purpose of the Local Code of Corporate Governance

Governance is about how we ensure we are doing the right things, in the right way, for the right people, in a timely inclusive, open, honest and accountable manner.

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, and used economically, efficiently and effectively. 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 code sets out how we meet these requirements, how we conduct our business and affairs

The Governing Body

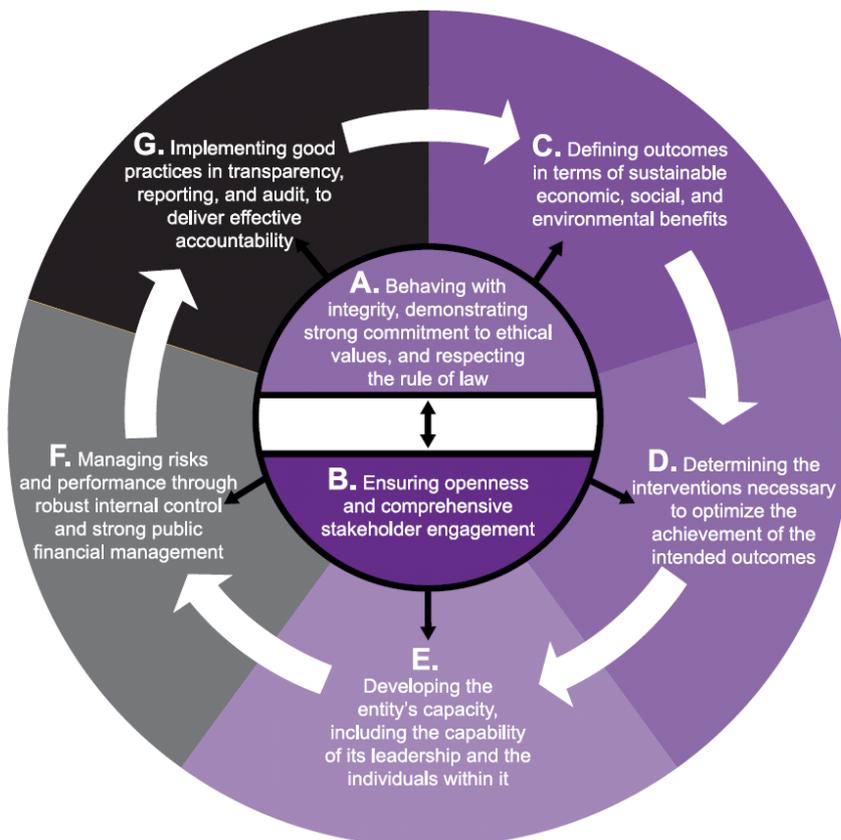
The governing body of an organisation has overall responsibility for directing and controlling that organisation. In local government the governing body is the full council or authority. In England, the Local Government Act 2000 introduced new governing structures for all local councils, clarifying responsibility for making decisions and establishing a scrutiny role. The Localism Act 2011 amended the provisions relating to Executive Arrangements and allowed local authorities to return to decision-making by committees if they so resolved.

In 2015 Maidstone Borough Council resolved to change its governance arrangements to a committee system. The Council has in place four service committees to make decisions as delegated by Full 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 delegated authority from Council 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 Seven Principles

In order to achieve good governance we need to demonstrate that our governance structures comply with the principles contained within the Delivering Good Governance in local Government Framework 2016.



Annual Review and Reporting

To comply with the principles of good governance we must ensure that systems and processes are continually monitored and kept up to date. An annual review of the Council's Corporate Governance arrangements will be carried out using the guidance contained in the CIPFA/SOLACE Framework. The purpose of the review will be to provide assurance that governance arrangements are adequate and operating effectively or to identify action which is planned to ensure effective governance in the future. The results of the review will take the form of an Annual Governance Statement prepared on behalf of the Leader of the Council and the Chief Executive. It will be submitted to the Audit, Governance and Standards Committee for consideration and review.

Actions and behaviours taken by the Council that demonstrate good governance

Principle A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Sub Principle	Actions and behaviours	Evidence
Behaving with Integrity	<ul style="list-style-type: none"> • We ensure that councillors and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation • We ensure that councillors take the lead in establishing values for the organisation and its staff and that they are communicated and understood. Building on the Seven Principles of Public Life (the Nolan Principles) • We lead by example and include integrity as one of our corporate values on our competency framework • We demonstrate, communicate and embed the values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively 	<ul style="list-style-type: none"> • Councillor Code of Conduct and training for Councillors on the code • Officer Code of Conduct • Anti-Fraud and Corruption Policy & Strategy • Equalities Policy • Whistle-blowing charter • Corporate Values (Service, Teamwork, Responsibility, Integrity, Value and Equality) • Internal Staff Survey • One to Ones evidenced on clear review with documented targets and actions with deadlines and actions • Democracy and General Purposes Committee • Audit Governance and Standards Committee • Staff Handbook • Emergency Plan • Business Continuity Plans

Sub Principle	Actions and behaviours	Evidence
Demonstrating strong commitment to ethical values	<ul style="list-style-type: none"> • We establish, monitor and maintain the organisation’s ethical standards and performance • We underpin personal behaviour with ethical values and ensuring they permeate all aspects of the organisation’s culture and operation • We develop and maintain robust policies and procedures which place emphasis on agreed ethical values • We ensure that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation 	<ul style="list-style-type: none"> • Strategic Plan • Human Resources Policies • Staff Handbook • Induction Process • Register of Interests • Register of gifts and hospitality • Staff and Manager’s Forums
Respecting the rule of law	<ul style="list-style-type: none"> • We ensure councillors and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations • We create the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements • We strive to optimise the use of the full powers available for the benefit of residents, communities and other stakeholders • We deal with breaches of legal and regulatory provisions effectively • We ensure corruption and misuse of power are dealt with effectively 	<ul style="list-style-type: none"> • Monitoring Officer Role • Internal Audit • External Auditors • Complaints process including referral to the Local Government Ombudsman • Audit, Governance and Standards Committee • Appraisals • Code of Conduct for Councillors and Officers

Principle B - Ensuring openness and comprehensive stakeholder engagement

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Sub Principle	Actions	Evidence
Openness	<ul style="list-style-type: none"> • We ensure an open culture through demonstrating, documenting and communicating the organisation’s commitment to openness. • We make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. • We provide clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear. • We use formal and informal consultation and engagement to determine the most appropriate and effective interventions/courses of action. 	<ul style="list-style-type: none"> • Strategic Plan • Communication and Engagement Strategy • Committee work programmes • Council Website • Formal consultation processes • Community and voluntary sector representation on Partnership Boards • Freedom of Information publication scheme • Report Templates • Staff and Councillor Codes of Conduct
Engaging comprehensively with institutional stakeholders	<ul style="list-style-type: none"> • We effectively engage with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and • We develop formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively • We define the purpose, objectives and intended outcomes for each stakeholder relationship • We use formal and informal consultation and engagement to determine the most appropriate and effective interventions 	<ul style="list-style-type: none"> • Safer Maidstone Partnership and Strategy • Health and Wellbeing Board • Community Safety Unit • Consultation processes • Council Website • Member Sounding Board
Engaging stakeholders effectively, including	<ul style="list-style-type: none"> • We establish a clear policy on the type of issues that the organisation will consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes. 	<ul style="list-style-type: none"> • Strategic Plan published on website • External Auditor provides an annual organisational assessment of the

Sub Principle	Actions	Evidence
individual citizens and service users	<ul style="list-style-type: none"> • We ensure that communication methods are effective and members and officers are clear about their roles with regard to community engagement. • We encourage, collect and evaluate the views and experiences of communities, residents, businesses service users and organisations of different backgrounds including reference to future needs. • We have feedback mechanism in order to demonstrate how their views have been taken into account. • We balance feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity • We take into account of the interests of future generations of tax payers and service users. 	<p>Council's performance through the Value for Money conclusion</p> <ul style="list-style-type: none"> • Council Website • Council minutes and agendas available on website • Formal consultation arrangements • Community and voluntary sector representation on Partnership Boards • Satisfaction Surveys • Freedom of Information publication scheme • Statement of Community Involvement • Consultation Processes • Strategic Plan 2019-2045 • Local Plan • Councillor Access to Services Review

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

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Sub Principle	Actions	Evidence
Defining Outcomes	<ul style="list-style-type: none"> • We have a clear vision which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation’s overall strategy, planning and other decisions. • We specify the intended impact on, or changes for, stakeholders including residents, businesses and service users. • We deliver defined outcomes on a sustainable basis within the resources that will be available. • We identify and manage the risks to the achievement of outcomes. • We manage service users’ expectations effectively with regard to determining priorities and making the best use of the resources available 	<ul style="list-style-type: none"> • Strategic Plan • Committee work programmes • Corporate report template requires information explaining the legal and financial implications of decisions • Community Safety Unit • Housing Strategy • Temporary Accommodation Strategy • Risk Management Framework & Guide • Regular consideration of risk by Audit, Governance and Standards Committee • Corporate report template contains ‘risk implications’ • Staff Survey
Sustainable economic, social and environmental benefits	<ul style="list-style-type: none"> • We consider and balance the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision. • We take a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation’s intended outcomes and short-term factors such as the political cycle or financial constraints. • We determine the wider public interest associated with balancing conflicting interests between achieving the various economic, 	<ul style="list-style-type: none"> • Strategic Plan • Committee work programmes • Formal consultation arrangements • Economic Development Strategy • Medium Term Financial Strategy • Safer Maidstone Strategy • Local Plan • Waste and Recycling Strategy • Health and Wellbeing Action Plan • Equality Policy

Sub Principle	Actions	Evidence
	social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs. <ul style="list-style-type: none"><li data-bbox="551 331 987 363">• We ensure equality of access.	<ul style="list-style-type: none"><li data-bbox="1520 268 2002 331">• Biodiversity and Climate Change Working Group

Principle D – Determining the interventions necessary to optimise the achievement of the intended outcomes

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Sub Principle	Actions	Evidence
Determining interventions	<ul style="list-style-type: none"> • We ensure decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and include the risks associated with those options. • We ensure best value is achieved however services are provided. • We consider feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts. 	<ul style="list-style-type: none"> • Corporate report template requires information explaining the legal and financial implications of decisions • Options appraisal included in all committee reports for decision • Financial, legal and technical advice provided by the s151 Officer, the Monitoring Officer and other officers as required • Council Website • Consultation processes • Quarterly performance management reports
Planning interventions	<ul style="list-style-type: none"> • We establish and implement robust planning and control cycles that cover strategic and operational plans, priorities and targets. • We engage with internal and external stakeholders in determining how services and other courses of action should be planned and delivered. • We consider and monitor risks facing each partner when working collaboratively including shared risks. • We ensure arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances. • We establish appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured. 	<ul style="list-style-type: none"> • Corporate Planning Timetable • Strategic Plan • Service Plans • Quarterly Monitoring Reports • Contract Monitoring Arrangements • Performance Reports aligned to Corporate Plan priorities • Medium Term Financial Strategy • Capital Programme • Value for Money judgement by External Auditor

Sub Principle	Actions	Evidence
	<ul style="list-style-type: none"> • We ensure capacity exists to generate the information required to review service quality regularly. • We prepare budgets in accordance with organisational objectives, strategies and the medium term financial plan. • We inform medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy. 	
Optimising achievement of intended outcomes	<ul style="list-style-type: none"> • We ensure the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints. • We ensure the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term. • We ensure the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage. • We ensure the achievement of 'social value' through service planning and commissioning. 	<ul style="list-style-type: none"> • Medium Term Financial Strategy • Revenue budget process • Capital Programme • Procurement Policy • Procurement Standing Orders • Action Plans developed in response to external audit and inspections • Value for Money judgement by external auditor • Budget Consultation

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

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Sub Principle	Actions	Evidence
Developing the entity's capacity	<ul style="list-style-type: none"> • We review operations and performance on a regular basis to ensure their continuing effectiveness and enable organisational learning. • We improve resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently. • We recognise the benefits of partnerships and collaborative working where added value can be achieved. 	<ul style="list-style-type: none"> • Corporate Planning Timetable • Budget Setting Process • Service Plans • Regular one to ones and reviews of development and training needs • Appraisals • Developing Everybody Competency Framework used to identify top performers for stretch • Mid Kent Services Partnership • Learning and Development Programme • Standing arrangement with temporary staffing providers to help manage fluctuations in capacity demand
Developing the capability of the entity's leadership and other individuals	<ul style="list-style-type: none"> • We clarify roles and responsibilities of members and management at all levels. • We develop protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained. • We publish a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body. • We ensure the Leader and the Chief Executive have clearly defined and distinctive leadership roles. • We develop the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing 	<ul style="list-style-type: none"> • Job descriptions and person specifications produced for all posts • Recruitment and appointment policies and procedures • Members' Sounding Board • Leaders' forum • Councillor workshops and briefings • Democracy and General Purposes Committee • Comprehensive learning and development programme for officers and councillors • Corporate Workforce Strategy • Staff surveys • HR Policies and Guidance on intranet

Sub Principle	Actions	Evidence
	<p>legal and policy demands as well as economic, political and environmental changes and risks.</p> <ul style="list-style-type: none"> • We ensure that there are structures in place to encourage public participation. • We hold staff to account through regular performance reviews which take account of training or development needs. • We ensure arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing. 	<ul style="list-style-type: none"> • Member and Staff induction • Check-ins held monthly with staff

Principle F - Managing risks and performance through robust internal control and strong public financial management

Sub Principle	Actions	Evidence
Managing Risk	<ul style="list-style-type: none"> • We recognise that risk management is an integral part of all activities and must be considered in all aspects of decision making. • We implement robust and integrated risk management arrangements and ensure that they are working effectively. • We ensure that responsibilities for managing individual risks are clearly allocated. 	<ul style="list-style-type: none"> • Risk Management Framework & Guide in place and reviewed annually • Strategic Risk Register in place and reviewed by Leadership team • Directorate and Service level risk registers in place and reviewed monthly • Corporate report template contains 'risk implications' • Audit Governance and Standards Committee reviews risks regularly
Managing Performance	<ul style="list-style-type: none"> • We monitor service delivery effectively including planning, specification, execution and independent post implementation review. • We make decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook • We ensure an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible • We provide members and senior management with regular reports on service delivery plans and on progress towards outcome achievement 	<ul style="list-style-type: none"> • Performance Reports aligned to Strategic Plan priorities • Quarterly Monitoring Reports • Contract Monitoring Reports • Corporate report template requires information explaining the legal and financial implications of decisions • Corporate report template contains risk implications • Monthly spend/budget reports sent to all budget holders

Sub Principle	Actions	Evidence
	<ul style="list-style-type: none"> • We ensure there is consistency between specification stages (such as budgets) and post implementation reporting (e.g. financial statements) 	
Robust Internal Control	<ul style="list-style-type: none"> • We align the risk management strategy and policies on internal control with achieving the objectives. • We evaluate and monitor the authority's risk management and internal control on a regular basis. • We ensure effective counter fraud and anticorruption arrangements are in place. • Ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor. • We ensure an audit committee or equivalent group or function which is independent of the executive decision making committees provides further assurance regarding arrangements for managing risk and maintaining an effective control environment 	<ul style="list-style-type: none"> • Risk Management Policy & Guide in place and reviewed annually • Strategic Risk Register in place and reviewed by Leadership team • Corporate and Service level risk registers in place • Anti-Fraud and Corruption Policy • Audit, Governance and Standards Committee reviews risks and the Risk Management process quarterly • Corporate Information Management and Governance Groups
Managing Data	<ul style="list-style-type: none"> • We ensure effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data. • We review and audit regularly the quality and accuracy of data used in decision making and performance monitoring. • We ensure effective arrangements for sharing data with other bodies are in place 	<ul style="list-style-type: none"> • Communication and Engagement Strategy • Information Management Group and action plan • Freedom of Information publication scheme • Ongoing monitoring of Data Protection Act / Freedom of Information compliance
Strong public financial management	<ul style="list-style-type: none"> • We ensure financial management supports both long term achievement of outcomes and short term financial and operational performance. 	<ul style="list-style-type: none"> • Strategic Plan • Medium Term Financial Strategy • Budget setting process • Procurement Policy • Procurement Standing Orders

Sub Principle	Actions	Evidence
	<ul style="list-style-type: none"> <li data-bbox="629 272 1424 368">• We ensure well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls. 	<ul style="list-style-type: none"> <li data-bbox="1491 272 2013 331">• Value for Money judgement from the External Auditor <li data-bbox="1491 331 2013 363">• External Auditors' Annual Audit letter

Principle G – Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Sub Principle	Actions	Evidence
Implementing good practice in transparency	<ul style="list-style-type: none"> • Write and communicate reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate. • Strike a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand. 	<ul style="list-style-type: none"> • Council website accessibility statement • Communication and Engagement Strategy • Budgets and spending published on website • Senior Officer remuneration published on website • Clear roles and responsibilities in relation to access to information in the Constitution
Implementing good practices in reporting	<ul style="list-style-type: none"> • We report at least annually on performance, value for money and the stewardship of its resources. • We ensure members and senior management own the results. • We assess the extent to which the principles contained in the Framework have been applied and publish the results on this assessment including an action plan for improvement and evidence to demonstrate good governance in action • We ensure that the Framework is applied to jointly managed or shared service organisations as appropriate. • We ensure the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar entities. 	<ul style="list-style-type: none"> • Publication of Annual Report and Statement of Accounts on website • Annual Governance Statement produced and published on website • Local Code of Corporate Governance refreshed annually in accordance with CIPFA/SOLACE principles • Documents are scrutinised and approved by Leadership Team, Service Committees and Audit Committee prior to publication • Performance information and reports are published on the website and reported to Committees

<p>Assurance and effective accountability</p>	<ul style="list-style-type: none"> • We ensure that recommendations for corrective action made by external audit are acted upon. • We ensure an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon. • We welcome peer challenge, reviews and inspections from regulatory bodies and implementing recommendations. • We gain assurance on risks associated with delivering services through third parties and that this is evidenced in the Annual Governance Statement. • We ensure that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met. 	<ul style="list-style-type: none"> • The external auditors produce an Annual Audit Letter which is presented at Audit Committee and published on the website. The council produces a response to all issues and recommendations contained within. • The Head of Audit Partnership presents an annual report to Audit, Governance, Standards Committee to inform members of Internal Audit activity that has taken place during the year • Annual Governance Statement produced and published on website
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Agenda Item 16

Audit, Governance & Standards Committee

28 July 2021

Annual Internal Audit Report & Opinion 2020/21

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Rich Clarke, Head of Audit Partnership
Lead Officer and Report Author	Rich Clarke, Head of Audit Partnership
Classification	Public
Wards affected	All

Executive Summary

The Annual Internal Audit report includes the Head of Audit Partnership's overall opinion on the Council's internal control, risk management and governance for the year ended 31 March 2021. Based on the work completed, as summarised in the report, the opinion is positive and informs the Council's Annual Governance Statement.

Purpose of Report

Noting

This report makes the following recommendations to this Committee:

1. The Committee **notes** the Head of Audit Partnership's opinion.
2. The Committee **notes** the work underlying the opinion and the Head of Audit Partnership's assurance of its independent completion in conformance with proper Standards.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	28 July 2021

Annual Internal Audit Report & Opinion 2020/21

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We present this report for noting. Mid Kent Audit's work supports all Council activity and the wider Corporate Priorities in evaluating governance.	Rich Clarke, Head of Audit Partnership. July 2021
Cross Cutting Objectives		
Risk Management		
Financial	Mid Kent Audit delivered the 2020/21 audit plan within the set operating budget.	Principal Solicitor, Contentious & Corporate Governance
Staffing	Mid Kent Audit delivered the 2020/21 audit plan within agreed staffing, supplementing vacancies through short-term market contractor engagements.	
Legal	This report fulfils the Council's responsibility under the Accounts & Audit Regulations 2015 for maintaining an effective internal audit.	
Privacy and Data Protection	We handled all information collected by the service in line with the data protection policy of Maidstone BC, as our host authority.	
Equalities	No direct implications.	
Public Health	No direct implications.	Rich Clarke, Head of Audit Partnership July 2021
Crime and Disorder	No direct implications.	
Procurement	Completing the plan involved no new procurement.	
Biodiversity and Climate Change	No direct implications	

2. INTRODUCTION AND BACKGROUND

2.1 Internal audit is a compulsory service for authorities as set out by Regulation 5 of the Accounts and Audit Regulations 2015. The principal objective of internal audit as described by that regulation is:

"[to] undertake [audit work] to evaluate the effectiveness of [...] risk management, control and governance processes, taking into account public sector internal auditing standards and guidance."

2.2 As those charged with overseeing governance the Terms of Reference for this Committee direct it to consider internal audit work, in particular the annual opinion.

2.3 The overall scope of the Council's audit service – which remains delivered as part of a four-way partnership with Swale, Tunbridge Wells and Ashford – is set out in the Audit Charter and Annual Plan. This Committee approved the 2020/21 plan in March 2020 and an updated plan reflecting post-covid adjustments in September 2020. This Committee also received an interim progress update in January 2021.

2.4 This report fulfils the Head of Internal Audit annual reporting directed by the Public Sector Internal Audit Standards (the "Standards"). The report includes the Head of Audit Partnership's annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. This opinion feeds into the Annual Governance Statement for 2020/21.

2.5 The Standards, in particular Standards 2450 (Overall Opinions), direct the annual report to include:

- The annual audit opinion.
- A summary of work completed that supports the opinion, and
- A statement on conformance with the Standards.

2.6 We have completed the work set out in the plan in full conformation with the Standards. We have also worked independently, free from undue influence of either officers or Members.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 The Head of Audit Partnership is satisfied the Council can place assurance on the system of control in place during 2020/21. Further, he is satisfied the corporate governance framework complies in all significant respects with the best practice guidance issued by CIPFA/SOLACE. Finally, he is satisfied the Council's risk management processes are effective. We ask the Committee to note these opinions.

3.2 Please see Appendix 1 for the full Annual Report for 2020/21. This report includes a summary of all work conducted to support the opinion and affirms the independence and effectiveness of the internal audit service.

4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 4.1 We consult and agree with relevant Heads of Service before finishing all findings and recommendations arising from individual audit engagements. The headline messages in our report are as discussed with the Corporate Leadership Team across the year and have been shared to help prepare the Annual Governance Statement.
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5. REPORT APPENDICES

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

- Appendix 1: Internal Audit Annual Report 2020/21
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6. BACKGROUND PAPERS

Full reports which support the audit engagements summarised in this annual report are available.

MID KENT AUDIT

Annual Internal Audit Report and Opinion 2020/21

July 2021

Maidstone Borough Council



MID KENT AUDIT

Introduction

1. The IIA gives the mission of internal audit: to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
2. The mission and its associated [code of ethics](#) and [Standards](#) govern over 200,000 professionals in businesses and organisations around the world. Within UK Local Government, authority for internal audit stems from the [Accounts and Audit Regulations 2015](#). The Regulations state services must follow the [Public Sector Internal Audit Standards](#) – an adapted and more demanding version of the global standards. Those Standards set demands for our annual reporting:

2450 Overall Opinions

When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.

Interpretation:

The communication will include:

- the scope including the time period to which the opinion pertains
- scope limitations
- consideration of all related projects including the reliance on other assurance providers
- a summary of the information that supports the opinion
- the risk or control framework or other criteria used as a basis for the overall opinion, and
- the overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

Public sector requirement

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Independence of internal audit

3. Mid Kent Audit works as a shared service between Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils. A Shared Service Board including representatives from each council supervises our work based on our collaboration agreement.
4. Within Maidstone BC during 2020/21 we have continued to enjoy complete and unfettered access to officers and records to complete our work. On no occasion have officers or Members sought or gained undue influence over our scope or findings.
5. I confirm we have worked with full independence as set out in our Audit Charter and Standard 1100.

MID KENT AUDIT

The Impact of Covid-19

6. We presented our [2020/21 Audit & Assurance Plan](#) to Members on 16 March 2020 based on a then-current view of the risks faced by the authority. After then the risk landscape changed substantially. We also needed to reflect our reduced capacity given the extended overhang of 2019/20 plan completion arising from staff redeployment. In total that redeployment supporting all four partner authorities came to almost 350 auditor days, helping support community hubs and manage grants to local businesses.
7. We presented a [changed 2020/21 audit plan](#) to Members on 14 September 2020. We have used that new plan to describe results in this report.

Head of Internal Audit Opinion

Scope and time period

8. I provide this opinion to Maidstone Borough Council (the Council) to include in its Annual Governance Statement, as published alongside its financial statements for the year ended 31 March 2021.

Scope limits

9. The role of internal audit need not cover only assurance and may extend towards consultancy, advice and strategic support. We have agreed with the Committee the overall scope of our work in our Internal Audit Charter and the specific scope of our work this year in our approved [2020/21 Audit & Assurance Plan](#).
10. However our audit plan cannot address all risks across the Council and represents our best use of inevitably limited capacity. In approving the plan, the Committee recognised this limit. Beyond this general disclaimer, I have no specific limits of our scope to report to the Committee.

Consideration of work completed and reliance on others

11. I have drawn my opinion from the work completed during the year. I first set out the work in the plan approved by Members on 16 March 2020 and later developed it in line with emerging risks and priorities. I particularly ask that Members note the adjustments set out above following on from the Covid-19 pandemic. I set out the most significant of these adjustments in a revised plan on 14 September 2020.

MID KENT AUDIT

12. In completing my work I have placed no specific reliance on external sources.

Information supporting the opinion

13. The rest of this report summarises the work completed in delivering the internal audit plan through 2020/21.
14. My opinion draws on the work carried out by Mid Kent Audit during the year on the effectiveness of managing those risks identified by the Council and covered by the audit programme or associated assurance. Not all risks fall within our work programme. For risks not directly examined I am satisfied an assurance approach exists to provide reasonable assurance on effective management.

Risk and control

15. The Council is responsible for ensuring it undertakes its business within the law and proper practices. The Council must also ensure it safeguards and properly accounts for its resources, using them economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to seek continuous improvement in exercising its roles.
16. The Council has described key parts of its internal control and risk management within the Local Code of Governance and Risk Management Framework.
17. Organisations design internal controls to manage to an acceptable level rather than remove the risk of failing to achieve objectives. So, internal controls can only provide reasonable and not complete assurance of effectiveness. Designing internal controls is a continuing exercise designed to identify and set priorities around the risks to the Council achieving its objectives. The work of designing internal controls also evaluates the likelihood of those risks coming about and managing the impact should they do so.
18. In completing our work we have considered the control environment and objectives in place at the Council.

Conformance with standards

19. Mid Kent Audit has conducted its work following the Standards and good practice as represented in our internal quality assurance. This includes working to an agreed audit manual with satisfactory supervision and review.

MID KENT AUDIT

20. During 2020/21, as the Standards demand, we undertook an external quality assessment. After a competitive procurement we commissioned an external assessor from the Chartered Institute of Public Finance and Accountancy (CIPFA) to report on our conformance with the Standards and the overall quality of the service.
21. The assessor decided that Mid Kent Audit works in full conformance with the Standards. We include the full report as an appendix and summarise its findings later in this report.
22. We also describe later in this report our efforts towards continuing improvement and the results of our Quality and Improvement work.

Overall conclusion

Internal Control

23. I am satisfied that during the year ended 31 March 2021 the Council managed its internal controls to offer sound assurance on control effectiveness.

Governance

24. I am satisfied that Council's corporate governance arrangements for the year ended 31 March 2021 comply in all material respects with guidance on proper practices¹.

Risk Management

25. I am satisfied the risk management arrangements at the Council for the year ended 31 March 2021 are effective and provide sound assurance.

Other Matters

26. I have no other matters to report as part of my opinion.



Rich Clarke CMIIA CPFA ACFS
Head of Audit Partnership

July 2021

¹ "Proper practices" are defined by CIPFA/SOLACE and set out in [Delivering Good Governance in Local Government Framework](#) (2016).

MID KENT AUDIT

Internal Control

27. Internal control is how the Council ensures achievement of its objectives with effectiveness and efficiency; achieving reliable financial reporting and compliance with laws, regulations and policies. It covers financial and non-financial controls.
28. We gain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan.

Maidstone Audit Plan Work 2020/21

29. This Committee approved our 2020/21 Audit & Assurance Plan on 16 March 2020 and then a revised plan on 14 September 2020. The plan set out an intended number of days devoted to each of various tasks. We began work on the plan during September 2020 and continued working through to July 2021.
30. The table below shows progress in total number of days delivered against the original plan, and the revisions we made to account for staff redeployment.

Category	2020/21 Original Plan	2020/21 Changed Plan	2020/21 Outturn
2020/21 Risk Based Audit	285	218	215
Non-Project Assurance Work	135	112	65
Unallocated Contingency	100	80	93
Total	520	410	373
Concluding 2020/21 work	0	0	67

31. Our final delivery was 373 audit days. This represents, accounting for revisions and changes to approach and risk, roughly 91% completion of the plan.
32. In our September changed plan we detailed 25 audit potential engagements, 11 High and 14 Medium priority. Our aim was to complete all the High priority engagements and 3 of the Medium priority engagements. We have completed 9 High Priority and 4 Medium priority engagements.
33. Considering the broader assurance sources described in this report, I am satisfied this provides enough evidence to support a robust year end opinion.
34. We detail the specifics, and results, of this progress further in this report.

MID KENT AUDIT

Results of Audit Work

35. The tables below summarise audit engagement findings up to the date of this report. Where there are material matters finished before the committee meeting we will provide a verbal update. (* = Shared service involving the Council).

Completed Assurance Engagements

	Title	Priority-Rated Agreed Actions	Report Issue	Rating	Notes
2019/20 Assurance Engagements Completed After 1 April 2020					
	Council Tax Billing*	1 x Low	Apr-20	STRONG	Summarised to Members in our last Annual Report July 2020
	Health & Safety	3 x High , 4 x Med , 10 x Low	May-20	WEAK	
	Discretionary Housing Payments*	2 x Low	May-20	SOUND	
	ICT Technical Support*	4 x Low	Jul-20	N/A	
	Social Media	2 x Med , 4 x Low	Jul-20	SOUND	
	Treasury Management	None	Jul-20	N/A	
	Universal Credit*	None	Jul-20	N/A	
	Customer Services	1 x Med , 1 x Low	Jul-20	N/A	
	Planning Discharge Conditions	3 x Med	Jul-20	N/A	Summarised to Members in our interim Report January 2021
	Waste Crime Team	1 x High , 4 x Low	Jul-20	N/A	
	Noise Nuisance	1 x High	Jul-20	N/A	
	Members' Allowances	2 x Low	Nov-20	N/A	
High Priority 2020/21 Engagements (as set out in September Plan). Aimed to complete 100% of engagements (11/11).					
I	Section 106 & Developer Contributions	1 x High , 4 x Med	May-21	SOUND	
II	Homelessness Duties	2 x Med , 2 x Low	Jun-21	SOUND	
III	Community Hub Support	None	Jun-21	N/A	

MID KENT AUDIT

	Title	Priority-Rated Agreed Actions	Report Issue	Rating	Notes
IV	Development Management	3 x Med , 3 x Low	Jul-21	SOUND	
	Remote IT Access	CURRENTLY ISSUED IN DRAFT			Final expected July/August 2021
	Project Management Governance	CURRENTLY ISSUED IN DRAFT			Final expected July/August 2021
	Public Consultations	CURRENTLY ISSUED IN DRAFT			Final expected July/August 2021
	Bailiff Service	CURRENTLY ISSUED IN DRAFT			Final expected July/August 2021
	Air Quality	CURRENTLY ISSUED IN DRAFT			Final expected July/August 2021
	Capital Project Management	Cancelled to make way for MHCLG review of capital project at Innovation Centre			
	Climate Change Action Plan	Postponed to 21/22 following delays in finalising action plan.			
Medium Priority 2020/21 Engagements (as set out in September Plan). Aim to complete 20% of engagements (3/14).					
V	Accounts Receivable	1 x Low	Apr-21	SOUND	
VI	Homeless Outreach	None	Jun-21	SOUND	
VII	IT Asset Management	4 x Med , 3 x Low	Jul-21	SOUND	
	Residential Property Management	Proposed medium priority projects not taken forward in 2020/21 in favour of those presenting higher risk.			
	Grounds Maintenance				
	Garden Waste				
	Electoral Registration				
	Property Acquisition & Disposal				
	Property Management				
	Subsidiary Company Governance				
	Commissioning				
	Local Plan Project Governance				
	Pay & Display				
	Housing Benefit Overpayments				

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I: Section 106 & Developer Contributions (May 2021)

36. We found a settled approach for overseeing the Council's Section 106 agreements. This includes using tailored software to record the agreements and track progress against milestones. We also found, bar one specific instance, a sound approach for releasing unspent funding back to developers.
37. However, our testing found some significant discrepancies in recorded information. This could lead the service to hold incomplete or inaccurate details on the agreements. We have recommended the service undertake a regular reconciliation with information held by others, such as the legal service, alongside general improvements in cross-service liaison.

II: Homelessness Duties (June 2021)

38. We believe the Council has appropriate arrangements in place to ensure compliance with its duties under the Homelessness Reduction Act 2017 throughout the life cycle of a case.
39. There is an efficient triage process in place, covering both self-referrals and agency referrals. Our testing found the Council is complying with HRA requirements across the process, for example with regards to duty assessments, Personal Housing Plans and reviews. There is a sound authorisation process to place applicants into temporary accommodation and we found the service regularly monitor staff workload.
40. However, we have identified several minor opportunities to strengthen controls. Case reviews and case audits are currently ad hoc, but the service could benefit from these processes being more frequent.

III: Community Hub Support (June 2021)

41. The task handed to authorities was new and urgent. There was no 'standard operating procedure'. However the various approaches authorities adopted shared certain similar characteristics; "convergences" where a similar idea became adopted universally. On the other hand we also draw out the "divergences"; where authorities took different approaches to similar challenges. We do not in this report give any view on which approach was most effective. Each authority adapted to its circumstances in the face of unprecedented challenge. Instead this report highlights some of those approaches to supplement developing emergency planning arrangements.

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Overall Summary Table: The Convergences and Divergences on Community Hub Approaches

Type	Understanding need	Communicating with vulnerable communities	Managing delivery	Project reflection
Convergences	<ul style="list-style-type: none"> - Offering support beyond minimum CEV - Teams for triage, distribution & social isolation 	<ul style="list-style-type: none"> - Dedicated phone - Website forms - Out of hours service - Links to community organisations 	<ul style="list-style-type: none"> - Using existing emergency planning approaches - Redeploying staff from closed facilities - Single nominated lead officer - Signposting to voluntary organisations - Following standard admin & finance rules with dedicated accounts coding - Shared folders and filing - Role descriptions & procedure notes 	<ul style="list-style-type: none"> - Project reflection report - Used to inform similar future events - Adapted emergency planning response
Divergences	<ul style="list-style-type: none"> - Using own data to identify vulnerable residents (ABC/SBC) - Using commercial and mapping data to identify support need (ABC) 	<ul style="list-style-type: none"> - Letter to residents (SBC/TWBC) - Linking to residents-led Facebook groups (TWBC) - Dedicated "help@" inbox (ABC) - Social isolation focused website (TWBC) 	<ul style="list-style-type: none"> - Creating risk register (SBC) - Dedicated inboxes for teams (SBC/MBC/TWBC) - Live data collection and stats analysis (MBC) - Online training for volunteers (SBC) - Using MS Teams extensively to co-ordinate and retain documentation (ABC) - Risk assessed local groups to establish best partners to deliver services (ABC) 	

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IV: Development Management (July 2021)

42. In 2018 the Council introduced a Scheme of Delegation, which sets out the approval process for officer decisions. Part of the scheme allows some officers to approve their own decisions. Although this approach improves efficiency, it also increases the risk to the Council of officers making inappropriate decisions. There is no evidence that the Council has fully considered this specific risk, though others have been considered. We examined the controls in place to mitigate this risk and found there are controls in place to ensure officers were fully trained and there was a fully documented rationale for all decisions. Our testing also established decisions were made and approved in accordance with the Scheme.
43. However, there is not a robust process for officers to declare interests which may affect their impartiality when making planning decisions. The service relies on applicants declaring relationships to anyone employed by the Council; the corporate declaration of interests process, which is not designed for this purpose; and the code of conduct to mitigate against this risk.

V: Accounts Receivable (April 2021)

44. We are satisfied that the service are generally controlling their risks for accounts receivable. However, our testing identified the procedure notes need updating, and the aged debt reports sent to Budget Managers and Heads of Service didn't include all debts related to their service.
45. We found the process to raise invoices is sound, and the debt write off procedure works well.

VI: Homeless Outreach (June 2021)

46. The Personal Budgets policy complies with the Council's Financial Procedure Rules and uses the corporate credit card and accounts payable processes to make purchases. Our testing showed purchases under the policy are made in order to aid those being supported by the Homeless Outreach Service. There are clear records demonstrating the purpose of the purchase as well as evidence of the expenditure which is retained and reconciled back to financial records. All purchases over £200 were also clearly authorised by an appropriate officer in line with the Policy.

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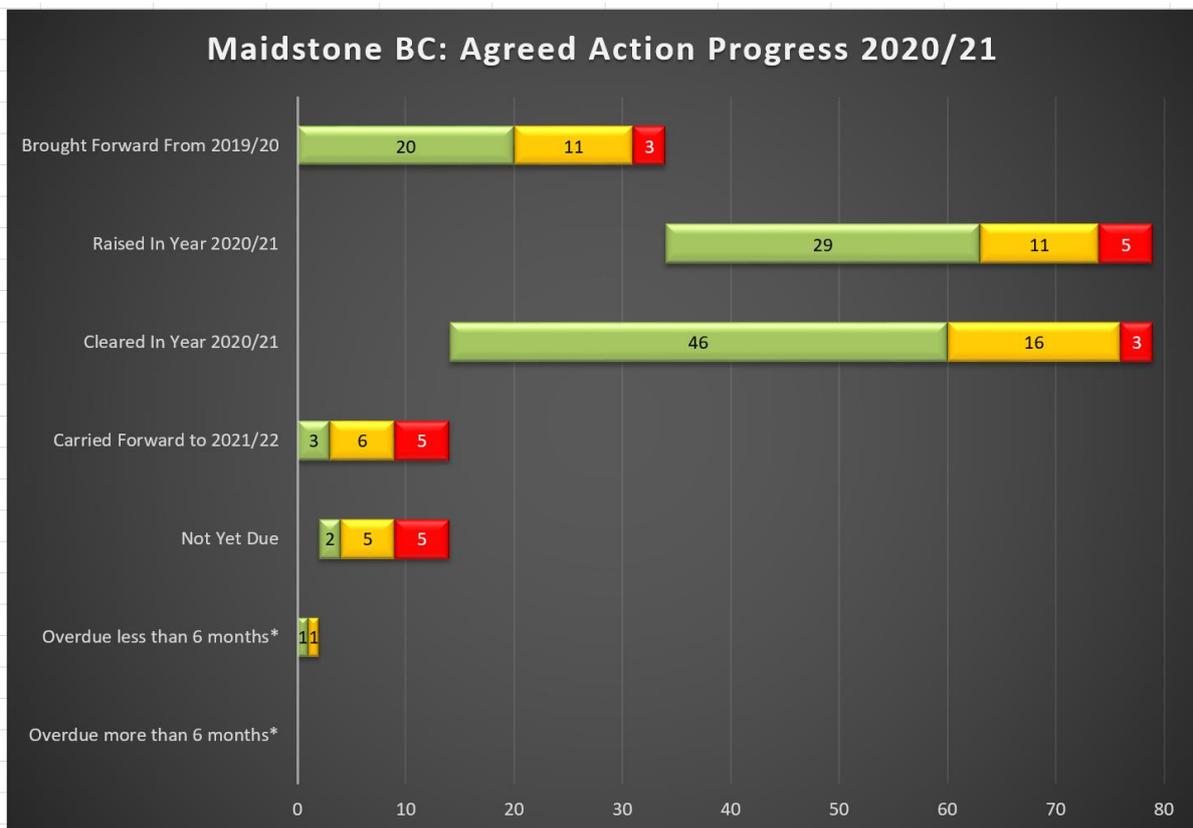
VII: IT Asset Management (July 2021)

47. Mid Kent ICT runs an Asset Management System (*Snow*) which automatically updates when users login. The system provides a good level of oversight on the location and ownership of council IT assets. However, the system has a weakness to address arising when assets are out of use for 30 days or more and so do not have their status updated automatically. While general level of encryption is increasing as new machines come into use, a narrow majority (56%) remain unencrypted, but protected by password controls.
48. We also found a lack of documentation and record-keeping, some processes having fallen out of use over the past two years. In particular there is no consistent 'check-in and check-out' documentation. The service cannot say with certainty users have accepted assets or returned them on departure.
49. We found good controls around buying IT assets. However, the service must ensure it complies with rules for high value assets. The service must also improve its documentation around asset disposal.

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Following Up Actions

50. Our approach to agreed actions is that we follow up each quarter, examining those that fell due in the previous three months. We take due dates from the action plan agreed with management when we finish our reporting. We report progress on implementation to Corporate Leadership Team each quarter. Our report includes matters of continuing concern and where we have revisited an assurance rating (typically after action to address key findings).
51. We summarise the current position below. The chart shows low priority actions (at the left of each bar) in green, medium priority in amber (in the middle) and high priority in red (at the right of the bars).



52. During the year we reviewed 79 separate agreed actions. During the year officers acted promptly to complete agreed actions, with the result that very few actions have carried forward into the current year.
53. Overall we are content with officers' progress on acting to address findings we raise in our reviews.

Corporate Governance

54. Corporate governance is the rules, practices and processes that direct and control the Council.
55. We gain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.

Counter Fraud & Corruption

56. We consider counter fraud and corruption risks in all of our audit engagements when considering the effectiveness of control. We also undertake distinct work to assess and support the Council's arrangements.

Whistleblowing, money laundering and investigations

57. The Council's whistleblowing policy names internal audit as one route for Members and officers to safely raise concerns on inappropriate or even criminal behaviour.
58. We had one matter raised with us as a whistleblowing issue by a member of staff. After investigating the matter and reviewing evidence provided we could not substantiate the allegations made. We reported our findings back to the whistleblower and provided a summary of findings to the Council. We have had no other matters raised with us for investigation as whistleblowing complaints.
59. We have also had no matters raised with us noting concerns that may suggest a breach of money laundering regulations.

Investigations

60. We have had two matters of note raised with us for investigation during the year. Each matter was raised at first by members of the public. The first matter we investigated directly. We found no evidence to substantiate inappropriate conduct by Council employees. However, we did offer advice to the relevant service for strengthening controls around system access and document handling.

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61. The second matter we did not have capacity to investigate within the team and so helped co-ordinate with the relevant service to commission an outside investigation by Kent County Council's counter fraud team. That investigation is ongoing and we expect its conclusion imminently.

National Fraud Initiative

62. We continue to coordinate the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching project and we must send in various forms of data to the Cabinet Office who manage the exercise.
63. During 2020/21 we successfully co-ordinated the Council's compilation and upload of data to the Cabinet Office. Earlier this year the Cabinet Office released the 2020/21 matches, which we will begin examining this autumn.

Risk Management

64. We reported separately to Members earlier this year on risk management work during 2020/21.

Other Audit and Advice Work

65. We also continue to undertake a broad range of special and scheduled consultancy and advice work for the Council. Examples include our attendance as part of the Wider Leadership Team. We have also completed specific reviews looking at individual parts of the Council's control environment at the request of officers.
66. Remote meetings and the Covid pandemic have put on hold our series of Member briefings. We are hoping to restart these briefings during 2021/2 and are keen to hear from Members on any areas of interest which may form future sessions.
67. We remain engaged and flexible in seeking to meet the assurance needs of the Council. We are happy to discuss opportunities large and small where the Council can usefully employ the experience and expertise of the audit team.

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Audit Quality & Improvement

Standards and ethical compliance

68. Government sets out the professional standards we must work to in the **Public Sector Internal Audit Standards** (the “Standards”). These Standards are a strengthened version of the Institute of Internal Audit’s global internal audit standards, which apply across public, private and voluntary sectors in more than 170 countries around the world.
69. The Standards include a specific demand for reporting to Senior Management and Audit Committee on our conformance with the Code of Ethics as well as the Standards themselves. We have included the Code within our Audit Manual and training for some years. We can report to Members we remain in conformance with the Code.

External Quality Assessment & Quality Assurance Plan

70. In September 2020 we reported to Members our second successive **fully conforming** conclusion in an External Quality Assessment. The Assessment included a few recommendations for us to consider and we updated Members on their progress. The table below summarises our progress on the remaining actions:

Recommendation	Current Position
Enhance declaration of interest forms for audit staff	New form rolled out as part of annual planning and completed by all staff in March 2021. Complete
Renew collaboration agreement	See following section. In progress

71. In our 2021/22 Audit & Assurance Plan reported to Members we described our **Quality Assurance Plan**. This Plan aims to ensure we uphold high quality in a changing profession by setting out our methods for periodic and spot-check reviews of our methods and approaches. Recent progress against that Plan includes:
- *Ethics*: We overhauled our approach to collecting and monitoring information on declarations of interest within the audit team.
 - *Client Liaison*: We have set up a group within the audit service to examine the information we share with clients to support engagements. We expect that improved approach to begin in 2022/23.

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- *Review Process:* We undertook a review within the audit team on perspectives of how we review work to guarantee quality and drive professional development. This review resulted in a number of tweaks to our reviews beginning in 2021/22.
- *Assurance Ratings & Finding Priorities:* After having kept the same ratings since 2014/15 we completed a substantial review project looking at other approaches across the world. We also consulted client officers and brought forward proposals internally in the Spring. We will trial these changes in select engagements aiming to settle proposals to begin in 2022/23.
- *Sample and item testing:* We have just begun a project looking at how we undertake sample testing during audit engagements. This project will aim to ensure we make use of a full range of testing methods, including data analytics, to improve the efficiency and effectiveness of our assurance. We aim to complete this project before the end of 2021 and potentially roll out new testing methods during 2022.

72. Alongside these specific reviews we also continue our routine liaison with the audit profession to identify and bring forward best practice. To that end we are deepening links with major professional bodies (IIA and CIPFA) as well as groups such as the Local Authority Chief Auditors' Network (LACAN).

Collaboration Agreement

73. Our EQA identified the need to update the audit shared service collaboration agreement. This agreement, which forms the legal basis of the partnership's work, expired in March 2019. However all four authorities have continued to follow its terms in expectation that a new agreement will follow.
74. We have completed a first round of consultation with all four authority partners. This has given a broad steer to what will feature in a fresh agreement:
- A **continuing agreement**, rather than having a specific expiry date. This will include terms for periodic review as well as setting out terms for authorities to join or leave the partnership.
 - An agreement that covers the **full scope of Mid Kent Audit's work**. Currently the agreement only specifies audit services. A future agreement will recognise and govern our broader risk management, counter fraud and governance work.

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- A fresh **financial settlement**. The existing agreement set division between the partners at 2014 levels with no means of adjustment. A fresh agreement will provide a method for calculating split between authorities and contain terms for changing over time.
- Clarified **governance arrangements**. The new agreement will make clear how Partnership's work is supervised and overseen involving all four (current) partner authorities.
- Scope for authorities to **tailor their service**. The new agreement will keep direction to a minimum. Thus recognising the role of Senior Management and Audit Committee Members in deciding a level and nature of internal audit provision that meets their governance needs.

75. The next steps are to translate these terms into a legal document for agreement among the partners. We hope to have the new collaboration agreement in place to begin 1 April 2022.

Training and Qualifications

76. We continue to offer strong support to the audit team in continuing development and upholding professional competence. In 2020/21 this involved providing individual training budgets and supporting people to follow avenues for development suitable for their career position and ambitions.

77. A key but far from sole part of this approach is supporting professional qualifications. During 2020/21 we supported several of the team through professional studies and remain pleased with their progress and success. We would like to highlight:

- **Jen Warrillow**: Achieved the full Chartered qualification from the Institute of Internal Audit. She is now eligible to apply for full Chartered status and use the professional suffix CMIIA.
- **Cath Byford & Katie Bucklow**: Our two apprentices continue making good progress through their professional qualifications. They are studying through Birmingham City University and each received a distinction pass on their latest University exams. As well, Cath (who began her apprenticeship six months before Katie) has recently completed the full *Certified Internal Auditor* qualification, becoming entitled to use the professional suffix CIA.

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78. One feature of being a small and developing team is that sometimes opportunities for advancement will not arise coincidentally when individuals are ready for their next step. During the last few months we've lost three further members of the audit team to promotions elsewhere. We wish them well and hope that seeing the 'Mid Kent Audit' family spreads across the profession will strengthen our reputation.
79. However, they leave a significant gap behind with five of our twelve posts now being vacant. We will shortly embark on a major recruitment exercise to fill the vacancies. We are grateful for the continuing support of partner authorities in recognising the value of an effective internal audit service.
80. Finally, Members will recall in the Spring we had the honour of being shortlisted by the Institute of Internal Audit's "Audit & Risk Awards 2021" as 'Best Public Sector Audit Team'. Unfortunately we were not successful on the night, and congratulate [Scottish Enterprise](#) who took home the awards. You can see the full list of winners on the IIA's website at this link.
81. However, simply being shortlisted is a notable honour, picked by the IIA from more than 50 services put forward. This is especially so as being the smallest and only district council team recognised. Unfortunately the acceptance speech will have to remain in the drafts folder, but maybe next year?



Acknowledgements

82. We achieve these results through the hard work and dedication of our team and the resilience that comes from working a shared service across four authorities.
83. As a management team in Mid Kent Audit, we wish to send our public thanks to the team for their work through the year so far.
84. We would also like to thank Managers, Officers and Members for their continued support as we complete our audit work during the year.

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Annex 1: Assurance & Priority level definitions

Assurance Ratings 2020/21 (Unchanged from 2014/15)

Full Definition	Short Description
<p>Strong – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any; recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p>Sound – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p>Weak – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p>Poor – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>
<p>Note for reports issued during the COVID-19 Emergency</p> <p>During this period we have temporarily moved away from giving a single word assurance rating back to a narrative conclusion balancing the strengths and weaknesses of controls in a service. The aim is to streamline discussion at the point of closing a review and allow the discussion to move swiftly on to implementing the agreed actions.</p>	

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Recommendation Ratings 2020/21 (unchanged from 2014/15)

Priority 1 (Critical) – To address a finding which affects (negatively) the risk rating assigned to a Council strategic risk or seriously impairs its ability to achieve a key priority. Priority 1 recommendations are likely to require immediate remedial action. Priority 1 recommendations also describe actions the authority **must** take without delay.

Priority 2 (High) – To address a finding which impacts a strategic risk or key priority, which makes achievement of the Council's aims more challenging but not necessarily cause severe impediment. This would also normally be the priority assigned to recommendations that address a finding that the Council is in (actual or potential) breach of a legal responsibility, unless the consequences of non-compliance are severe. Priority 2 recommendations are likely to require remedial action at the next available opportunity, or as soon as is practical. Priority 2 recommendations also describe actions the authority **must** take.

Priority 3 (Medium) – To address a finding where the Council is in (actual or potential) breach of its own policy or a less prominent legal responsibility but does not impact directly on a strategic risk or key priority. There will often be mitigating controls that, at least to some extent, limit impact. Priority 3 recommendations are likely to require remedial action within six months to a year. Priority 3 recommendations describe actions the authority **should** take.

Priority 4 (Low) – To address a finding where the Council is in (actual or potential) breach of its own policy but no legal responsibility and where there is trivial, if any, impact on strategic risks or key priorities. There will usually be mitigating controls to limit impact. Priority 4 recommendations are likely to require remedial action within the year. Priority 4 recommendations generally describe actions the authority **could** take.

Advisory – We will include in the report notes drawn from our experience across the partner authorities where the service has opportunities to improve. These will be included for the service to consider and not be subject to formal follow up process.

Audit, Governance & Standards Committee

28 July 2021

Financial Management Code

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

Executive Summary

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The Chartered Institute of Public Finance & Accountancy (CIPFA) has produced the code which sets the standards of financial management for local authorities.

Purpose of Report

Noting.

This report makes the following recommendations to Audit, Governance and Standards Committee:

1. That the assessment of compliance against the FM Code and proposed actions documented within Appendix 1 be noted.
2. That the conclusion that the Council has complied with the requirements of the FM Code be noted.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	28 July 2021

Financial Management Code

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims by ensuring sound financial management.	Ellie Dunnet, Head of Finance
Cross Cutting Objectives	The recommendations support cross cutting objectives by promoting sound financial management.	Ellie Dunnet, Head of Finance
Risk Management	Already covered in the risk section.	Ellie Dunnet, Head of Finance
Financial	There are no cost implications arising from this report. However, the recommendations are intended to support good financial management and financial sustainability.	Ellie Dunnet, Head of Finance
Staffing	The recommendations do not have any staffing implications.	Ellie Dunnet, Head of Finance
Legal	Director of Finance & Business Improvement as the Council's Section 151 Officer, in accordance with Section 151 of the Local Government Act 1972 is responsible for ensuring that there is effective management of the Council's financial affairs. The CIPFA FM code does not currently have specific legislative backing,	Team Leader Corporate Governance

	but it is supported by the statutory requirement on all local authorities to have sound financial management. CIPFA is of the view that compliance with the CIPFA FM code is necessary for local authorities to demonstrate that they are meeting this statutory requirement.	
Privacy and Data Protection	There are no privacy or data protection implications arising from the recommendations.	Senior Policy and Engagement Officer
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Senior Policy and Engagement Officer
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	
Crime and Disorder	There are no implications relating to Crime and Disorder arising from the recommendations.	Ellie Dunnet, Head of Finance
Procurement	There are no procurement implications arising from the recommendations.	Ellie Dunnet, Head of Finance
Biodiversity and Climate Change	The implications of this report on biodiversity and climate change have been considered and are; <ul style="list-style-type: none"> • There are no implications on biodiversity and climate change. 	Transformation Team Leader

2. INTRODUCTION AND BACKGROUND

2.1 CIPFA has developed the FM Code in response to the challenges of reduced funding and increased demand for services, alongside the high-profile financial management issues which have faced a small number of local authorities in recent years, which have served to highlight the importance of robust financial management.

- 2.2 The FM Code sets out the principles by which local authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve.
- 2.3 The Code itself is not prescriptive in nature, but centred around the following principles of good financial management:
- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
 - **Accountability** – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
 - Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making.
 - Adherence to professional **standards** is promoted by the leadership team and is evidenced.
 - Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection.
 - The long term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.
- 2.4 The Code translates these principles into a series of standards, which are summarised within Appendix 1. Compliance with the standards is not prescribed in legislation, however it is the duty of each local authority to adhere to the principles of proper financial management. Compliance with the standards is established through self-assessment, which has been documented within the appendix. It should be noted that the financial management standards are minimum standards and, in some cases, may be exceeded.
- 2.5 Local authorities were expected to demonstrate that they were working towards implementation of the FM Code requirements by 31 March 2021, with 2021/22 being the first full year of compliance. CIPFA considers application of the FM Code to be a collective responsibility of each authority's organisational leadership team.
- 2.6 The self-assessment documented within Appendix 1 concludes that the Council is complying or partially complying with all of the principles of sound financial management. There are a small number of actions which have been identified to enhance conformance with the standards over the next year, which have been summarised below:

	Action	FM Code Section	Implementation Date	Responsible Officer
1	Develop and embed a policy on Social Value	CFO & Leadership Team	December 2021	Head of Finance
2	Review and update the Council's Commissioning Strategy	CFO & Leadership Team	March 2022	Head of Commissioning & Business Improvement
3	Arrange Member workshops to inform the development of the 2022/23 budget	Stakeholder Engagement & Business Plans	October / November 2021	Director of Finance & Business Improvement
4	Review approach to investment appraisal for conformance with 'Principles in Project and Investment Appraisal'	Stakeholder Engagement & Business Plans	September 2021	Head of Finance
5	Assess the usefulness of budget monitoring reports to the leadership team in supporting strategic decision making, and identify scope for improving these as appropriate.	Monitoring Financial Performance	December 2021	Head of Finance
6	Refresh the 2021/22 Capital Strategy	Monitoring Financial Performance	September 2021	Head of Finance

Table 1: Summary of actions to enhance compliance with FM Code (July 2021)

3. AVAILABLE OPTIONS

3.1 Option 1

The committee is asked to note the assessment of compliance against the FM Code and proposed actions documented at Appendix 1. Demonstrating compliance with the FM Code is a collective responsibility of elected members, the chief finance officer and leadership team.

3.2 Option 2

Alternatively, the committee could recommend alternative actions or comment to support the implementation of the FM Code requirements. The proposed actions detailed within the report and appendix have been developed following consultation with senior officers and are considered to enable full compliance with the Code to be achieved.

3.3 Option 3

The committee could choose to do nothing and not implement the requirements of the FM Code. This option is not recommended as the Code is designed to

support sound financial management, which is a statutory requirement placed on Local Authorities by Section 151 of the Local Government Act 1972.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The preferred option is option 1 as set out above.

5. RISK

5.1 This report is for noting only and the recommendations do not give rise to any risk management implications. The management of financial risks is considered within Appendix 1.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

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

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 Proposed actions will be implemented and compliance with the FM Code will be monitored on an ongoing basis.

8. REPORT APPENDICES

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

- **Appendix 1:** Assessment of compliance against the FM Code Principles and actions required
-

9. BACKGROUND PAPERS

None

Maidstone Borough Council
Assessment of compliance against CIPFA's Financial Management Code

Ref	Description	Page Ref	Detail	Assessment & Actions Required	RAG
Section 1: The responsibilities of the chief finance officer and leadership team					
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	17-18	<p>The authority has a clear and consistent understanding of what value for money means to it and its leadership team.</p> <p>There are suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services.</p> <p>The authority is able to demonstrate the action that it has taken to promote value for money and what it has achieved.</p>	<p>The Council is committed to delivering value for money in all aspects of service delivery. Financial implications are considered as part of every decision and value represents one of the Council's six corporate values.</p> <p>Value for money is also subject to annual independent review by the Council's external auditors, who have reported favourably on value for money in the Council's use of resources.</p> <p>Robust procurement processes and contract standing orders defined within the Council's Constitution ensure that purchasing decisions deliver value for money for the Council. This will be further enhanced over the coming year through the delivery and rollout of the Council's policy on Social Value.</p> <p>The Council's Business Improvement team supports the implementation of more efficient internal processes through service reviews and digital transformation. The Council has a Commissioning Strategy which will be updated over the next year.</p>	G

**Maidstone Borough Council
Assessment of compliance against CIPFA’s Financial Management Code**

				<p>Action: To develop and embed a policy on Social Value</p> <p>Action: To update the Commissioning Strategy</p>	
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	18-19	<p>In summary this Statement requires that the Chief Finance Officer (CFO):</p> <ul style="list-style-type: none"> • Is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation’s strategic objectives sustainably and in the public interest. • Must be actively involved in, and able to bring influence to bear on, all material business decisions • Must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively. • Must lead and direct a finance function that is resourced to be fit for purpose. • Must be professionally qualified and suitably experienced. 	<p>The responsibilities of the Chief Finance Officer (Director of Finance and Business Improvement) are set out within the Council’s constitution.</p> <p>The Chief Finance Officer is a member of the Corporate Leadership Team (CLT) and reports directly to the Chief Executive. This facilitates appropriate influence over all material business decisions.</p> <p>All Committee, Council and CLT reports are subject to review by the Chief Finance Officer, supported by the finance team, ensuring that financial implications of decisions are clearly documented and properly considered.</p> <p>The finance team is comprised of 13.5 permanent full-time equivalent staff. 3 members of the team are professionally qualified accountants (CIPFA/ACCA), 3 are part qualified (ACCA), 3 hold the AAT qualification and 3 are actively studying for a professional accountancy qualification (CIPFA/ACCA). Team members are supported through technical and on the job training and are encouraged to take opportunities enhance their skills and</p>	G

**Maidstone Borough Council
Assessment of compliance against CIPFA’s Financial Management Code**

				<p>knowledge, ensuring that there is resilience within the team.</p> <p>The Chief Finance Officer is a professionally qualified accountant with 18 years of local government finance experience.</p>	
Section 2: Governance and financial management style					
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	22	<p>Actions and behaviours of the leadership team are guided by the Nolan principles.</p> <p>The authority has a clear framework for governance and internal control.</p> <p>The leadership team has established effective arrangements for assurance, internal audit and internal accountability.</p> <p>The leadership team espouses high standards of governance and internal control.</p> <p>The leadership team nurtures a culture of effective governance and robust internal control across the authority.</p>	<p>The Council has developed its own corporate values and competency framework, STRIVE which in some respects, aligns to the Nolan principles. These principles are also set out for staff and members within the Constitution and Local Code of Corporate Governance.</p> <p>The Officer Code of Conduct sets out the expected standards of behaviour for staff and where breaches are identified, these are dealt with through the appropriate channels.</p> <p>The Council’s framework for governance is set out within the Local Code of Corporate Governance.</p> <p>The framework for internal control is not explicitly codified but is considered to be appropriate and proportionate to the nature of the organisation. This is reflected in the Head of Internal Audit’s annual opinion.</p>	G

Maidstone Borough Council
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				Internal audit services are delivered by Mid Kent Audit. The service conforms to Public Sector Internal Standards, and this has been verified through external assessment by CIPFA.	
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).		<p>The Council is aware of the provisions of the CIPFA Delivering Good Governance Framework.</p> <p>The authority has sought to apply the principles, behaviour and actions set out in the Framework to its own governance arrangements.</p> <p>The authority has in place a suitable code of governance.</p>	<p>The Council sets out the actions it has taken or plans to take to ensure that high standards of governance are delivered within its Annual Governance Statement and action plan.</p> <p>The Council has adopted a Local Code of Corporate Governance and compliance against this code is reviewed annually by the Audit, Governance and Standards Committee. This review is documented within the Annual Governance Statement which is subject to independent review by external audit.</p> <p>A 'Good Governance' steering group has been established to ensure that good practice is being followed. This group is comprised of the Chief Executive, Monitoring Officer, s151 Officer, Head of Policy, Communications & Governance and Head of Audit.</p>	G
E	The financial management style of the authority supports financial sustainability.		<p>Strong financial management is assessed against a hierarchy of:</p> <ol style="list-style-type: none"> 1. delivering accountability 2. supporting performance 	The Council's Constitution details committee functions and member and officer delegations. The Constitution also includes the Financial and Contract Procedure Rules which set out	G

**Maidstone Borough Council
Assessment of compliance against CIPFA’s Financial Management Code**

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			<p>3. enabling transformation</p> <p>Criteria at each level must be met to enable progression to the next level of the hierarchy. This is broadly linked to economy, efficiency and effectiveness.</p>	<p>responsibilities of Senior Officers, Budget Managers and employees.</p> <p>There is an effective performance management framework in place including performance measures, customer satisfaction surveys, and monitoring of key strategic projects.</p> <p>Performance reporting is closely linked to budget monitoring and a combined finance and performance monitoring report is delivered to service committees on a quarterly basis.</p>	
Section 3: Long to medium-term financial management					
F	<p>The authority has carried out a credible and transparent financial resilience assessment.</p>		<p>The authority has undertaken a financial resilience assessment.</p> <p>That assessment tested the resilience of the authority’s financial plans to a broad range of alternative scenarios.</p> <p>The authority has taken appropriate action to address any risks identified as part of the assessment</p>	<p>The CIPFA Financial Resilience Index provides some context to the Council’s financial position compared to that of other similar councils.</p> <p>Budget risks are reviewed regularly and reported to members at each meeting of the Audit, Governance and Standards committee.</p> <p>Key resilience indicators are set out within the medium term financial strategy and focus on minimum reserve levels, performance against the budget and compliance with the Prudential Code.</p>	G

Maidstone Borough Council
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				A corporate risk register is maintained and reported to Policy and Resources committee on a quarterly basis, alongside budget and performance monitoring reports. All risks have identified mitigations and are monitored regularly by management.	
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.		<p>The authority has a sufficiently robust understanding of the risks to its financial sustainability.</p> <p>The authority has a strategic plan and long-term financial strategy that addresses adequately those risks.</p> <p>The authority reports effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short- and medium-term decision making.</p>	<p>Risks to financial sustainability are regularly reviewed and reported to the Audit, Governance and Standards Committee.</p> <p>The Council has a strategic plan and a 5 year Medium Term Financial Strategy (MTFS) which is reviewed and updated annually.</p>	G
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.		<p>The authority is aware of its obligations under the Prudential Code.</p> <p>The authority has prepared a suitable capital strategy.</p> <p>The authority has a set of prudential indicators in line with the Prudential Code.</p>	<p>Maidstone Borough Council complies with the requirements of the Prudential code, and prepares its Capital, Investment and Treasury Management strategies with reference to this.</p> <p>The Audit, Governance and Standards Committee receives reports on performance against the Treasury Management Strategy and Prudential Indicators twice a year, and quarterly</p>	G

Maidstone Borough Council
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			<p>The authority has suitable mechanisms for monitoring its performance against the prudential indicators that it has set.</p>	<p>updates are also included within budget monitoring reports to Policy and Resources Committee.</p> <p>The Council's capital strategy has been approved by Full Council and contains a range of indicators set with reference to the Prudential Code for Capital Finance.</p> <p>Capital spending is monitored by service committees, and updates on Treasury Management are reported to Policy and Resources committee as part of quarterly budget monitoring.</p>	
1	<p>The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.</p>		<p>The authority has in place an agreed medium term financial plan. The medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy.</p> <p>The medium-term financial plan has been prepared on the basis of a robust assessment of the relevant drivers of cost and demand.</p> <p>The medium-term financial plan has been tested for resilience against realistic potential variations in key drivers of cost and demand.</p>	<p>The Council has adopted a 5 year medium term financial strategy (MTFS) which is updated and rolled forward annually. Consultation with officers, members, residents and external partners takes places as part of the development of the strategy to ensure that it reflects up to date priorities and horizon scanning.</p> <p>The capital, treasury management and investment strategies form part MTFS and interact closely with the revenue projections. The documents are presented alongside one another for approval by Council.</p>	G

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				Development of the MTFS incorporates scenario planning, with adverse and favourable assumptions being modelled and presented to decision makers.	
Section 4: The annual budget					
J	The authority complies with its statutory obligations in respect of the budget setting process.		<p>The authority is aware of its statutory obligations in respect of the budget-setting process.</p> <p>The authority has set a balanced budget for the current year.</p> <p>The authority is likely to be able to set a balanced budget for the forthcoming year.</p> <p>The authority is aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so.</p>	<p>The budget for the current financial year (2021/22) was agreed by Full Council in February, in accordance with the Local Government Act 2000.</p> <p>Officers anticipate that it will be possible to set a balanced budget for the forthcoming year, 2022/23. It is possible that the current funding gap may increase depending on the speed of recovery from the Covid 19 pandemic, or as a result of reforms to central government policy including the Relative Review of Needs and Resources (previously referred to as the Fair Funding Review), Business Rates Retention Review and Reset and Local Government Finance Settlement implications. Earmarked reserves and the General Fund balance will be sufficient to mitigate any funding gap to enable savings to be identified for delivery in subsequent years of the MTFS.</p> <p>Officers are aware of the circumstances and the process for issuing a Section 114 notice, but do</p>	G

Maidstone Borough Council
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				not envisage this being necessary over the medium term.	
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.		<p>The authority’s most recent budget report includes a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.</p> <p>The report accurately identifies and considers the most significant estimates used to prepare the budget, the potential for these estimates to be incorrect and the impact should this be the case.</p> <p>The authority has sufficient reserves to ensure its financial sustainability for the foreseeable future.</p> <p>The report sets out the current level of the authority’s reserves, whether these are sufficient to ensure the authority’s ongoing financial sustainability and the action that the authority is taking to address any shortfall.</p>	<p>The 2021/22 budget and 5 year MTFS were agreed by Full Council in February. The MTFS incorporates the CFO’s Statement of the Robustness of Estimates.</p> <p>The MTFS contains and reports on the most significant estimates, and expected levels of reserves over the medium term.</p> <p>The CFO’s overarching statement on the robustness of estimates and adequacy of reserves is highlighted to both Policy and Resources Committee and Full Council.</p> <p>A number of reserves are held to mitigate future financial risks.</p> <p>The MTFS includes projections of usable reserves at the end of the forthcoming financial year taking into account investment plans.</p>	G

Section 5: Stakeholder engagement and business plans

**Maidstone Borough Council
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L	<p>The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.</p>	<p>The authority knows who its key stakeholders are.</p> <p>The authority has sought to engage with key stakeholders in developing its long-term financial strategy, its medium term financial plan and its annual budget.</p> <p>The authority has assessed the effectiveness of this engagement.</p> <p>The authority has a plan to improve its engagement with key stakeholders.</p>	<p>The Council has a Communications & Engagement strategy which identifies the key stakeholders for each of the Council’s strategic objectives and the strategy for partnership working. This strategy is continually updated. Communications plans for individual campaigns also incorporate stakeholder engagement planning.</p> <p>In addition the Equalities Action plan details the Council’s plan for engaging with stakeholder groups.</p> <p>Residents surveys are conducted annually and consultation on the annual budget also takes place with Maidstone Economic Business Partnership and the Kent Association of Local Councils. Members will be consulted as part of the 2022/23 budget setting process.</p> <p>An assessment of the effectiveness of consultations is currently underway and an external review of this has been commissioned by internal audit.</p> <p>Action: Member workshops to be convened to inform the development of the 2022/23 budget</p>	G
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Maidstone Borough Council
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M	<p>The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.</p>	<p>The authority has a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication 'Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal'.</p> <p>The authority offers guidance to officers as to when an option appraisal should be undertaken.</p> <p>The authority's approach to option appraisal includes appropriate techniques for the qualitative and quantitative assessment of options.</p> <p>The authority's approach to option appraisal includes suitable mechanisms to address risk and uncertainty.</p> <p>The authority reports the results of option appraisals in a clear, robust and informative manner that gives clear recommendations and outlines the risk associated with any preferred option(s).</p>	<p>The Capital Strategy sets out the criteria for assessing schemes to be included on the capital programme.</p> <p>Investment appraisals are undertaken for development and construction schemes and for acquisitions of Commercial Property.</p> <p>The Council uses the Proval tool for assessing residential development schemes and the results of this are considered by the Director of Regeneration and Place, the Director of Finance and Business Improvement and Head of Finance. Recommendations made to decision makers for such schemes are based on the outputs of investment appraisal alongside qualitative factors including the achievement of strategic objectives.</p> <p>Risk management considerations are a feature of all decision reports, and members are presented with alternative options to consider as part of the recommendation.</p> <p>Action: Ensure that the requirements of the IFAC/PAIB publication 'Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal' are embedded within the Council's practices.</p>	A
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Maidstone Borough Council
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Section 6: Monitoring financial performance					
N	<p>The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.</p>		<p>The authority provides the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability.</p> <p>The reports cover both forward and backward-looking information in respect of financial and operational performance.</p> <p>There are mechanisms in place to report the performance of the authority’s significant delivery partnerships.</p> <p>The reports are provided to the leadership team in a timely manner and in a suitable format.</p> <p>The leadership team is happy with the reports that it receives and with its ability to use these reports to take appropriate action.</p>	<p>The budget monitoring position is reported to the Corporate Leadership Team on a quarterly basis. Alongside this report, backward looking performance monitoring data is presented, and forward-looking risk monitoring is also included. Risk and performance monitoring information is also considered by Wider Leadership Team, and the quarterly budget outturn figures are discussed with Heads of Service.</p> <p>The reports are prepared and presented in a timely manner following the end of each quarter, allowing time for the relevant data to be collected. Timely reporting enables potential issues and opportunities to be identified early, and corrective action to be taken where necessary.</p> <p>The Leadership Team meets regularly, allowing for urgent matters to be raised outside of the quarterly reporting process if necessary.</p> <p>Quarterly Mid Kent Services (MKS) board meetings are held where key performance information is reported and the Director of MKS is part of the Council’s Corporate Leadership Team.</p>	A

**Maidstone Borough Council
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				<p>We also participate in the Maidstone Strategic Infrastructure Working Group with Kent County Council. The aims of the group include achieving consensus in the identification, development and delivery of key infrastructure in the Borough.</p> <p>Action: Assess the usefulness of budget monitoring reports to the leadership team in supporting strategic decision making and identify scope for improving these as appropriate.</p>	
O	<p>The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.</p>		<p>The authority has identified the elements of its balance sheet that are most critical to its financial sustainability.</p> <p>The authority has put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet.</p> <p>The authority is taking action to mitigate the risk identified.</p> <p>The authority reports unplanned use of its reserves to the leadership team in a timely manner.</p>	<p>Quarterly financial updates to Policy and Resources Committee incorporate reporting on elements of the balance sheet including reserves, capital expenditure, treasury management and council tax and NNDR collection rates. Key Performance Indicators also assess paid performance statistics, investment risk and recovery of sundry debts.</p> <p>The Strategic Capital Investment Board meets regularly to oversee the implementation of the capital strategy and discuss future risks and opportunities.</p> <p>The Pension Fund is reviewed on a triennial basis and annual contributions are adjusted to ensure that deficits are repaid over the next 16 years.</p>	G

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			The monitoring of balance sheet risks is integrated into the authority's management accounts reporting processes.	<p>The Council does not have a history of needing to make unplanned use of reserves. However, if this situation were to materialise this would be reported to Policy and Resources Committee, via the Corporate Leadership Team. In recent years, the Council has been able to mitigate against unplanned use of reserves through the creation of contingency within Earmarked Reserves.</p> <p>Action: Refresh the 2021/22 Capital Strategy</p>	
Section 7: External financial reporting					
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.		<p>The authority's leadership team is aware of the CFO's responsibilities in terms of the preparation of the annual financial statements.</p> <p>The authority's CFO is aware of their responsibilities in terms of the preparation of the annual financial statements.</p> <p>These responsibilities are included in the CFO's role description, personal objectives and other relevant performance management mechanisms.</p>	<p>The Management Team receive quarterly budget and performance monitoring. The CFO is aware of the requirements of the financial statements, which are fully compliant with the Code of Practice on Local Authority Accounting.</p> <p>The Constitution sets out the CFO's responsibilities regarding the statement of accounts. The CFO also undertakes an annual development appraisal with the Chief Executive and performance objectives are monitored at monthly one-to-one meetings.</p> <p>The Council has a long history of unqualified external audit opinions on its financial</p>	G

**Maidstone Borough Council
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			<p>The authority’s financial statements have hitherto been prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.</p>	<p>statements, usually with minimal requirement for audit adjustments which go beyond presentational improvements. To date, the Council has a track record of meeting the statutory deadlines set out in the Accounts and Audit Regulations.</p>	
Q	<p>The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.</p>		<p>The authority’s leadership team is provided with a suitable suite of reports on the authority’s financial outturn and on significant variations from budget.</p> <p>The information in these reports is presented effectively.</p> <p>These reports are focused on information that is of interest and relevance to the leadership team.</p> <p>The leadership team feels that the reports support it in making strategic financial decisions.</p>	<p>Budget outturn information is reported to the Corporate Leadership Team and to each service committee, including an overarching report to Policy and Resources Committee.</p> <p>As well as providing budget, outturn and performance data, these reports detail significant variances against revenue and capital budgets, the reason for the variances and any action being taken to address overspends. The overarching report also includes an information on treasury management and collection fund performance, details of any budget virements actioned subsequent to the annual budget being agreed by full Council and information on the performance of the Council’s subsidiary company, Maidstone Property Holdings Ltd.</p> <p>The monthly and quarterly budget monitoring processes enable early identification of issues, and allow corrective action to be taken promptly in order to safeguard the Council’s overall financial position. The information from these reports is also used to inform the budget</p>	A

**Maidstone Borough Council
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				<p>setting process for the forthcoming financial year.</p> <p>Action: Assess the usefulness of budget monitoring reports to the leadership team in supporting strategic decision making, and identify scope for improving these as appropriate.</p>	
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**AUDIT, GOVERNANCE &
STANDARDS COMMITTEE**

28 July 2021

Draft Annual Accounts 2020/21

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Ellie Dunnet, Head of Finance
Lead Officer and Report Author	Paul Holland, Senior Finance Manager (Client)
Classification	Public
Wards affected	All

Executive Summary

This report presents the unaudited Statement of Accounts for 2020/21. The Statement will be subject to external audit prior to it being brought back to the Committee for formal approval in September. It also includes a paper from the external auditors which outlines their risk assessment and how it relates to the role of this committee in approving the Statement of Accounts

Purpose of Report

To give the Committee the chance to review the Statement of Accounts and to raise any questions they may have prior to the external audit.

This report makes the following recommendations to this Committee:

1. That the unaudited Statement of Accounts for 2020/21 are noted.
2. That the external auditor's risk assessment document is noted.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	28 July 2021

Draft Annual Accounts 2020/21

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims in demonstrating accountability and value for money.	Director of Finance and Business Improvement
Cross Cutting Objectives	There is no specific implication, however sound financial management does support the delivery of the Council's cross cutting objectives.	Director of Finance and Business Improvement
Risk Management	This is detailed within section 5.	Director of Finance and Business Improvement
Financial	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2021, and details the council's assets, liabilities and reserves at this date.	Director of Finance and Business Improvement
Staffing	No implications identified.	Director of Finance and Business Improvement
Legal	<p>Under section 151 of the Local Government Act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information.</p> <p>The Council is required to produce a statement of account in accordance with the Accounts and Audit (England) Regulations 2015.</p> <p>It is a function of the Audit, Governance and Standards Committee to review and approve the annual statement of accounts and to consider if appropriate accounting policies have been followed and whether there are concerns arising from the financial statements</p>	Team Leader Corporate Governance

	<p>or from the audit that need to be brought to the attention of the Policy and Resources Committee or Council.</p> <p>The Statement is required to be signed off by the Director of Finance & Business Improvement by 31st July 2021 and following the external audit to be approved and published by 30th September 2021.</p>	
Privacy and Data Protection	No implications identified.	Director of Finance and Business Improvement
Equalities	No implications identified.	Director of Finance and Business Improvement
Public Health	No implications identified.	Director of Finance and Business Improvement
Crime and Disorder	No implications identified.	
Procurement	No implications identified.	Director of Finance and Business Improvement
Biodiversity and Climate Change	<p>The implications of this report on biodiversity and climate change have been considered and are;</p> <ul style="list-style-type: none"> • There are no implications on biodiversity and climate change. 	Biodiversity and Climate Change Officer

2. INTRODUCTION AND BACKGROUND

- 2.1 The Council is required to have its audited Statement of Accounts approved by the Audit, Governance and Standards Committee by 30th September 2021 in accordance with the amended Accounts & Audit Regulations.
- 2.2 Prior to that the Statement has to be signed by the Director of Finance & Business Improvement as presenting a true and fair view of the Council's financial position by 31st July 2021, and will then be subject to an external

audit which is scheduled to commence on 23rd August 2021.

2.3 This report gives the Committee the opportunity to review the Statement prior to the external audit and to raise any questions they may have.

2.4 The Statement of Accounts consists of:

Narrative Report – this summarises the Council’s performance over the financial year 2020/21 and highlights the most significant elements of the financial statements.

Comprehensive Income and Expenditure Statement (CIES) – shows the accounting position of the council, and whether operations have resulted in a net surplus or deficit. The accounting position includes cash payments made to employees and for services, as well as non-cash expenditure such as depreciation and accruals. It also shows all sources of income received and accrued in the year. Accrued expenditure represents the value of goods or services received by the authority by 31 March which have not been paid. Similarly, accrued income represents income due, but not yet received.

Movement in Reserves Statement – this is a financial statement which details the balances the council held in reserves at 31st March 2021, analysed into usable reserves (such as the general fund, earmarked balances and capital receipts reserve) and unusable reserves (such as the pensions reserve, revaluation reserve and capital adjustment account).

Balance Sheet – this can be seen as a ‘snapshot’ of the authority’s financial position at a specific point in time, showing what it owns and owes at 31st March 2021.

Cash Flow Statement – sets out the authority's cash receipts and payments during the year, and analyses them into operating, investing and financing activities.

Accounting Policies and Supporting Notes – additional information provided to add context to the numbers presented in the main financial statements, and details judgements made by management in preparing this information.

Collection Fund Statement – this sets out income and expenditure in relation to Council Tax and Business Rates, and represents the position of the Council’s role as a billing authority in collection revenue on behalf of other bodies.

2.5 The council’s financial statements must comply with CIPFA’s Code of Practice on Local Authority Accounting, which is based on International Financial Reporting Standards (IFRS). Both frameworks require a number of complex and detailed disclosures which accompany the main financial statements.

2.6 Due to the impact of the Covid-19 pandemic on local authorities the Government amended the deadlines for the publication and approval of the

accounts. The date for publication was amended from 31st May 2021 to 31st July 2021, and the date for formal approval amended from 31st July 2021 to 30th September 2021.

2.7 The unaudited version of the Statement is attached at Appendix 1. At this stage members should treat this document as a draft and subject to change.

2.8 The headline messages from the Statement of Accounts can be summarised as follows:

- There has been an increase in the value of Property, Plant & Equipment held on the Balance Sheet following the acquisition of a number of houses for housing temporarily homeless families, along with the costs of refurbishing the Lockmeadow Complex which was acquired in 2019. There has also been significant spend on a number of ongoing developments – the Innovation Centre and the housing developments at Brunswick Street and Union Street.
- Short term creditors have increased, which primarily reflects grants received by the Council from Central Government to pay over to businesses and individuals adversely affected by the impact of Covid-19.
- Other Long-Term Liabilities have increased significantly, which reflects the annual remeasurement of the pension fund liability.
- The items above are also reflected in movements within the usable and unusable reserves. Within the usable reserves a new earmarked reserve of £13.5m has been established to provide funding for future Collection Fund deficits, which are now forecast as a result of the financial impact of Covid-19.

3. AUDIT RISK ASSESSMENT

3.1 Attached at Appendix 2 is a document from Grant Thornton (the external auditors) that outlines their approach to risk assessment during the audit and how it relates to the role of the Committee during this process. This paper also details the approach taken by management to calculating accounting estimates which form part of the financial statements. Members are invited to comment on this.

3.2 It also includes a series of questions that the auditors have asked of management and their responses. The Committee may wish to consider these responses and whether they are consistent with their understanding of the position.

4. AVAILABLE OPTIONS

4.1 The recommendation being made to the Committee is to note the Statement of Accounts for 2020/21, and the report from the auditors on risk assessment.

5. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 5.1 That both documents are noted with the Committee having had an opportunity to review them prior to the external audit commencing.
-

6. RISK

- 6.1 Failure to meet the statutory deadlines for production and audit of the annual accounts would result in this being highlighted in Public Sector Audit Appointments Limited's report on the results of auditors' work. The impact of this risk materialising would have largely reputational repercussions for the Council and would limit the Council's capacity to demonstrate accountability and value for money in its use of public funds. This risk has been considered with reference to the Council's risk management framework and is considered to be within acceptable levels.
-

7. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 7.1 Members of the public have legal rights to inspect, ask questions about and challenge items in the Council's accounts. Details of this have been published on the Council's website and the statutory period ends on 1st September 2021. To date, no enquiries have been received in relation to this.
-

8. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 8.1 The external audit will commence on 23rd August 2021.
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9. REPORT APPENDICES

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

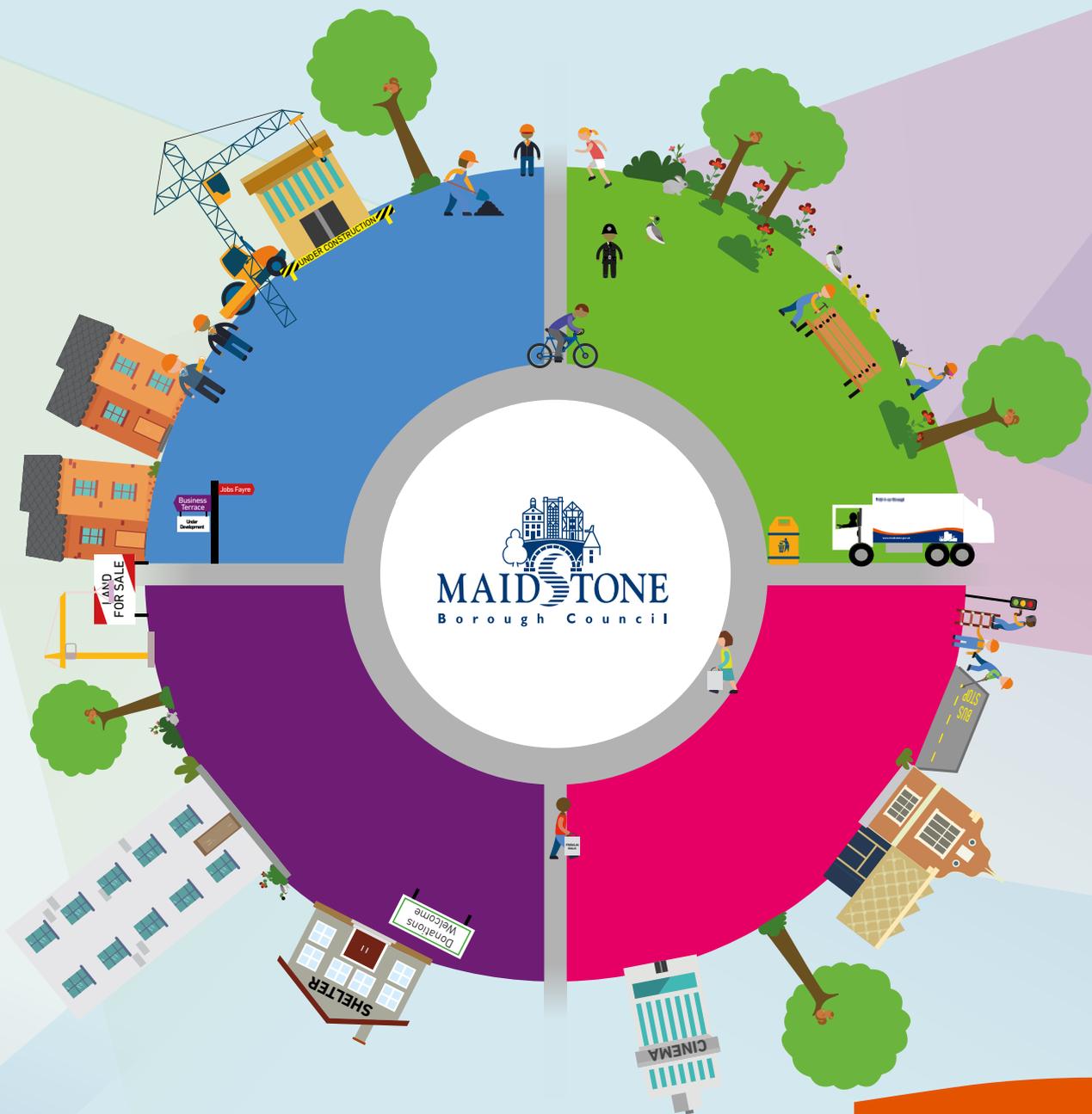
- Appendix 1: Unaudited Statement of Accounts 2020/21
- Appendix 2: Informing the audit risk assessment 2020/21

10. BACKGROUND PAPERS

None

NARRATIVE REPORT

for the year ending
31st March 2021



Overview

For Maidstone Council, as for all organisations, the year to 31 March 2021 was a year like no other. As the local authority for Maidstone and the surrounding area, the Council played a vital part in combating Covid-19. At the same time, many of the sources of income on which it relies as an organisation were badly affected by the pandemic. The Council was fortunate in that these losses were largely offset by support from central government and mitigating measures taken by the Council itself. As a result, it continues to have an adequate but not excessive level of reserves, which provides it with reassurance about its future financial resilience.

While central government support remains important, both in enabling the Council to respond to the continuing impact of the pandemic and in supporting the community's recovery, the Council has a strong track record of developing and maintaining local sources of income on its own initiative. It hopes that national government will recognise the vital role played by local authorities like Maidstone, and will re-cast the local government finance settlement in the years from 2022/23 onwards so as to give the Council the financial flexibility it needs to continue supporting the community.

This narrative report sets out:

- Background information about Maidstone as a place and about the Council
- The Council's corporate strategy and how this is reflected in its financial strategy
- Key achievements and performance over the past year, including a summary of financial performance
- Details of the risks that the Council faces
- Outlook for the future



Key Facts about Maidstone

POPULATION OF MAIDSTONE BOROUGH

2020	173,100
2019	171,800

GROSS VALUE ADDED IN BOROUGH

2019	TBC
2018	£4.1 billion

NUMBER OF ACTIVE BUSINESSES IN THE BOROUGH

2019	8,275
2018	7,990

BUSINESS RATES GENERATED

2020/21	£31.7 million*
2019/20	£60.3 million

*net of Covid-19 Business Rates relief

WEEKLY PAY FOR A FULL-TIME WORKER

2020	£605.50
2019	£579.20

COUNCIL GROSS REVENUE

2020/21	£103.2 million
2019/20	£96.6 million

COUNCIL REVENUE GENERATED LOCALLY (Excluding Covid-19 Grants)

2020/21	91.5%
2014/15	82.3%

COUNCIL SURPLUS/(DEFICIT) AGAINST BUDGET

2020/21	5.7%
2019/20	-1.2%

COUNCIL INVESTMENT IN LONG TERM ASSETS

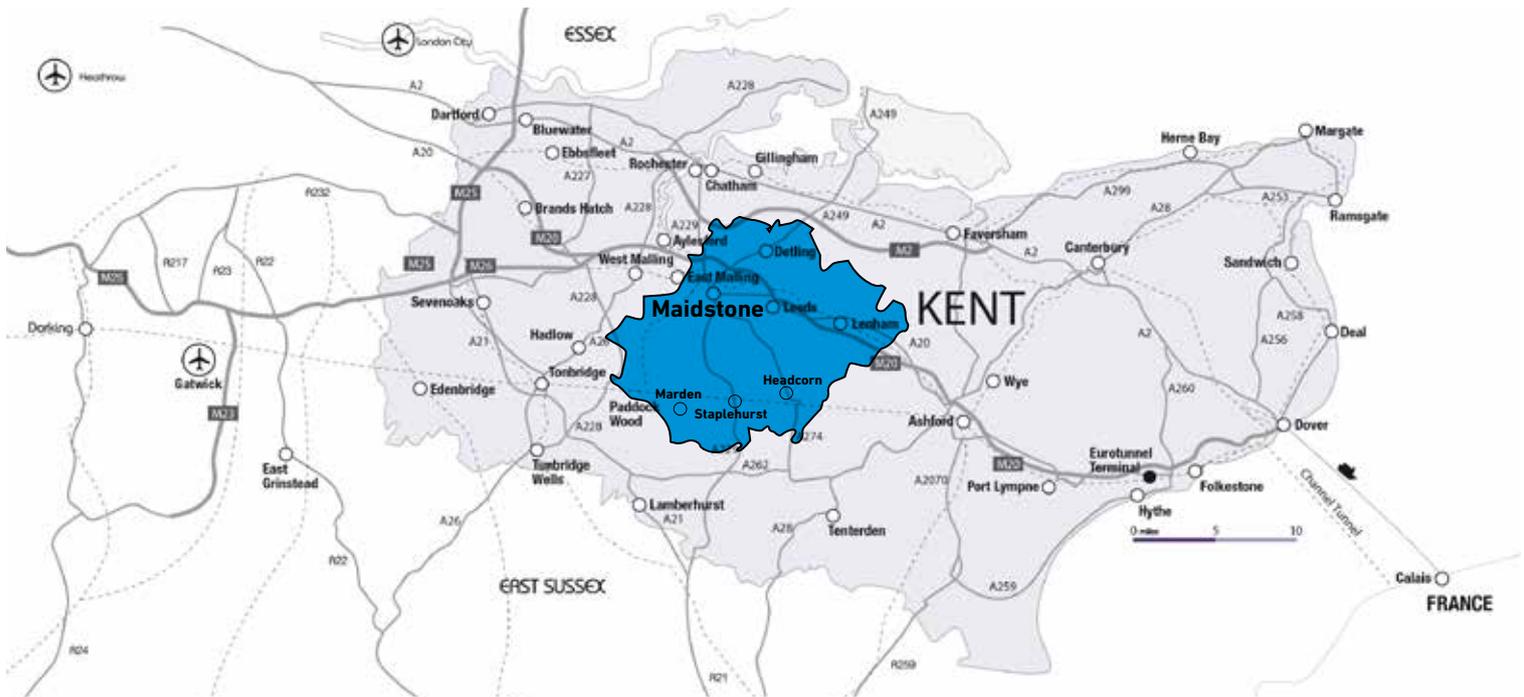
2020/21	£163.5 million
2019/20	£158.6 million

COUNCIL'S USABLE RESERVES

(excludes funding of Collection Fund deficit)

2020/21	£21 million
2019/20	£17.2 million

About Maidstone



Maidstone is the largest borough council district in Kent, with an estimated 175,000 residents in mid-2020. 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 and Harrietsham and many smaller villages.

Maidstone has the largest economy of any Kent borough, generating an estimated £4 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.

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 normally 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. The Borough elections that were due to be held in May 2020 were postponed for a year owing to the Covid-19 pandemic. Following these delayed elections in May 2021, the political composition of the Council is:

Conservative	29
Liberal Democrat	17
Independent	5
Labour	4

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 Councillor David Burton.

The Council employed 516 people (480 full time equivalent) at 31 March 2021, 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 and Medium Term Financial Strategy

The Council adopted a Strategic Plan in December 2018, setting out its aspirations through to 2045. The vision set out in the Plan 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. Achievements in 2020/21 against these objectives and key performance indicators are set out in the following section.

The Strategic Plan has been refreshed in light of the Covid-19 pandemic. The overall strategic priorities remain the same, but specific areas of focus for the next five years have been agreed. So far as recovery from Covid-19 is concerned, the Council's approach will be based around four themes: economic recovery, supporting resilience for communities and vulnerable people, adapting the way we work, and financial recovery.

The Strategic Plan is reflected in a five year Medium Term Financial Strategy (MTFS), which is updated on an annual basis. Recognising that there is a high degree of uncertainty about the medium term financial position, the MTFS incorporates various potential scenarios, representing favourable, neutral and adverse sets of circumstances. An annual budget is drawn up and agreed by councillors based on the neutral scenario, but with consideration paid to the appropriate level of reserves to build resilience to accommodate a range of potential scenarios.

In drawing up a budget for 2021/22, the Council projected that the ongoing impact of Covid-19 would give rise to a deficit of £1.6 million. This in-year deficit in 2021/22 would be covered by deploying earmarked reserves brought forward from previous years. Looking forward, there is a comprehensive and robust savings plan for eliminating the revenue budget deficit over a three year period.

The Council has deliberately not used one-off funding from the government to fund the deficit. Instead, it has set aside one-off government funding, principally the unringfenced Covid-19 expenditure grant of £860,000 for 2021/22 (its share of £2 billion for all local authorities), specifically for initiatives to address Covid-19 response and recovery. In this way, the ongoing financial position of the Council is secured whilst providing funds to kick-start the recovery.

Key achievements

EMBRACING GROWTH AND ENABLING INFRASTRUCTURE

- **Garden Community**

The Council has signed a collaboration agreement with Homes England to jointly promote a new 5,000 home garden community, Heathlands, through the Local Plan Review. This ambitious proposal will be for a landscape led masterplan that will be an exemplar in terms of carbon neutrality and biodiversity net gain. Heathlands will also have a strong employment offer, with an ambition to provide one new job for every home built. The Council and Homes England will share the joint promotion costs, with a view to securing a Planning consent within circa 5 years. Thereafter, Homes England will perform that master developer role whilst the Council will focus upon the long terms stewardship of the new community.

- **Innovation Centre**

The Maidstone Innovation Centre is nearing completion and will be welcoming businesses tenants from the health and med-tech sectors from the summer of this year. The building itself is of the highest design quality, designed by Bond Bryan architects, and will also achieve an excellent BREEAM rating in terms of its environmental performance. Rydon is the contractor and the project is being part financed through the European Regional Development Fund. Businesses that locate within the Innovation Centre will benefit from wraparound business support packages, which will also be available to other businesses operating across the Local Enterprise Region that are also focussed upon the health and med-tech sectors.

HOMES AND COMMUNITIES

- **Community Hub**

In March 2020, following the government's request to provide support to the 'shielded' population, the Council set up a 'Community Hub' comprising a contact centre where people can seek support, a physical distribution hub, a befriending service and a dedicated part of the MBC web-site to provide information for people needing support and a place where volunteers could offer support. Led by the Head of Policy, Communications and Governance, staff were quickly re-deployed from across the council to enable set up in a matter of days. The Community Hub provided free phone and web based contact channels. The team developed processes for managing contact with residents and the provision of support, sourced and procured food and household essentials and linked in with parish councils, community services, voluntary groups, KCC, health providers and volunteers.

The Hub has provided support directly or signposted around 1,500 people. Around a third have been re-directed to others for support at the first contact e.g. to a parish council or existing community group. Our co-ordination team has worked directly with around two thirds (1,000) of the people who requested support; the Hub team have contacted them, undertaken a needs assessment, and provided or co-ordinated appropriate support. Over a thousand food parcels were delivered across the Borough to residents in need directly by the community hub.

The council has also been in regular contact with the "shielded community" which began at over 5,000 people and rose to just over 10,000 by January 2021. This involved ensuring they have access to food, support and other services through both direct provision and working with the voluntary and community sector as well as our Parish Councils.

- **Homelessness Initiatives**

The Council continues to excel with its homelessness services, even with the additional pressures caused by the pandemic. Through continued investment in the core services, the street homeless population in Maidstone has reduced to zero. Furthermore, the Council has continued to expand its own portfolio of temporary accommodation for homeless households, which has not only reduced our reliance on costly nightly paid provision, but also provides a higher quality of accommodation to those affected by homelessness.

- **Trinity Place**

The Council has acquired and will soon be refurbishing an existing community asset, Trinity Place, that will further support our housing and homelessness services. This facility was previously used as a Foyer by a local housing association, providing housing and training for young people, but funding for these services had ended and the building was empty and falling into disrepair. The refurbishment is scheduled to take place from May 2021 allowing residents to move in from September 2021. It will provide 23 self-contained one and two-bedroom apartments and studios and will cost around £1m to complete. The Ministry of Housing, Communities & Local Government have supported the MBC project through a Capital and Revenue Grant, with the combined sums being for circa £545k, through their Next Steps Accommodation Programme.

- **Completion of Brunswick Street and Union Street housing developments**

The Council completed two high quality housing developments in May 2021, both of which are redevelopments of underutilised town centre car parks. The two schemes have provided 94 new homes in total, of which it will retain one third for Private Rented Sector Housing (in its housing company Maidstone Property Holdings Limited), one third for affordable housing that has been acquired by a local housing association partner, and one third of the homes for market sale through a joint venture with the Council's developer / contractor partner Purelake. The sales and lettings demand for all the new homes has been extremely strong, with residents enjoying features to include high energy efficiency ratings, electric car charging points and balconies. To bring these projects forward the Council secured Land Release Fund monies from central government which aided the overall viability of the redevelopments.

SAFE, CLEAN AND GREEN

- **Mote Park Dam Works**

Mote Park Lake was formed in the 1830s by damming the River Len. Following a review under the Reservoirs Act 1975 of Mote Park Lake, the Council has carried out extensive work to increase the spillway capacity of the lake to reduce risk of failure of the dam due to overtopping. The works comprise a 50m wide auxiliary spillway, an abutment formed with grass covered articulated concrete blocks and a wave wall. Landscaping works were carried out around the new abutment including the planting of trees and seeding grassed areas. Breheny Civil Engineering carried out the works, which were completed in December 2020. A certificate under the Reservoirs Act 1975 has now been issued which has been accepted by the Environment Agency as evidence that the Council's legal obligations for managing the flood risk have been discharged. A final stage in the work, the installation of automated sluice gates, is due to take place this year.

A THRIVING PLACE

- **Lockmeadow Refurbishment**

The Council acquired the Lockmeadow leisure complex in November 2019 in order to support the objective of making Maidstone a thriving place, with the Council working as an active landlord to enhance the site and bring more visitors into the town centre. Improvements to the exterior of the site were completed in December 2020, including modernisation of the external facia, removal or replacement of railings, a new, more welcoming entrance to the car park, and removal of redundant structures in order to better link the site with the Medway riverside. At the same time, the Odeon cinema was upgraded to their premium 'Odeon Luxe' format. Further work is now planned to introduce a Food Hall within the complex and a play area alongside it. These measures will help Lockmeadow recover strongly from its enforced closure during the first and second Covid-19 lockdowns.

- **Lockmeadow Refurbishment**

Maidstone Borough Council has been able to quickly respond to support local businesses impacted through the pandemic, implementing new systems and processes to identify and target support to eligible businesses. In total the council made over 9,800 grant awards totalling £54m to eligible businesses during the period of the pandemic and received widespread praise across the business community for the efficient way in which the schemes were delivered.

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 Thriving Place

Performance Indicator	Service	2020/21 Out-turn	2020/21 Target	Status	Compared to 2019/20
Customer satisfaction with the Hazlitt	Leisure & Tourism	-	75%	-	-
Percentage of vacant retail units in the town centre	Economic Development	18%	20%		↓
Number of visits per month to Visit-Maidstone.com	Economic Development	231,840	137,121		↓
Footfall in the Town Centre	Economic Development	5,024,169	5,848,834.6		↓
Percentage of unemployed people in Maidstone (out-of-work benefits) [NOMIS]	Economic Development	5.0%	5.3%		-
Number of students benefitting from the museums educational service	Leisure & Tourism	60	9,000		↓
Footfall at the Museum and Visitors Information Centre	Leisure & Tourism	6,825	29,494.2		↓
Number of users at the Leisure Centre	Leisure & Tourism	101,646	805,257		↓
Business Rates income from the Town Centre	Economic Development	-	-		↑
Total value of business rateable properties	Economic Development	£150,212,625.00	-		↑

PRIORITY: Clean, Safe and Green

Performance Indicator	Service	2020/21 Out-turn	2020/21 Target	Status	Compared to 2019/20
Percentage of unauthorised encampments on Council owned land removed within 5 working days	Community Protection	83.33%	100%		↓
The percentage of relevant land and highways that is assessed as having acceptable levels of litter	Waste Crime Team	96.48%	98.00%		↓
The percentage of relevant land and highways that is assessed as having acceptable levels of detritus	Waste Crime Team	94.97%	95.00%		↓
Percentage of fly tips with evidential value resulting in enforcement action	Waste Crime Team	90.4%	87.0%		↑
Maintenance per Hectare Spent on Parks and open Spaces	Parks & Open Spaces	£6020	-		↑
Number of Green Flag Parks	Parks & Open Spaces	4	3		-
Actual Spend of Section 106 money	Parks & Open Spaces	£435,291.00	-		↑
Percentage of household waste sent for reuse, recycling and composting	Waste & Recycling	50.24%	52.00%		↑
Contamination: Tonnage per month rejected	Waste & Recycling	1552.46	1150.00		-
Percentage of fly tips assessed within 2 working days	Street Cleansing	95.30%	94.00%		-

PRIORITY:

Homes & Communities

Performance Indicator	Service	2020/21 Out-turn	Target	Status	Compared to 2019/20
Number of completed housing assistances	Housing & Health	342	-		↓
Number of houses of multiple occupation brought to compliance by private rented sector licensing	Housing & Health	30	30		↓
Number of households living in temporary accommodation last night of the month (NI 156 & SDL 009-00)	Housing & Health	137	-		↓
Number of households living in nightly paid temporary accommodation last night of the month	Housing & Health	52	-		↓
Number of households housed through the housing register	Housing & Health	651	450		↑
Percentage of successful Prevention Duty outcomes	Housing & Health	71.38%	60%		↑
Number of households prevented or relieved from becoming homeless	Housing & Health	648	450		↑
Percentage of successful Relief Duty outcomes	Housing & Health	46.26%	60%		↓
Percentage of gas safety certificates in place on all residential properties	Housing & Health	97.78%	100.00%		-
Percentage of all electrical safety certificates on all residential properties	Housing & Health	96.71%	100.00%		-
Percentage of high priority fire safety certificates on all residential properties	Housing & Health	100.00%	100.00%		-
Percentage spend and allocation of Disabled Facilities Grant Budget (YTD)	Housing & Health	110.7%	75.0%		↓

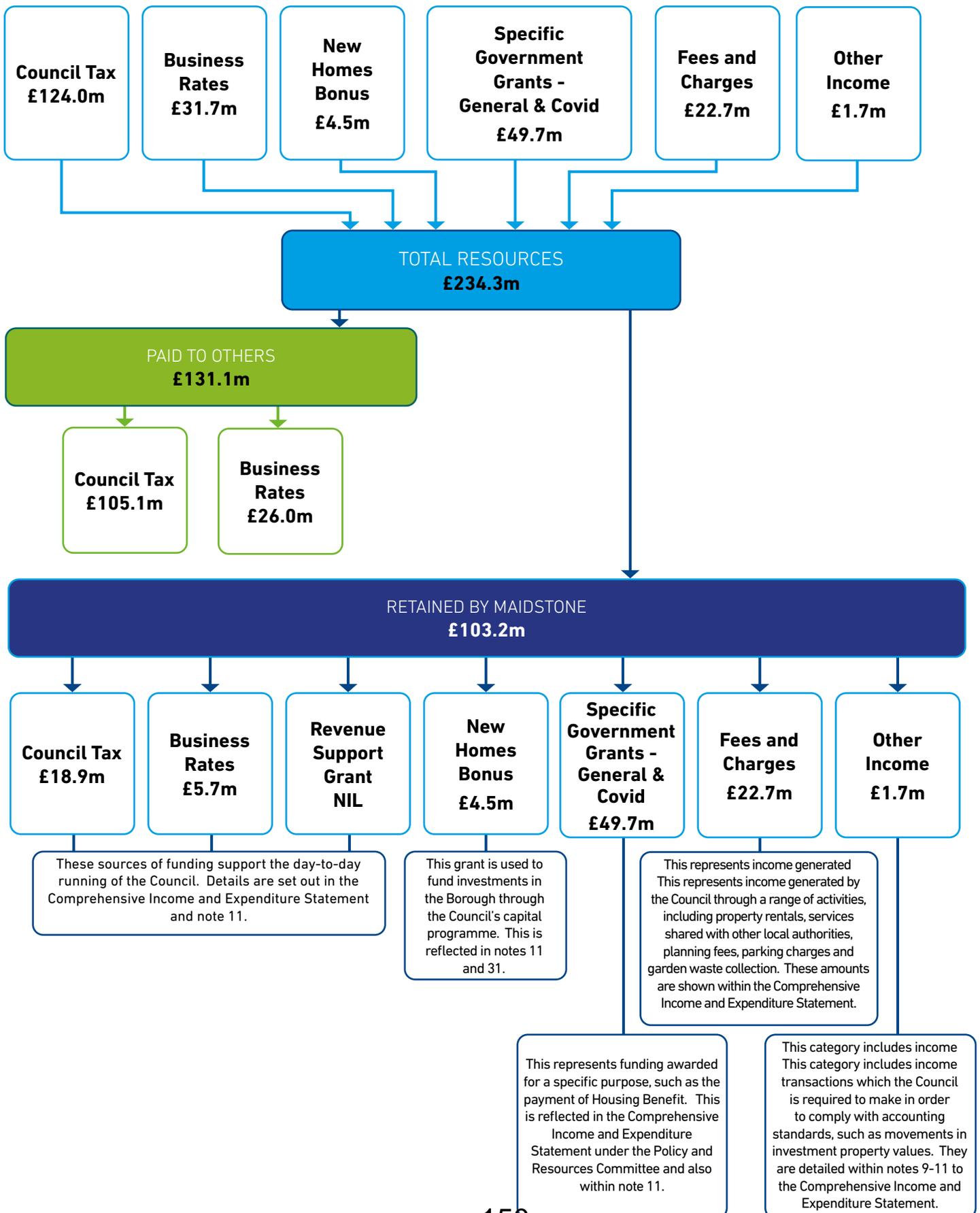
PRIORITY:

Embracing Growth & Enabling Infrastructure

Performance Indicator	Service	2020/21 Out-turn	2020/21 Target	Status	Compared to 2019/20
Percentage of priority 1 enforcement cases dealt with in time	Development Management	90%	95%		↓
Percentage of Priority 2 enforcement cases dealt with in time	Development Management	85.69%	90%		↓
Number of enforcement complaints received	Development Management	564	-		↑
Open planning enforcement cases (as of start of March 2021)	Development Management	319	-		?
Processing of planning applications: Major applications (NI 157a)	Development Management	91.67%	92.00%		↓
Processing of planning applications: Minor applications (NI 157b)	Development Management	97.55%	99.00%		↑
Processing of planning applications: Other applications (NI 157c)	Development Management	99.52%	99.00%		↑
Number of affordable homes delivered (Gross)	Economic Development	342	180		↓
Affordable homes as a percentage of all new homes	Economic Development	Data not yet available			
Net additional homes provided (NI 154)	Development Management				

Financial Performance

Maidstone Council's financial turnover, including Council Tax and Business Rates collected on behalf of other local authorities and government, amounted to £234 million in 2020/21 (£251 million in 2019/20). The table below shows the flows of income and expenditure.

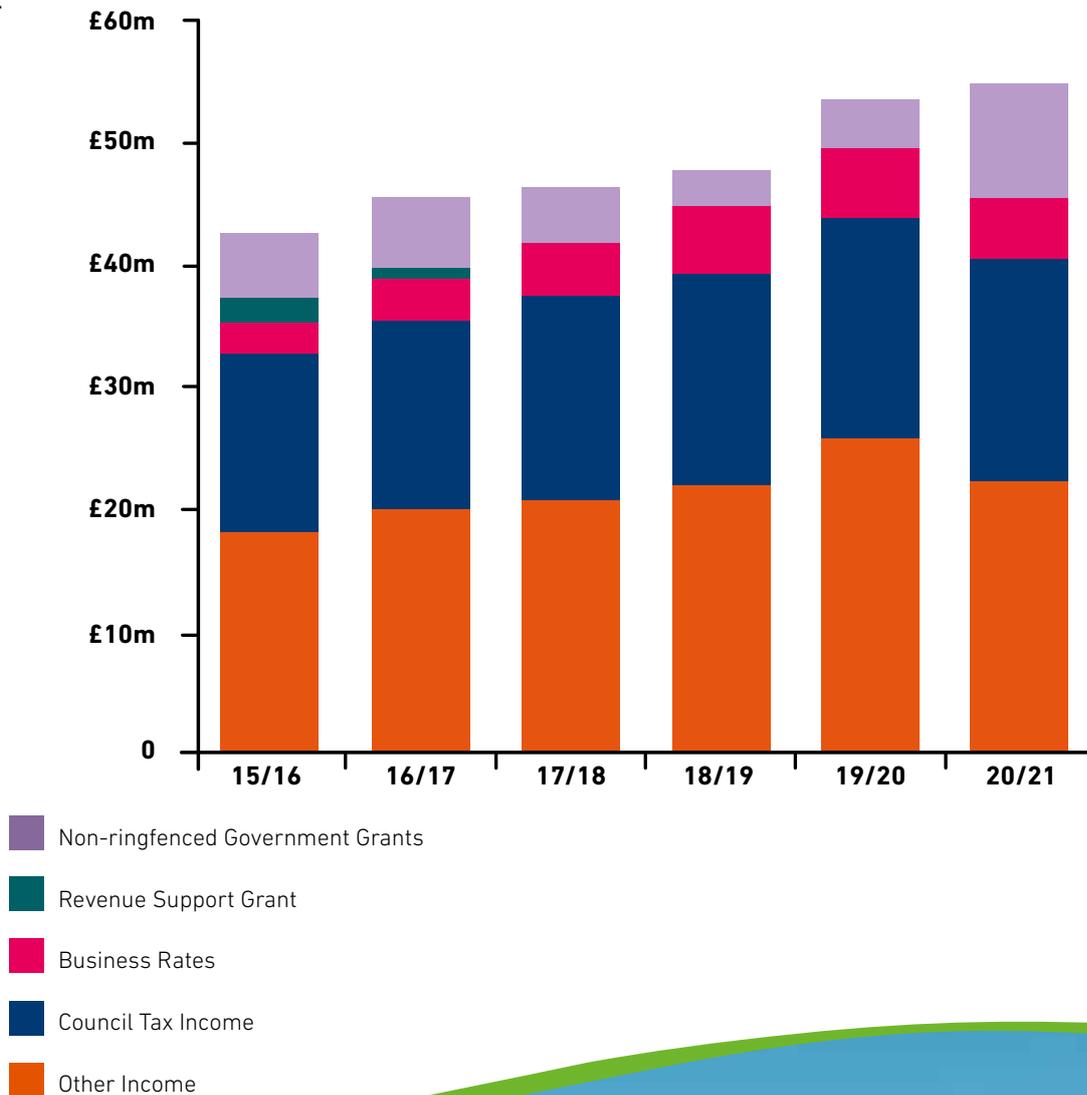


Expenditure

Income retained by Maidstone is used to meet its statutory obligations - delivering services like refuse collection, and making transfer payments such as housing benefit – and to meet our strategic priorities.

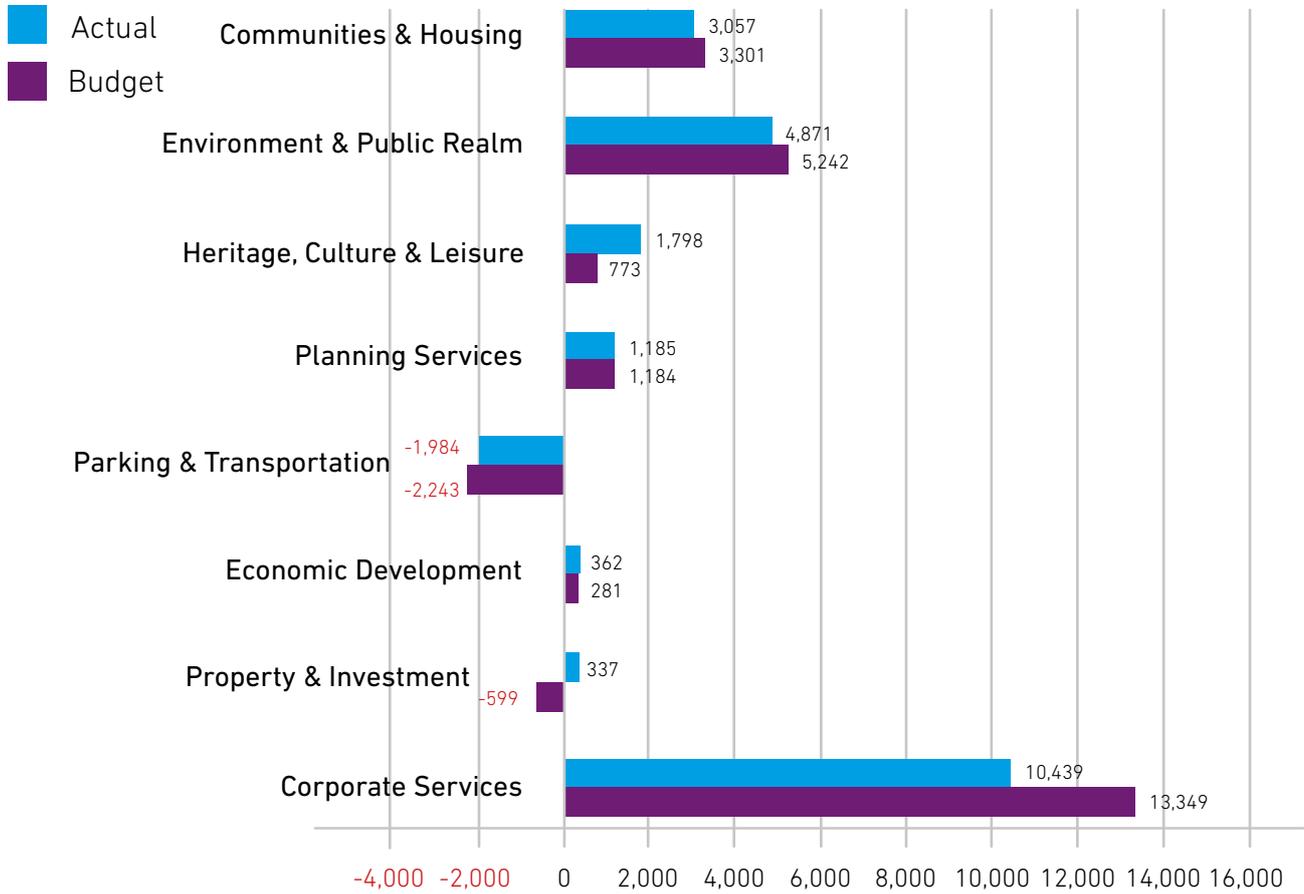
In a number of areas, the Council incurred additional expenditure in responding to the Covid-19 pandemic. At the same time, income on which the Council usually relies, particularly fees and charges for customers, was badly affected by the pandemic. However, the additional expenditure and reduction income was offset by mitigating underspends and by government grant. The outturn for the year was an overall underspend compared with the budget of £1.2 million (5.7%).

The Council following table shows how income in 2020/21 compares with previous years, and how central government funding has helped to offset the shortfall from our locally generated sources of income arising from Covid-19.



These sources of income are shown in note 10 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**. The above figures do not include money received from central government that the council distributes purely as an agent, eg Local Restrictions Support Grant.

The table below compares income and expenditure with budget, and shows how the combined contribution of government grant and local mitigating action has more than offset the impact of Covid-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 reduced from £61.8 million to £46.3 million, mainly because of an increase in pension liabilities.

2019/20 £000		2020/21 £000
124,200	Property, Plant & Equipment	124,418
10,393	Heritage Assets	10,433
23,270	Investment Properties	25,697
715	Other Long Term Assets	2,959
27,992	Money owed to the Council	37,085
-47,714	Money owed by the Council	-61,447
-77,098	Long Term Liabilities	-92,893
61,758	Net Assets	46,251
17,193	Usable Reserves	34,085
44,565	Unusable Reserves	12,166
61,758	Total Reserves	46,251

Property, Plant and Equipment 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. It includes funding of £13.595 million which will be required to cover a deficit on the Collection Fund, so in practice is not available for use by the Council.

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

Capital investment during the year was significantly less than planned, owing to Covid-19. Nevertheless, £20.1 million was spent during the year on delivering projects identified within the Council's capital programme.

These projects included:

- Expenditure on new housing developments at Union Street and Brunswick Street
- Purchase of properties for use as temporary accommodation for homeless people
- Construction of an Innovation Centre for growing businesses in the life science, healthcare and med-tech sectors
- Reinforcement of Mote Park Lake dam to reduce risk of flooding downstream

The Council has an ambitious capital programme for the coming five years, totalling £130 million. The largest element in the capital programme is the Council's housing and regeneration 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.

	Actual	Five year plan					Total
	20/21	21/22	22/23	23/24	24/25	25/26	
	£000	£000	£000	£000	£000	£000	£000
Housing Development and Regeneration	4,997	18,336	19,111	12,611	14,537	9,958	74,553
Temporary Accommodation	1,406	2,526	1,560				4,086
Disabled Facilities Grants	660	1,786	800	800	800	800	4,986
Flood Action Plan	7	200	200	200	200	150	950
Mote Park Improvements	1,068	3,455					4,490
Property Investments	6,075	12,833	3,000	2,500	2,500	2,500	40
Kent Medical Campus Innovation Centre	4,740	4,440					4,440
Infrastructure delivery	0	1,200	1,800	600	600	600	4,800
Corporate Property	270	1,487	175	175	175	175	2,187
Biodiversity and Climate Change	12	950					950
Mall Bus Station	84	690					690
Garden Community	308	340	465	425	425		1,655
Section 106 Contributions	57	44	447	58	49	242	840
Other	439	769	759	370	370	370	2,638
	20,123	49,056	28,317	17,739	19,656	14,795	129,563



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	Contraction in retail and leisure sectors	25	20
2=	Resurgence of current Covid-19 pandemic	20	16
2=	Environmental damage	16	16
4	Major emergency with national / international impact	15	15
5=	Financial restrictions	20	12
5=	Poor partner relationships	16	12
5=	IT security failure	12	12
8=	Housing pressures increasing	12	9
8=	Not fulfilling residential property responsibilities	12	9
8=	Short term impacts from end of Brexit transition period	12	9
8=	Building of incomplete communities	9	9
12=	Major project failure	12	8
12=	Governance failures	8	8
14=	Significant contract failure	12	6
14=	Loss of community engagement	12	6
14=	Not fulfilling commercial property responsibilities	8	6
17	Insufficient workforce capacity and skills	4	4



FUTURE PLANS

The focus of the Council is currently on supporting the community's recovery from the pandemic. It will do this by supporting resilience for communities and vulnerable people and by promoting economic recovery.

Before the onset of the Covid-19 pandemic, the Council's resources were very largely generated locally, with most of its income coming from Council Tax and other local sources, including parking, planning fees and property income. The recovery of these income sources depends on the pace of overall economic recovery, so in the meantime the Council will take care to balance the need to maintain an adequate level of reserves with the need to continue maintaining services to the public. Where one-off funding is made available by central government, the Council will seek to deploy this in ways that generate a lasting benefit for the borough.

The Council's capital programme is intended to support local public services and to help the Council achieve its strategic priorities for the borough. The Council plans to continue investing through the capital programme, to the extent that investments are sustainable in terms of our ability to fund interest payments and ultimately repayment of capital, and provided that resources are available, whether through Public Works Loan Board borrowing or other sources of finance.





**DRAFT STATEMENT OF ACCOUNTS
2020/21
(Subject to external audit)**

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 31st March 2021.

Signed:

Mark Green, Director of Finance & Business Improvement

Date:

PRIMARY STATEMENTS

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

For the years ending 31st March 2020 & 2021

MOVEMENT IN RESERVES STATEMENT**For the years ending 31st March 2020 & 2021**

Current Year	General Fund Balance Unallocated £000	Earmarked GF Balances £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 1st April 2020	8,821	7,820	552	17,193	44,565	61,758
Movement in Reserves during 2020/21						
Total Comprehensive Income and Expenditure	1,231	0	0	1,231	(16,737)	(15,506)
Adjustments between accounting basis & funding basis under regulation (Note 6)	15,793	(31)	(93)	15,669	(15,670)	(1)
Movements between Reserves	(14,035)	14,025	0	(10)	10	(0)
Increase or Decrease in 2020/21	2,989	13,994	(93)	16,890	(32,397)	(15,507)
Balance at 31st March 2021	11,810	21,814	459	34,085	12,166	46,251

Comparative Year	General Fund Balance £000	Earmarked GF Balances £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves (Restated) £000	Total Reserves £000
Balance at 1st April 2019	9,231	5,828	598	15,657	34,287	49,944
Movement in Reserves during 2019/20						
Total Comprehensive Income and Expenditure	4,179		0	4,179	7,635	11,814
Adjustments between accounting basis & funding basis under regulation (Note 6)	(2,286)		(49)	(2,335)	2,335	0
Movements between Reserves	(2,302)	1,992		(310)	310	(0)
Increase or Decrease in 2019/20	(409)	1,992	(49)	1,537	10,280	11,814
Balance at 31st March 2020	8,821	7,820	549	17,193	44,565	61,758

The statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other unusable reserves. The statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the

year. The net increase/decrease line shows the statutory general fund balance movements in the year following those adjustments.

BALANCE SHEET**As at 31st March 2020 & 2021**

30th March 2020 £000		Notes	31st March 2021 £000
124,200	Property, Plant & Equipment	17	124,418
23,270	Investment Property	18	25,697
10,393	Heritage Assets	19	10,433
654	Intangible Assets		818
62	Long Term Debtors		2,141
158,579	Long Term Assets		163,507
0	Short Term Investments	20	2,000
0	Short Term Assets Held for Sale	22	5,655
166	Inventories		173
17,138	Short Term Debtors	23	18,475
10,687	Cash & Cash Equivalents	24	10,783
27,991	Current Assets		37,085
11,000	Short Term Borrowing	20	11,000
29,377	Short Term Creditors	25	41,730
1,164	Provisions	26	1,536
517	Deferred Liability	28	537
5,656	Capital Grants Receipts in Advance	15	6,644
47,714	Current Liabilities		61,447
1,400	Provisions	25	1,627
2,020	Deferred Liability	28	1,483
73,677	Other Long Term Liabilities	32	89,783
77,098	Long Term Liabilities		92,893
61,758	Net Assets		46,251
17,193	Usable Reserves	7	34,085
44,565	Unusable Reserves	30	12,166
61,758	Total Reserves		46,251

CASHFLOW STATEMENT

2019/20 £000		Notes	2020/21 £000
(4,179)	Net (surplus) or deficit on the provision of services		(5,905)
(10,329)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	35	(17,517)
6,372	Adjustments for items included in the net surplus or deficit on the provision of services that are investing & financing activities	36	7,753
(8,138)	Net cash flows from Operating activities		
26,800	Investing Activities	37	19,152
(18,168)	Financing Activities	38	(3,579)
494	Net increase or decrease in cash & cash equivalents		(96)
(11,184)	Cash & cash equivalents at the beginning of the reporting period		(10,689)
(10,689)	Cash & cash equivalents at the end of the reporting period		(10,783)

NOTES TO THE ACCOUNTS**1 – EXPENDITURE & FUNDING ANALYSIS**For the years ending 31st March 2020 & 2021

	2019/20			2020/21		
Net Expenditure Chargeable to the General Fund £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income & Expenditure Statement £000	Committee (See note)	Net Expenditure Chargeable to the General Fund £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income & Expenditure Statement £000
11,603	(3,927)	7,676	Policy & Resources	10,300	(7,557)	2,743
8,943	623	9,566	Communities, Housing & Environment	8,514	2,925	11,439
1,889	2,109	3,999	Economic, Regeneration & Leisure	2,772	2,643	5,415
(473)	1,769	1,296	Strategic Planning & Infrastructure	1,251	2,347	3,598
21,962	575	22,535	Net Cost Of Services	22,837	358	23,196
(28,430)	1,713	(26,717)	Other Income & Expenditure	(8,096)	(16,331)	(24,427)
(6,470)	2,288	(4,182)	(Surplus) or Deficit	14,741	(15,973)	(1,232)
		15,056	Opening General Fund Balance			16,641
		2,597	Less/Plus Surplus or (Deficit) on General Fund Balance in Year			(15,752)
		16,641	Closing General Fund Balance at 31st March			33,626

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The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents and other charges, 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

Adjustments between Funding & Accounting Basis 2020/21				
Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	Adjustments for Capital Purposes (Note i) £000	Net Change for Pensions Adjustments (Note ii) £000	Other Differences (Note iii) £000	Total Adjustments £000
Policy & Resources	(2,172)	1,687	(7,072)	(7,557)
Communities, Housing & Environment	445		2,481	2,925
Economic, Regeneration & Leisure	1,315		1,328	2,643
Strategic Planning & Infrastructure	703		1,644	2,347
Net Cost of Services	291	1,687	(1,620)	358
Other income and expenditure from the Expenditure & Funding Analysis	(291)	(1,687)	(14,353)	(16,331)
Difference between General Fund surplus or deficit and Comprehensive Income & Expenditure Statement Surplus or Deficit on the Provision of Services	0	0	(15,974)	(15,974)

Adjustments between Funding & Accounting Basis 2019/20				
Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	Adjustments for Capital Purposes (Note i) £000	Net Change for Pensions Adjustments (Note ii) £000	Other Differences (Note iii) £000	Total Adjustments £000
Policy & Resources	1,481	1,673	(7,081)	(3,927)
Communities, Housing & Environment	(1,877)		2,501	624
Economic, Regeneration & Leisure	1,842		267	2,109
Strategic Planning & Infrastructure	105		1,664	1,770
Net Cost of Services	1,551	1,673	(2,649)	575
Other income and expenditure from the Expenditure & Funding Analysis	(1,551)	(1,673)	4,937	1,713
Difference between General Fund surplus or deficit and Comprehensive Income & Expenditure Statement Surplus or Deficit on the Provision of Services	0	0	2,288	2,288

Note i – Adjustments for Capital Purposes

- This column adjusts the service committees 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 the service committees 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

	2019/20 £000	2020/21 £000
Expenditure		
Employee Benefit Expenses	24,354	22,762
Other Services Expenses	84,723	95,593
Depreciation, Amortisation, Impairment	4,294	5,214
Interest Payments	135	153
Precepts & Levies	1,936	2,129
Gain/(Loss) on the Disposal of Assets	(2,980)	(2,298)
Total Expenditure	112,462	123,553
Income		
Fees, Charges & Other Service Income	(27,239)	(26,611)
Interest & Investment Income	(217)	(36)
Income from Council Tax & NDR	(43,821)	(43,526)
Government Grants & Contributions	(45,364)	(54,611)
Total Income	(116,641)	(124,784)
(Surplus) or Deficit on the Provision of Services	(4,179)	(1,230)

2 - ACCOUNTING POLICIES

General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year-end of 31st March 2021. 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 2020/21, 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.
- Accruals are recognised where the value exceeds £10,000.

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.

Overheads & Support Services

The costs of support services and overheads are charged to those that benefit from the supply or service in accordance with the absorption costing principle. The full cost of overheads and support services is shared between users in proportion to the benefits received.

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.

ROUNDING

It is not the Council's policy to adjust for immaterial cross-casting differences between the main statements and disclosure notes.

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 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.
- In the latter part of the year 2019/20 the Covid-19 pandemic had a profound impact across service areas, businesses and the wider community testing the Council's business continuity planning arrangements. It will, in all likelihood, also have a significant adverse impact on the Council's finances and, in turn, reserve balances. This is discussed in more detail in the Narrative Report.

There will be numerous issues that will impact on local authorities as a result of the Covid-19 pandemic. Specific areas within the financial statements include:

- Valuation uncertainty in respect of property, plant and equipment, investment property and heritage assets.
- Pension Fund Assets and Liabilities – The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Further information relating to the pension scheme can be found in Note 31.
- Collectability of debt – It is likely that Covid-19 containment measures will result in an adverse impact on the Council's ability to collect debt. The impairment allowances for doubtful debts have been reviewed and increased in light of this risk. Further information can be found in Note 22.

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 31st March 2020 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Balance	Source of Uncertainty	Effect if actual results differ from assumptions
Property valuations (Operational)	<p>Property 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>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</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 £7.6m. This would not impact on the general fund balance.</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>

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Balance	Source of Uncertainty	Effect if actual results differ from assumptions
	<p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p> <p>The estimated remaining useful life of all operational assets is reviewed annually based on the advice from the Council external valuers.</p>	
Fair Value of Investment Property	<p>The Council's external valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available.</p> <p>At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, it has been difficult to value property</p>	<p>Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date.</p>

Balance	Source of Uncertainty	Effect if actual results differ from assumptions
	assets. Values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.	
Depreciation	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.	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 falls. It is estimated that the annual depreciation charge for buildings would increase by £0.4m for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on several 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 investments. The Council has engaged Barnett Waddingham as its consulting actuary to provide expert advice about the assumptions to be applied. The ongoing impact of the Covid19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and infrastructure allocations as at 31 March 2021 are difficult to value according to preferred accounting policy.	<ul style="list-style-type: none"> • A 0.1% increase in the discount rate will reduce the net pension liability by £4.4m; • A 0.1% increase in the assumed level of pension increases will increase the net pension liability by £3.9m; • An increase of one year in longevity will increase the net pension liability by £10.5m.

Balance	Source of Uncertainty	Effect if actual results differ from assumptions
Arrears	At 31st March 2021 the Council had a balance of sundry debtors for £15m. A review of significant balances suggested that an impairment allowance for bad debts of £5.3m was appropriate. The calculation of this estimate is specific to the different classes of debtor but is generally based on the age of the debt and likelihood of recoverability. Uncertainty remains as to whether or not such an allowance will be sufficient to cover non-payment of these debts.	If collection rates were to deteriorate, a 50% increase in the level of impairment required for doubtful debts would require an additional £2.6m to be set aside as an allowance.
Non-Domestic Rates Appeals	The Collection Fund is liable for potential losses arising from appeals against the rateable value of business premises. A provision of £6.4m has therefore been created to recognise current and backdated appeals. The council's share of the provision of £2.5m is reflected on the balance sheet. This is deemed to be appropriate as it is based on a detailed analysis of information provided by the VOA. 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.	If the yield losses from successful appeals were to increase by 10%, an additional provision of £0.636m would be required overall, and the council's share of the provision would increase by £0.254m.

Balance	Source of Uncertainty	Effect if actual results differ from assumptions
	<p>These calculations are made with reference to information supplied by an external advisor, Analyse Local.</p> <p>Uncertainty exists as to whether or not the provision will be sufficient to cover refunds made following successful rateable value appeals, or whether the current provision is excessive.</p>	
Brexit	<p>The UK stopped being a member of the European Union (EU) at 23:00 GMT on 31 January 2020. However, significant uncertainty remains concerning the UK’s future relationship with the EU. Current assumptions underlying asset valuations and pensions liability assume no significant impact from Brexit.</p>	<p>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.</p>

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

The Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. An authority is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant year. The additional disclosures that will be required in the 2021/22 financial statements in respect of accounting changes that are introduced in the 2021/22 Code are:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

There are no new standards that have been issued but not yet adopted which, when adopted, are expected to have a material impact on the Council's financial statements.

The implementation of IFRS 16 Leases has been deferred by another year. This means the effective date for implementation is now 1 April 2022, which would impact the statements in 2022/23.

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.

2020/21	Usable Reserves	
	General Fund balance £000	Capital Receipts Reserve £000
Adjustments to the Revenue Resources		
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)	2,881	
Council Tax and NDR (transfers to or from the Collection Fund Adjustment Account)	13,069	
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)	9,229	
Total Adjustments to Revenue Resources	25,174	0
Adjustments between Revenue and Capital Resources		
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	2,973	(1,813)
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(517)	
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(5,801)	
Total Adjustments between Revenue and Capital Resources	(3,345)	(1,813)
Adjustments to Capital Resources		
Use of the Capital Receipts Reserve to finance capital expenditure		1,720
Application of capital grants to finance capital expenditure	(6,036)	
Total Adjustments to Capital Resources	(6,036)	1,720
Total Adjustments	15,793	(93)

2019/20 Comparative Figures	Usable Reserves	
	General Fund balance £000	Capital Receipts Reserve £000
Adjustments to the Revenue Resources		
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)	4,264	
Council Tax and NDR (transfers to or from the Collection Fund Adjustment Account)	(910)	
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)	5,316	
Total Adjustments to Revenue Resources	8,665	0
Adjustments between Revenue and Capital Resources		
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,384)	1,963
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(520)	
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(4,636)	
Total Adjustments between Revenue and Capital Resources	(6,540)	1,963
Adjustments to Capital Resources		
Use of the Capital Receipts Reserve to finance capital expenditure		(2,012)
Application of capital grants to finance capital expenditure	(4,411)	
Total Adjustments to Capital Resources	(4,411)	(2,012)
Total Adjustments	181	(49)

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 £33.624m at the end of the year the Council maintains a number of Earmarked Reserves for specific purposes as follows:

	31st March 2020 £000	Contributions to/from Balances £000	31st March 2021 £000
Local Plan Review	309	(308)	0
Neighbourhood Planning	75	21	96
Planning Appeals	286		286
Trading Accounts	32		33
Civil Parking Enforcement	164	(8)	155
Future Capital Expenditure	431	700	1,131
Future Funding Pressures	1,589	(619)	969
Homelessness Prevention & Temporary Accommodation	681	92	773
Business Rates Earmarked Balances	3,887	(114)	3,773
Occupational Health & Safety	31	(31)	0
Lockmeadow Complex	335	(335)	(0)
Funding for Future Collection Fund Deficits	0	13,596	13,596
Commercial Risk	0	500	500
Invest to Save	0	500	500
Total Earmarked Reserves	7,820	13,994	21,814
Unallocated Balances	8,821	2,989	11,810
Total General Fund Reserves	16,640	16,984	33,624

Description of Earmarked Reserves:

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.

Planning Appeals – This reserve was created as a contingency for potential costs of future planning appeals. This is in addition to the provision held for costs relating to known appeals.

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.

Future Funding Pressures – This reserve holds funds set aside as contingency for future local government funding reforms.

Business Rates Growth – these are locally retained rates from the Kent Business Rates Pool and 2018/19 100% Pilot, which will be used to support local initiatives including the delivery of economic development activity.

Occupational Health & Safety – This reserve was created to hold funding set aside in case the need should arise to make a prosecution under occupational health and safety legislation. It replaces the annual budget previously held for this purpose.

Lockmeadow Complex – This reserve contains amounts set aside for smoothing of rental income from the Lockmeadow complex, based on projected annual fluctuations over the medium term.

Funding for Future Collection Fund Deficits – This reserve has been created to offset the impact of collection fund deficits on future revenue budgets.

Commercial Risk & Invest to Save – These amounts were previously set aside within the general fund balance, but not formally earmarked. The Commercial Risk reserve is an allowance intended to preserve the general fund balance in the event of major contract failure. The Invest to Save reserve is a fund to enable projects which will unlock future revenue savings to be delivered. It is intended that the savings would first be used to replenish the reserve before being recognised within the budget.

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.

	2019/20	2020/21
	£000	£000
Parish Council precepts	1,936	2,130
Levies	116	120
(Gains)/losses on the disposal of non-current assets	(355)	2,973
	1,698	5,223

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.

	2019/20	2020/21
	£000	£000
Interest payable and similar charges	134	152
Net Interest on the Net Defined Benefit Liability	1,673	1,687
Interest receivable and similar income	(217)	(36)
Income & Expenditure in relation to investment properties and changes in their fair value	(2,256)	1,946
	(666)	3,749

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.

Credited to Taxation & Non Specific Grant Income	2019/20 £000	2020/21 £000
Council tax income	18,180	18,936
Income from Retained Business Rates	21,918	24,604
Tariff Payable	(19,028)	(19,389)
Levy Payable	(110)	(70)
Covid-19 Grants	0	4,846
Non-ringfenced Government Grants	6,788	4,472
Total	27,747	33,399
Credited to Services		
Housing Benefit Subsidy	38,958	36,898
Non-Domestic Rates - Cost of Collection	205	205
Council Tax Administration	148	146
Covid-19 Grants	0	5,736
Other Grants	1,695	1,817
Total	41,005	44,802

In 2020/21 Income from Retained Business Rates has benefited from the Council's participation in the Kent Business Rates Pool, as explained in note 2 to the Collection Fund Statement.

Covid 19 grants received during 2020/21 include £4.9m funding for discretionary business support grants, £2.5m unringfenced government grant, £2.3m sales, fees and charges compensation as well as funding for new burdens and specific grants from the Department of Health and Social Care to support the Council's Covid-19 response.

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 - MEMBERS' ALLOWANCES

The amount of Members Allowances paid during 2020/21 totalled £359,191 (£359,506 in 2019/20).

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

13 – OFFICERS REMUNERATION

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

2020/21	Salary (Including Fees) £000	Other Payments, Allowances & Benefits in Kind £000	Total Remuneration excluding Pension Contributions £000	Pension Contributions £000	Total Remuneration including Pension Contributions £000
Chief Executive	134	3	137	24	161
Director of Finance & Business Improvement	106	1	107	19	125
Director of Regeneration & Place	106	1	107	19	125
Director of Mid-Kent Services	97	1	99	17	115

2019/20	Salary (Including Fees)	Other Payments, Allowances & Benefits in Kind	Total Remuneration excluding Pension Contributions	Pension Contributions	Total Remuneration including Pension Contributions
	£000	£000	£000	£000	£000
Chief Executive	148	3	150	21	171
Director of Finance & Business Improvement	105	1	106	15	121
Director of Regeneration & Place	105	1	106	15	121
Director of Mid-Kent Services	94	1	96	13	109

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 Chief Executive receives additional remuneration to reflect her role as the Council's Returning Officer during elections.

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 (£36,000).

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:

Remuneration Banding	2019/20 No. of Employees	2020/21 No. of Employees
£50,000 - £54,999	8	5
£55,000 - £59,999	5	6
£60,000 - £64,999	5	5
£65,000 - £69,999	3	3
£70,000 - £74,999	2	2
£75,000 - £79,999	2	2
£80,000 - £84,999	2	2
£85,000 - £89,999	1	1
£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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20 £000	2020/21 £000
£0 - £20,000	4	1	2	2	6	3	36	16
£20,001 - £40,000	0	0	0	0	0	0	0	0
£40,001 - £80,000	1	0	0	0	1	0	24	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
Total	5	1	2	2	7	3	60	16

14 - 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.

	2019/20 £000	2020/21 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	46	53
Rebate from Public Sector Audit Appointments Ltd.	(5)	0
Fees payable for the certification of grant claims and returns during the year	22	44
Total	63	97

15 – 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 donor organisation. The balances at the year-end are as follows:

	2019/20	2020/21
	£000	£000
Balance at start of year:	4,723	5,655
Grants Received	5,439	7,130
Funding used for capital expenditure	(4,507)	(6,141)
Balance at end of year:	5,655	6,644

The majority of the balance (£3.956m) relates to Section 106 monies held by the Council for future use. There is also a further £2.0m held for disabled facilities grants which is an ongoing area of work for the Council.

16 - 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 2020/21 is shown in Note 12.

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 following officers are Directors of Maidstone Property Holdings Ltd, which is a wholly owned subsidiary of the Council.

- Director of Regeneration and Place

- Head of Housing and Community Services
- Head of Commissioning & Business Improvement, Transformation & Digital Services
- Principal Lawyer - Commercial

The Balance Sheet as at 31st March 2021, reflects £138,340 (2019/20, £169,094) which is payable from Maidstone Property Holdings to Maidstone Borough Council, relating to income and expenditure for the 2020/21 financial year.

17 - PROPERTY, PLANT & EQUIPMENT**Movements on Balances**

Movements in 2020/21	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
Cost or Valuations								
At 1st April 2020	5,073	94,621	16,956	1,751	4,460	3,701	6,088	132,651
Additions	1,149	5,738	489	273	55	298	15,545	23,547
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(5,130)	0	0	0	0	0	(5,130)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(4,301)	0	0	0	0	0	(4,301)
Derecognition of assets	0	(79)	(62)	(100)	(53)	0	0	(294)
Other movements in cost or valuation	0	250	(305)	55	0	0	0	0
At 31st March 2021	6,222	91,099	17,078	1,979	4,462	3,999	21,633	146,473
Accumulated Depreciation & Impairment								
At 1st April 2020	(3,638)	(3,868)	(7,137)	(785)	(3,350)	0	0	(18,779)
Depreciation charge	(291)	(3,033)	(1,021)	(350)	(397)	0	0	(5,092)
Depreciation written out to the Revaluation Reserve	0	1,620	0	0	0	0	0	1,620
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition of assets	0	0	62	81	53	0	0	196
At 31st March 2021	(3,929)	(5,281)	(8,096)	(1,054)	(3,694)	0	0	(22,055)
Net Book Value								
At 31st March 2021	2,293	85,818	8,982	925	768	3,999	21,633	124,418
At 31st March 2020	1,435	90,746	9,779	959	1,161	3,701	16,419	124,200

Movements in 2019/20	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
Cost or Valuations								
At 1st April 2019	4,352	67,137	13,898	1,544	4,825	3,436	8,545	103,739
Additions	517	23,681	1,128	869	92	265	11,198	37,750
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	3,241	0	0	0	0	0	3,241
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(261)	0	0	0	0	0	(261)
Rerecognition of Assets	0	(351)	(857)	(662)	(458)	0	(16)	(2,344)
Other movements in cost or valuation	204	1,172	2,787	0	0	0	(3,308)	855
At 31st March 2020	5,073	94,619	16,956	1,751	4,459	3,701	16,419	142,980
Accumulated Depreciation & Impairment								
At 1st April 2019	(3,375)	(4,007)	(6,889)	(1,106)	(3,269)	0	0	(18,646)
Depreciation charge	(263)	(2,208)	(985)	(296)	(407)	0	0	(4,159)
Depreciation written out to the Revaluation Reserve	0	2,343	0	0	0	0	0	2,343
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	0
Derecognition of Assets	0	0	697	609	378	0	0	1,684
At 31st March 2020	(3,638)	(3,872)	(7,177)	(793)	(3,298)	0	0	(18,778)
Net Book Value								
At 31st March 2020	1,435	90,746	9,779	959	1,161	3,701	16,419	124,200
At 31st March 2019	979	63,125	7,010	439	1,556	3,433	8,545	85,088

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.

Analysis of Land & Buildings Movements 2020/21	Car Parks	Cemetery & Crematorium	Depots, Workshops & Toolsheds	Entertainment Complex	Halls & Pavilions	Housing	Land	Leisure Centres & Pools	Markets	Museums & Galleries	Parks & Open Spaces	Public Conveniences	Residential / Commercial	Theatres	Town Hall	Total Land & Buildings	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Cost or Valuations																	
At 1st April 2020	16,274	2,166	1,960	22,500	3,469	12,228	285	8,056	1,720	12,465	748	1,680	4,961	4,960	1,150		94,621
Additions		3		4,150	4	1,514	63								4		5,738
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,352)			(1,644)		9		(165)	(605)	(1,165)	970	(179)					(5,130)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(595)			(3,574)		(131)											(4,301)
Derecognition of Assets				(79)													(79)
Other movements in cost or valuation											250						250
At 31st March 2021	13,327	2,169	1,960	21,353	3,473	13,620	347	7,891	1,115	11,300	1,968	1,501	4,961	4,960	1,154		91,099
Accumulated Depreciation & Impairment																	
At 1st April 2020	12	(23)	17	(150)	(788)	(1,499)	(39)	(51)	(15)	(78)	(93)	(405)	(720)	(29)	(7)		(3,868)
Depreciation charge		(38)	(38)	(450)	(361)	(1,076)		(149)	(27)	(236)	(56)	(101)	(392)	(90)	(18)		(3,033)
Depreciation written out to the Revaluation Reserve				600				199		315		506					1,620
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services																	0
Other movements in cost or valuation																	0
At 31st March 2021	12	(61)	(21)	0	#####	(2,575)	(39)	(2)	(42)	1	(149)	(0)	(1,112)	(119)	(25)		(5,281)
Net Book Value																	
At 31st March 2021	13,339	2,108	1,940	21,353	2,324	11,045	308	7,889	1,073	11,301	1,819	1,501	3,849	4,841	1,129		85,818
At 31st March 2020	16,286	2,143	1,978	22,350	2,681	10,721	246	8,005	1,705	12,387	655	1,275	4,240	4,931	1,143		90,751

Analysis of Land & Buildings Movements 2019/20	Car Parks	Cemetery & Crematorium	Depots, Workshops & Toolsheds	Entertainment Complex	Halls & Pavilions	Housing	Land	Leisure Centres & Pools	Markets	Museums & Galleries	Parks & Open Spaces	Public Conveniences	Residential / Commercial	Theatres	Town Hall	Total Land & Buildings
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuations																
At 1st April 2019	15,789	2,182	1,855	0	3,435	9,174	197	8,561	1,059	12,303	748	1,680	4,808	4,285	1,057	67,133
Additions		101	8	20,288	34	3,051		36		93			17	26	26	23,681
Revaluation increases/(decreases) recognised in the Revaluation Reserve	775	(81)		1,077		385	88	(541)	661	70			99	709	0	3,241
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services		(36)	97			(377)				(1)					66	(252)
Derecognition of Assets	(290)													(60)		(350)
Other movements in cost or valuation				1,135									37			1,172
At 31st March 2020	16,274	2,166	1,960	22,500	3,469	12,232	285	8,056	1,720	12,465	748	1,680	4,961	4,960	1,150	94,625
Accumulated Depreciation & Impairment																
At 1st April 2019	12	(269)	(75)		(427)	(1,271)	(39)	(68)	(63)	(679)	(18)	(304)	(878)	118	(49)	(4,010)
Depreciation charge		(20)	(13)	(150)	(361)	(966)		(50)	(13)	(79)	(75)	(101)	(345)	(30)	(6)	(2,208)
Depreciation written out to the Revaluation Reserve		266	106			730		66	61	680			503	(117)	48	2,343
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services																0
Other movements in cost or valuation																0
At 31st March 2020	12	(23)	17	(150)	(788)	(1,506)	(39)	(51)	(15)	(78)	(93)	(405)	(720)	(29)	(7)	(3,875)
Net Book Value																
At 31st March 2020	16,286	2,143	1,978	22,350	2,681	10,726	246	8,005	1,705	12,387	655	1,275	4,240	4,931	1,143	90,751
At 31st March 2019	15,801	1,913	1,779	0	3,009	7,903	158	8,492	996	11,623	730	1,376	3,930	4,403	1,008	63,126

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 31st March 2021 the Council had the following capital commitments:

Project	£000
Union Street housing development *	108
Brunswick Street housing development *	147
Springfield Mill housing development	2,060
Mall Bus Station *	936
Kent Medical Campus - Innovation Centre *	1,637
Mote Park Visitor Centre	2,590

The figures for schemes marked with an asterisk are net of committed external funding that the Council will receive.

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 31st March 2021 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 1st April 2007 when the current capital accounting requirements came into force.

	Infrastructure Assets £000	Community Assets £000	Land & Buildings £000	Plant, Machinery & Equipment £000	Vehicles £000	IT & Office Equipment £000	Assets Under Construction £000	Total £000
Carried at historical cost	6,222	3,999	1,782	17,078	1,979	4,462	21,632	57,154
Valued at current value as at:								
31st March 2017			0					0
31st March 2018			9,218					9,218
31st March 2019			4,225					4,225
31st March 2020			20,208					20,208
31st March 2021			55,666					55,666
Total Cost or Valuation	6,222	3,999	91,099	17,078	1,979	4,462	21,632	146,473

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 1st 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 50 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.

18 - INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the financing and investment income and expenditure line in the comprehensive income and expenditure statement:

	2019/20 £000	2020/21 £000
Rental income from investment property	(2,315)	(2,961)
Direct operating expenses arising from investment property	940	994
Net gain/(loss)	(1,375)	(1,967)

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

	2019/20	2020/21
	£000	£000
Balance at start of the year	23,014	23,270
Additions	14	2,027
Transfers	(854)	
Net gains/losses from fair value adjustments	1,096	400
Balance at end of year	23,270	25,697

During the year the Wren Industrial Estate in Maidstone was acquired by the Council.

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.

19 – 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 2020	9,090	480	515	308	10,393
Additions				40	40
Disposals					0
31st March 2021	9,090	480	515	348	10,433
1st April 2019	9,090	480	515	308	10,393
Additions					0
Disposals					0
31st March 2020	9,090	480	515	308	10,393

Museum Exhibits

The exhibits are held in two main locations, the Maidstone Museum & Bentrif 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 1st 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 three items, the civic regalia used by the Mayor, the 'Elemental' art installation on the bridge across the River Medway, and a new piece of public art (a metal sculpture of a dinosaur) installed outside Maidstone East station as part of the recent public realm project. The civic regalia have been valued by a local jeweller for insurance purposes, and the art installation and the new installation have 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.

20 - FINANCIAL INSTRUMENTS

Financial Instruments – Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to 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 following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Short-Term	
	31st March 2020 £000	31st March 2021 £000	31st March 2020 £000	31st March 2021 £000
Treasury Investments				
Financial assets at amortised cost	0	0	11,025	16,160
Debtors				
Financial assets at amortised cost	0	37	10,630	10,832
Loans				
Financial liabilities at amortised cost	0	0	11,000	11,000
Creditors				
Financial liabilities at amortised cost	0	0	13,926	16,397
Other Long Term Liabilities				
Finance Lease Liabilities at amortised cost	2,020	1,473	517	537

On the face of the Balance Sheet, Financial Assets are held at Amortised Cost where the business model for the Council is to collect contractual cash flows. £3m of Treasury Investments are held by a local authority, with the remaining £13.16m invested in notice and call accounts. The Council has no long-term treasury funds invested at the year end. Debtors includes two service loans to third parties, Kent Savers £25k Long Term and One Maidstone £30k (Business Improvement District Levy). The Council has no long-term debtors, and the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The Council has taken out short term loans with other local authorities of £11m. £7m was required to fund the purchase of the Lockmeadow Leisure Complex back in 2019, the remaining £4m is funding other areas of the Council’s capital programme. All loans during the year have been rolled over short term due to the fact that short term rates are at all time lows.

Other Long-Term Liabilities relates to the services concession arrangement between the Council and Serco, the managing contractor of Maidstone Leisure Centre. Details of this arrangement are discussed within 27 – Private Finance Initiatives & Similar Contracts.

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

Income & Expense

	Long-term		Short-Term	
	31st March 2020 £000	31st March 2021 £000	31st March 2020 £000	31st March 2021 £000
Income:				
Financial assets at amortised cost	0	0	208	30
Other Interest	0	0	9	6
Total	0	0	217	36
Expenditure:				
Financial liabilities at amortised cost	0	0	24	38
Total	0	0	24	38

Expected Credit Loss Model

The Council considers the potential for credit losses on financial assets held at amortised cost either on a 12-month basis, where risk has not increased significantly or remains low, or lifetime basis, where risk has increased significantly (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.

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 financial assets and liabilities 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 2020		Fair Value Level	31st March 2021	
	Book Value £000	Fair Value £000		Book Value £000	Fair Value £000
Financial Assets					
Long Term Investments	0	0	2	0	0
Short Term Investments (less than 1 yr)	11,056	11,056	2	16,177	16,177
Financial Liabilities					
Short Term Loans with other LAs	11,024	11,025	2	11,003	11,004

21 - NATURE & EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council 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.

Treasury Management Strategy 2020/21

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 31st March 2021 investments were held with the following institutions:

	31st March 2020 £000	31st March 2021 £000
AAA rated Institutions	5,025	0
AA+ rated Institutions	0	0
AA rated Institutions	0	2,280
AA- rated Institutions	3,000	2,880
A+ rated Institutions	1,000	8,000
A rated Institutions	0	0
A- rated Institutions	0	0
BBB+ rated Institutions	0	0
Unrated Local Authorities	2,000	3,000
UK Government	0	0
Total	11,025	16,160

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. However, provision has also been made with the current Treasury Management Strategy to have an authorised debt limit of £66.68m to fund on-going schemes in the event of projected capital receipts not being realised.

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

The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Authority has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Authority'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 central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

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.

22 – ASSETS HELD FOR SALE

The £5.655m figure represents properties at the Union Street housing development that will be sold privately or transferred to a registered social housing provider.

23 – SHORT AND LONG TERM DEBTORS**Short Term Debtors**

	2019/20 (Restated) £000	2020/21 £000
Central government bodies	739	1,675
Other local authorities	6,903	8,160
Other entities and individuals	14,449	15,088
Total	22,090	24,924

Allowance for Bad Debts

	2019/20 £000	2020/21 £000
Excess Charges Impairment Allowance	817	1,184
Sundry Bad Debts Impairment Allowance	4,134	5,265
Total	4,952	6,449

The figure on the balance sheet represents Debtors less Provision for Bad Debts, which totals £18.475m.

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

	2019/20 (Restated) £000	2020/21 £000
Council Tax payers	1,204	1,534
Business Rate payers	1,470	1,938
Capital debtors	560	1,022
General debtors	9,507	8,362
Payments in Advance	575	802
Other miscellaneous amounts	1,133	1,430
Total	14,449	15,088

Following a reanalysis of the other entities and individuals figures the 2019/20 comparators have been adjusted.

Long Term Debtors

Part of the debtors balance with other Local Authorities (£2.1m) has been classified as a long term debtor for 2020/21, due to the requirement to spread collection fund deficits with preceptors over three years. This means that two thirds of the 'exceptional' balance calculated for spreading purposes will not be recovered from preceptors until 2022/23 and 2023/24.

24 - CASH & CASH EQUIVALENTS

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

	2019/20 £000	2020/21 £000
Cash held by the Council	3	3
Bank current accounts	(341)	(3,380)
Short-term deposits	11,025	14,160
Total	10,687	10,783

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. Currently, due to the requirement of funding for its liabilities, £14.16m of Council investments are classified as cash and cash equivalents.

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

	2019/20	2020/21
	£000	£000
Central government bodies	4,960	13,160
Other local authorities	4,820	4,878
Other entities and individuals	19,598	23,691
Total	29,377	41,730

The movement in the balances for Central Government is a reflection of additional business grants and an increase in income in advance.

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:

	2019/20	2020/21
	£000	£000
General creditors	2,423	4,437
Capital creditors	1,379	1,416
Council tax payers	193	0
Business Rate payers	220	0
Receipts in advance	5,259	7,293
Deposits	9,839	9,978
Retentions	285	566
Total	19,598	23,691

26 - PROVISIONS

Provision for Appeals

	2019/20	2020/21
	£000	£000
Business Rates Appeals - Current	774	1,261
Business Rates Appeals - Backdated	1,355	1,283
Planning Appeals	261	261
Other Provisions	0	190
Total	2,391	2,995

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 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 31st March 2021 are summarised in the following table. The figures for 2019/20 are the audited figures, which differ

from those in the 2019/20 Statement of Accounts, as the audit took place after that was published.

	2019/20	2020/21
	£000	£000
Fixed Assets:		
Tangible Assets	2,824	2,553
Investment Property	1,010	1,000
Investments	670	825
	4,505	4,378
Current Assets	247	500
Current Liabilities	73	284
Creditors: Amounts falling due after more than one year	232	135
Total assets less current liabilities	4,448	4,459
Total Charitable Funds	4,448	4,459

Gross expenditure in 2020/21 totalled £447,662 (£365,876 in 2019/20). Gross income in 2020/21 totalled £431,008 (£463,350 in 2019/20).

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

	2019/20	2020/21
	£000	£000
Balance outstanding at start of year	3,057	2,537
Repayment of principal	(520)	(517)
Balance outstanding at end of year	2,537	2,020

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.

	31st March 2020 £000	31st March 2021 £000
Balance at 1st April	597	549
Capital Receipts Received	1,963	1,723
Capital Receipts Applied	(2,012)	(1,813)
Balance at 31st March	549	459

30 - UNUSABLE RESERVES

	31st March 2020 £000	31st March 2021 £000
Revaluation Reserve	44,240	40,883
Capital Adjustment Account	74,197	74,327
Deferred Capital Receipts Reserve	8	7
Pensions Reserve	(73,677)	(89,783)
Collection Fund Adjustment Account	(26)	(13,095)
Accumulated Absences Account	(174)	(172)
Total Unusable Reserves	44,565	12,166

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 1st 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.

	31st March 2020 £000	31st March 2021 £000
Balance at 1st April	38,826	44,248
Upward revaluation of assets	5,568	(3,512)
Downward revaluation of assets		
Difference between fair value depreciation and historical cost depreciation	(144)	146
Balance at 31st March	44,248	40,883

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 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

	31st March 2020 £000	31st March 2021 £000
Balance at 1st April	68,058	74,197
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
Charges for depreciation of non-current assets	(4,160)	(5,094)
Amortisation of intangible assets	(135)	(121)
Revaluation Gains/Losses on Property, Plant & Equipment	(578)	(4,319)
Revenue expenditure funded from capital under statute	(1,799)	(845)
Write-off of non-enhancing capital expenditure	(58)	(79)
	(6,729)	(10,457)
Adjusting amounts written out of the Revaluation Reserve	(117)	(135)
Net written out amount of the cost of non-current assets consumed in the year	(6,846)	(10,592)
Capital financing applied in the year:		
Minimum Revenue Provision	0	798
Sums set aside for Debt Repayment	520	517
Use of the Capital Receipts Reserve to finance new capital expenditure	2,012	1,813
Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	4,411	1,360
Capital expenditure charged against the General Fund balance	4,946	5,833
	11,888	10,321
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	1,096	400
Balance at 31st March	74,197	74,326

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.

	2019/20	2020/21
	£000	£000
Opening balance at 1 April	71,481	73,677
Remeasurements of the net defined liability	(2,068)	13,225
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	9,036	6,690
Employer's pensions contributions	(4,772)	(3,809)
Closing balance at 31 March	73,677	89,783

d) Collection Fund Adjustment Account

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.

	31st March	31st March
	2020	2021
	£000	£000
Balance at 1st April	935	26
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	346	(131)
- Non-domestic Rates	(1,256)	13,200
Balance at 31st March	26	13,095

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.

	2019/20 £000	2020/21 £000
Opening Capital Finance Requirement	12,114	40,527
Capital Investment		
Property, Plant & Equipment	37,695	23,494
Non-enhancing capital expenditure	56	79
Investment Properties	10	2,027
Intangible Assets	222	285
Revenue Expenditure Funded from Capital Under Statute	1,799	845
	39,782	26,730
Sources of Finance		
Capital receipts	(2,012)	(1,813)
Government grants & other contributions	(4,721)	(6,067)
New Homes Bonus	(3,881)	(4,472)
Other Revenue Contributions	(755)	(1,329)
	(11,368)	(13,681)
Increase in Capital Financing Requirement	28,414	13,049
Closing Capital Finance Requirement	40,527	53,576

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 2020/21.

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 Career Average Revalued Earnings (CARE) pension 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:

	2019/20 £000	2020/21 £000
Comprehensive Income & Expenditure Statement (CI&ES)		
Cost of Services:		
Service cost comprising:		
- Current service cost	6,233	5,003
- Past service costs including curtailments	1,130	0
Financing and Investment Income & Expenditure:		
- Net interest expense	1,673	1,687
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	9,036	6,690
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)	(11,199)	28,386
- Actuarial gains and losses arising on changes in financial assumptions	16,436	(46,104)
- Actuarial gains and losses arising on changes in demographic assumptions	2,631	2,056
- Experience gains and losses on defined benefit obligation	(4,952)	2,437
- Other actuarial gains and losses	(848)	0
Total Post Employment Benefit Charged to the CI&ES	11,104	(6,535)
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	9,036	6,690
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers' contributions payable to the scheme	(4,772)	(3,809)
	4,264	2,881

Curtailments

No employees were permitted to take unreduced early retirement that they would not otherwise have been entitled to over the past year.

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 (2019/20 £nil).

McCloud Case

An allowance has been made to reflect the Court of Appeal judgement in respect of the McCloud case which related to age discrimination within pension schemes. This was incorporated into the accounting results as at 31 March 2020. These results, including the allowance, have been rolled forward and remeasured to obtain the accounting results as at 31 March 2021.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud case. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. Based on our actuary's advice, we do not consider that there are any material differences between the approach underlying the estimated allowance and the proposed remedy, so no adjustment has been included in light of the ongoing consultation.

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:

	2019/20	2020/21
	£000	£000
Present value of funded obligation	175,391	221,430
Fair value of plan assets	(103,305)	(133,210)
Contributions by scheme participants	72,086	88,220
Present value of unfunded obligation	1,591	1,563
Net liability arising from defined benefit obligation	73,677	89,783

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

	2019/20	2020/21
	£000	£000
Opening fair value of Scheme assets	113,698	103,305
Interest on assets	2,716	2,417
Return on assets less interest	(11,133)	28,471
Administration expenses	(66)	(85)
Contributions by employer including unfunded	3,642	3,809
Contributions paid by scheme participants	939	981
Estimated benefits paid plus unfunded net of transfers in	(5,643)	(5,688)
Other actuarial gains/(losses)	(848)	0
Closing fair value of Scheme assets	103,305	133,210

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

	2019/20	2020/21
	£000	£000
Opening balance at 1 April	185,179	176,982
Current Service cost	5,103	5,003
Interest cost	4,389	4,104
Change in financial assumptions	(16,436)	46,104
Changes in demographic assumptions	(2,631)	(2,056)
Experience loss/(gain) on defined benefit obligation	4,952	(2,437)
Past service costs, including curtailments	1,130	0
Estimated benefits paid net of transfers in	(5,491)	(5,541)
Contributions by Scheme participants	939	981
Unfunded pension payments	(152)	(147)
Closing balance at 31 March	176,982	222,993

Local Government Pension Scheme Assets

	31st March 2020		31st March 2021	
	£000	%	£000	%
Equities	63,552	61%	85,777	65%
Gilts	803	1%	792	1%
Other Bonds	13,465	13%	16,636	12%
Property	14,056	14%	13,787	10%
Cash	2,704	3%	6,605	5%
Absolute return fund	8,725	8%	9,613	7%
Total	103,305	100%	133,210	100%

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 31st March 2019.

The principal assumptions used by the actuary have been:

	2019/20	2020/21
Long-term expected rate of return of assets in the scheme		
Mortality Assumptions		
Longevity at 65 for current pensioners		
- Men	21.8	21.6
- Women	23.7	23.6
Longevity at 65 for future pensioners		
- Men	23.2	22.9
- Women	25.2	25.1
Financial Assumptions		
RPI increases	2.75%	3.20%
CPI increases	1.95%	2.80%
Salary increases	3.85%	3.80%
Pension increases	2.35%	2.80%
Discount Rate	2.55%	2.00%

The long term assumption made by the actuary is that salaries will increase at 1% p.a. above CPI.

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.

Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	218,641	222,993	227,436
- Projected Service Cost	7,261	7,526	7,800
Adjustment to long-term salary increase	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	223,498	222,993	222,493
- Projected Service Cost	7,530	7,526	7,522
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	226,892	222,993	219,171
- Projected Service Cost	7,797	7,526	#####
Adjustment to life expectancy assumptions	+1 Year	None	-1 Year
- Present Value of Total Obligation	233,457	222,993	213,030
- Projected Service Cost	7,838	7,526	7,226

Scheme History

	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
Present value of defined benefit obligation in the Local Government Pension Scheme	(183,756)	(182,032)	(183,242)	(175,391)	(221,430)
Fair value of assets in the Local Government Pension Scheme	104,482	106,524	113,698	103,305	133,210
Present value of unfunded obligation	(2,260)	(2,110)	(1,937)	(1,591)	(1,563)
Surplus/(Deficit) in the scheme	(81,534)	(77,618)	(71,481)	(73,677)	(89,783)

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £89.783m 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 2022 are £3.690m

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 2019.

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:

	31st March 2020 £000	31st March 2021 £000
Not more than 1 year	559	558
Later than 1 year and not later than 5 years	2,030	1,473
Later than 5 years	0	0
	2,589	2,031

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 – EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Director of Finance & Business Improvement on **(DATE TO BE CONFIRMED)**. 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 31st March 2021 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.

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

	2019/20	2020/21
	£000	£000
Depreciation	(4,160)	(5,094)
Revaluation Gains & Losses	(839)	(4,319)
Amortisation of Intangible Assets	(135)	(121)
Movement in Creditors	(2,908)	(4,556)
Movement in Debtors	869	(354)
Movement in Inventories	69	7
Movement in Pension Liabilities	(4,264)	(2,881)
Other Non-Cash items	1,038	(198)
	(10,328)	(17,517)

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

	2019/20 £000	2020/21 £000
Capital Grants credited to surplus or deficit on the provision of services	4,411	6,036
Proceeds from sale of Property, Plant & Equipment	1,961	1,717
	6,372	7,753

37 - CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2019/20 £000	2020/21 £000
Purchase of property, plant & equipment, investment property and intangible assets	38,246	25,901
Purchase of short-term and long-term investments	0	2,000
Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(1,963)	106
Proceeds from short-term and long-term investments	(4,000)	(1,718)
Other payments for investing activities	0	0
Other receipts for investing activities (Grants)	(5,482)	(7,137)
Net cash flows from investing activities	26,800	19,152

38 - CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2019/20 £000	2020/21 £000
Cash receipts of short- and long-term borrowing	(11,000)	0
Repayments of short & long-term borrowing	520	538
Other payments for financing activities	(7,688)	(4,116)
Net cash flows from financing activities	(7,168)	(3,578)

COLLECTION FUND STATEMENT & NOTES

Statement of Accounts 2020/21 (Draft – Subject to external audit) **APPENDIX 1**

2019/20 £000		2020/21 £000
INCOME		
117,579	Income From Council Tax	124,005
60,304	Income From Business Rates (Note 2)	31,730
177,883	Total Income	155,735
EXPENDITURE		
	Precepts and Demands - Council Tax	
82,402	Kent County Council	85,653
12,227	Kent Police & Crime Commissioner	12,877
18,503	Maidstone Borough Council	18,966
4,933	Kent Fire & Rescue Authority	5,026
	Shares of Business Rates	
25,411	Central Government	31,281
6,808	Kent County Council	4,308
21,843	Maidstone Borough Council	24,128
546	Kent Fire & Rescue Authority	603
985	Transitional Protection Payments - Business Rates	915
173	Disregarded Amounts - Business Rates	154
	Impairment of Debts - Council Tax	
260	Write offs of uncollectable amounts	190
1,401	Additional / (Reduced) Impairment of Aged Debt	1,760
	Impairment of Debts/Appeals - Business Rates	
823	Write offs of uncollectable amounts	242
119	Additional / (Reduced) Impairment of Aged Debt	808
(746)	Losses on appeal	(1,197)
1,354	Additional / (Reduced) Provision For Appeals	2,231
205	Cost of Collection Allowance - Business Rates	205
177,249	Total Expenditure	188,151
634	Surplus/(Deficit) For Year	(32,417)
(1,118)	Surplus/(Deficit) Brought Forward From Previous Years	(484)
193	Surplus/(Deficit) on Council Tax	(660)
(678)	Surplus/(Deficit) on Business Rates	(32,628)
(484)	Surplus/(Deficit) as at 31st March 2021	(33,288)

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.

Collection fund income has been impacted significantly by the Covid-19 pandemic, which is reflected in the deficit figures shown in the statement on the preceding page.

As part of the government's support package to businesses in response to the Covid-19 pandemic, 100% business rates relief was granted to retail, hospitality, leisure businesses and nurseries for 2020/21. The government has reimbursed the council for business rates income lost as a result of the expanded reliefs, through grants amounting to £27.9m, of which £12.3m will be retained by Maidstone. However, as required under statute, these grants are credited to the general fund, leaving a significant deficit on the collection fund from the reduction in amounts collected from ratepayers. This deficit will be repaid from the general fund and by preceptors over the coming years.

Collection rates for Council Tax have been impacted by the Covid-19 pandemic as measures to pursue non-payment were put on hold at the end of March. Therefore telephone chasing and additional reminder letters which would normally have taken place over the first quarter of the year were suspended and are likely to have adversely impacted on the overall in-year collection rate. Furthermore, the council has observed a 13.6% increase in its Local Council Tax Support caseload since pre-Covid-19 budget expectations were set for 2020/21.

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: 63,319.8 for 2020/21 (62,033.4 for 2019/20) (see table below.) This basic amount of Council Tax for a Band D property, £1,899.29 for 2020/21 (£1,830.79 for 2019/20), 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.

Band	Number of Dwellings	Multiplier	Council Tax Base
Band A (incl disabled relief)	2	5/9	1.1
Band A	2,591	6/9	1,727.5
Band B	6,445	7/9	5,012.9
Band C	15,679	8/9	13,936.6
Band D	16,465	9/9	16,465.1
Band E	9,032	11/9	11,038.8
Band F	5,325	13/9	7,691.7
Band G	3,946	15/9	6,576.8
Band H	337	18/9	673.0
Other	0		196.3
			63,319.8

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 51.2p / £ Rateable Value (50.4p in 2019/20)
- Small Business Multiplier 49.9p / £ Rateable Value (49.1p in 2019/20)

The rateable value at 31st March 2021 was £150.243m (£147.123m at 31st March 2020).

For 2020/21, it was calculated that the Council would receive £24.128m in business rates (£21.843m in 2019/20).

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 (£19.339m in 2020/21, £19.028m in 2019/20) 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 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.

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

Informing the audit risk assessment for Maidstone Borough Council 2020/21

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Maidstone Borough Council's external auditors and Maidstone's Audit, Governance and Standards Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit, Governance and Standards Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit, Governance and Standards Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit, Governance and Standards Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit, Governance and Standards Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit, Governance and Standards Committee and supports the Audit, Governance and Standards Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management,
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Maidstone Borough Council's management. The Audit, Governance and Standards Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?</p>	<p>The key events which are anticipated to have an impact on the 2020/21 financial statements are as follows:</p> <ul style="list-style-type: none"> - Increase in property, plant and equipment (£10.5m) caused by material capital expenditure on the Lockmeadow Entertainment Complex, Innovation Centre and residential property developments and acquisitions; - An increase in the pensions liability (£16.1m) arising from changes in financial assumptions used by the actuary. - Increase in short term creditors (£7.1m) arising from Covid-19 business grants held at year end and s106 contributions held on behalf of third parties. - Increase in earmarked reserves, (£13.9m) from s31 grants received to compensate for expanded business rates reliefs in 2020/21. This will be used to offset the deficit on the collection fund which will be repayable from 2021/22.
<p>2. Have you considered the appropriateness of the accounting policies adopted by Maidstone Borough Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Accounting policies are kept under review throughout the year and are formally reviewed as part of the preparation of the annual financial statements. There are no material changes expected to the Council's accounting policies for 2020/21.</p> <p>No new accounting policies have been adopted for 2020/21.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>Financial instruments are disclosed within the notes to the accounts and include treasury investments, loans, relevant classes of debtors and creditors.</p>

General Enquiries of Management

Question	Management response
4. Are you aware of any significant transaction outside the normal course of business?	No.
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	We are not aware of any such circumstances, although this will be subject to review by the external valuer.
6. Are you aware of any guarantee contracts?	No.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	The financial statements incorporate provisions for potential losses, however there are no anticipated losses which would have a material impact on the financial statements
8. Other than in house solicitors, can you provide details of those solicitors utilised by Maidstone Borough Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The most significant area of spend was in relation to development control appeals, many of which are ongoing. A full list will be provided to the external auditors with the supporting working papers to the financial statements.

General Enquiries of Management

Question	Management response
9. Have any of Maidstone Borough Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	<p>The most significant area of spend on external advisors was for the local plan review.</p> <p>A full list will be provided to the external auditors with the supporting working papers to the financial statements.</p>

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit, Governance and Standards Committee and management. Management, with the oversight of the Audit, Governance and Standards Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit, Governance and Standards Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Maidstone Borough Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit, Governance and Standards Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit, Governance and Standards Committee oversees the above processes. We are also required to make inquiries of both management and the Audit, Governance and Standards Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Maidstone Borough Council's management.

Fraud risk assessment

Question	Management response
<p>1. Have Maidstone Borough Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The Council has assessed the risk of misstatement in the financial statements due to fraud and concluded that this risk is unlikely to result in material misstatement.</p> <p>The Council's financial systems are safeguarded from the risk of fraud by a robust internal control framework which is subject to regular independent review by internal audit.</p> <p>The Council does not set performance targets linked to financial outturn and the incentive for deliberate misstatement of disclosures within the accounts is therefore considered to be minimal.</p> <p>Risk management processes are forward looking in nature, and focus on future uncertainties regarding the Council's budgetary position.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Housing Benefits, Business Rates, Council Tax and Covid-19 Business Grants.</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Maidstone Borough Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>We are aware of three fraud cases relating to business grants, and one case of external payroll fraud. Fraud relating to housing benefit claims, council tax and business rates are investigated by the Mid Kent Fraud Team.</p> <p>Consideration of risk management forms part of all committee reports. A corporate risk register is in place, and fraud and other risks are also considered by the Corporate Governance Group. The Director of Finance and Business Improvement reports budget strategy risks to all meetings of the Audit, Governance and Standards Committee.</p>
<p>4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Maidstone Borough Council where fraud is more likely to occur?</p>	<p>No material fraud risks have been identified in relation to the financial statements.</p> <p>As identified above, the areas considered to be at the highest risk of fraud are Housing Benefits, Business Rates, Council Tax and Covid-19 Business Grants.</p>
<p>5. What processes do Maidstone Borough Council have in place to identify and respond to risks of fraud?</p>	<p>Procedures are in place to ensure compliance with financial regulations and contract procedure rules. These elements of the Council's constitution formally identify the procedures required in relation to financial transactions to reduce the risk of fraud.</p> <p>All financial systems maintained by the Council are subject to regular review by Internal Audit and are monitored by the Director of Finance and Business Improvement. Payments to individual suppliers exceeding £40,000 are approved by bank signatories, and the weekly payment run for creditors is subject to review by the s151 Officer. A dedicated fraud team is in place to identify and respond to fraud relating to revenues and benefits.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Maidstone Borough Council, including:</p> <ul style="list-style-type: none"> • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The overall approach is set out in the Annual Governance Statement – which is reviewed by Audit, Governance & Standards Committee and approved by Policy & Resources Committee.</p> <p>The internal control environment is subject to annual independent review by Mid Kent Internal Audit, and External Audit provide an Annual Audit Letter to the Committee highlighting any areas of concern and recommendations following the annual audit of accounts.</p> <p>Procedures and processes are designed to minimise the potential for the override of controls. Financial reporting involves a broad spectrum of individuals with differing roles and responsibilities, and this spectrum of input minimises the risk of inappropriate influence over financial reporting.</p> <p>Staff are not placed under any undue pressure in relation to the achievement of financial targets.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>As stated elsewhere in this document, the Council does not set performance targets linked to financial outturn and the incentive for deliberate misreporting is therefore considered to be minimal.</p>

Fraud risk assessment

Question	Management response
<p>8. How do Maidstone Borough Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<ul style="list-style-type: none"> - Ethical behaviour is encouraged through the Staff Code of Conduct and onboarding process for new staff, the Member Code of Conduct and Contract Procedure Rules. - The Council has a Whistleblowing Charter, Anti-fraud and Corruption and Anti Money Laundering policies in place which are actively promoted to staff. - The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government (2016). - We are not aware of any significant concerns raised by staff which would be likely to have material impact on the financial statements.
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>High risk areas are posts which require the holder to authorise payments and/or receive income or let contracts on behalf of the Council.</p> <p>Risks are mitigated through general controls including segregation of duties and authorisation protocols, procedures to manage resources, reporting requirements, IT security arrangements, training and professional qualification requirements, risk based internal auditing activity planning, and whistleblowing procedures.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p>

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Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit, Governance and Standards Committee?</p> <p>How does the Audit, Governance and Standards Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Internal audit report to the Audit, Governance and Standards committee on a regular basis. The Committee is informed of the assurance ratings for reviews undertaken by internal audit and follow-up actions taken.</p> <p>The Head of Internal Audit's Annual Report and Audit Opinion will be reported to the Audit, Governance and Standards committee in July.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit, Governance and Standards Committee, is responsible for ensuring that Maidstone Borough Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit, Governance and Standards Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Maidstone Borough Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>The Constitution sets out the framework to ensure that all officers, key post holders and Members are able to fulfil their responsibilities in accordance with legislative requirements.</p> <p>Roles and responsibilities for members, committees and senior officers, are documented within the Constitution.</p> <p>The Council's Monitoring Officer and Mid Kent Legal Services review all decision reports prior to publication to ensure that proposals comply with relevant legislation.</p> <p>Management is not aware of any changes to the regulatory environment that would have a significant impact on the financial statements.</p>
<p>2. How is the Audit, Governance and Standards Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through the Annual Governance Statement and through the planning and reporting of a risk based programme of internal audit work each year.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No</p>

Impact of laws and regulations

Question	Management response
4. Is there any actual or potential litigation or claims that would affect the financial statements?	No, there is no ongoing litigation expected to have a material impact on the financial statements.
5. What arrangements does Maidstone Borough Council have in place to identify, evaluate and account for litigation or claims?	The Monitoring Officer is a member of the Corporate Leadership Team and maintains oversight over key events which may give rise to litigation or claims. This information is communicated to the finance team through liaison with the legal team. Finance Officers then consider how this information should be reflected in the accounts.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Related Parties

Issue

Matters in relation to Related Parties

Maidstone Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Maidstone Borough Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Maidstone Borough Council's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and the Council whether the Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	No
<p>2. What controls does the Council have in place to identify, account for and disclose related party transactions and relationships?</p>	All Members and Officers are required to complete an annual declaration of interests to identify related party relationships. The Register of Interests is maintained by Mid Kent Legal Services. Related party transactions are (where material) disclosed in the Statement of Accounts.
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	Payments to a single supplier exceeding £40,000 are subject to separate authorisation by bank signatories. Adequate segregation of duties exist for the disbursement of funds via any route.
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	Significant transactions outside of the normal course of business would be referred to the Corporate Leadership Team or Policy and Resources Committee as appropriate.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Governance and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit, Governance and Standards Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Property valuations, depreciation, pensions liability, arrears and provisions for business rates appeals.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	<p>It should be noted that although the accounting estimates relating to property and pensions represent some of the most significant numbers in the financial statements in terms of value, the statutory accounting arrangements for local authorities mean that variations in these estimates would be unlikely to impact on the Council's spending power and are therefore not considered to pose a significant risk to financial resilience.</p> <p>The corporate risk register recognises a significant risk in relation to the recoverability of business rates and council tax.</p>
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Key management staff engage with the experts, where they are involved, in clearly defining and reviewing the basis and appropriateness of assumptions and source data for use in key accounting estimates used in the financial statements, such as the valuation of property, plant and equipment and pensions liabilities. This is done on an annual basis as part of the preparation for closedown. Discussion and challenge is documented. In other areas, where other key accounting estimates are material, senior finance staff ensure there is a robust system of review and challenge in assuring the appropriateness of methods, assumptions and source data of those estimates.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>4. How do management review the outcomes of previous accounting estimates?</p>	<p>Year on year variance analysis is conducted as part of the review of the financial statements prior to publication, in order to assess the reasonableness of current and prior years' estimates, and to understand any significant movements.</p> <p>The process for writing off irrecoverable debt and issuing refunds following a successful rateable value appeal also enables management to carry out an in year assessment of the adequacy of the impairment and provision entries.</p>
<p>5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?</p>	<p>No.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>Where the estimation techniques involved require input from a qualified professional with reference to technical guidance, management determine whether or not these skills are available in house.</p> <p>Property valuations are undertaken by a suitably qualified external valuer, Harrisons and IAS19 calculations for pensions are supplied by the actuary to Kent Pension Fund, Barnett Waddingham. Provisions for business rates appeals are calculated by finance officers with reference to contextual information supplied by the VOA and Analyse Local. The Council's external treasury management advisor, Link also assists with the provision of fair value information regarding loans and investments where required.</p> <p>Management consider that other estimates referred to in this document can be made by the in house team, under the oversight of the Head of Finance and the Director of Finance and Business Improvement, both of whom are qualified accountants.</p>
<p>7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Property and pension related valuations are prepared on an annual basis and control activities include thorough analysis of the reports and outputs prepared by experts and review for consistency with internal records. Useful lives are estimated for depreciation purposes and are safeguarded through regular review and maintenance by the corporate property team.</p> <p>Arrears are reported to budget managers on a monthly basis, and reviewed in quarterly meetings with service Heads.</p>
<p>8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Management derives assurance over the inputs and internal records used in calculating these estimates from periodic internal audit reviews. The relationship with the external valuer, Harrisons, is managed by the Property Services Manager, working closely with the Senior Finance Manager. The relationship with the pensions actuary, Barnett Waddingham is managed by Kent County Council as the pension fund manager, who maintain regular communication with member authorities.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>9. What is the nature and extent of oversight and governance over management’s financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management’s process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The nature and extent of the oversight in relation to accounting estimates includes:</p> <ul style="list-style-type: none"> • The agreement of assumptions in advance, including their appropriateness • Verification of the underlying data in advance • The methodology to be used to determine the value of estimates and its appropriateness • Review of the results for reasonableness, including comparative analysis with previous years • Sensitivity of the results to the key assumptions to assess materiality • Senior management sign-off of the outcomes as part of the quality assurance process
<p>10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?</p>	<p>No</p>

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Accounting Estimates - General Enquiries of Management

Question	Management response
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes
12. How is the Audit, Governance and Standards Committee provided with assurance that the arrangements for accounting estimates are adequate ?	<p>Details of accounting estimates and significant judgements are disclosed to members of the Audit, Governance and Standards committee within this paper, and through the financial statements. Committee members are given the opportunity to review and comment on the draft financial statements prior approving the audited document.</p> <p>Budget risks are also regularly reported to the committee, and this report incorporates future uncertainty and the likelihood and impact of adverse events arising.</p> <p>In the event that significant accounting estimates were so inaccurate as to compromise financial resilience, this would be reported to members through regular budget monitoring updates throughout the year.</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Valuations provided by a qualified external valuer for selected properties on an annual basis.	Operational assets need to be revalued at least every five years, but larger value assets are assessed either annually or bi-annually.	The Council engages the services of a suitably qualified valuer.	The impact of a 10% reduction in estimated values is modelled in the Statement. This is considered to be appropriate in the context of the overall value of the properties.	No
Heritage Assets	Heritage asset values disclosed in the accounts are based on 2011 valuations undertaken for insurance purposes with reference to information from auction houses. The values are reviewed annually for insurance purposes.	The majority of heritage assets are located at the Council's museums and are identified from records obtained from officers from this area.	No	Updating the valuations for the heritage assets on the balance sheet may produce different results to the 2011 values. However, the cost of such an exercise is not commensurate to the benefits of this information to users of the accounts. This approach is allowed by the Code and has been disclosed in the notes to the accounts.	No
Investment property valuations	Valuations provided by a qualified external valuer for selected properties on an annual basis.	Investment properties are revalued on an annual basis.	The Council engages the services of a suitably qualified valuer.	The impact of a 10% reduction in estimated values is modelled in the Statement. This is considered to be appropriate in the context of the overall value of the properties.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Properties depreciated over suitable useful lives based on the level of repairs and maintenance that will be incurred.	Useful lives are reviewed when the properties are revalued.	The appropriate useful life to the Council is determined by the Capital Accountant in consultation with officers from the relevant service area.	The impact of a one year reduction in useful lives is modelled in the Statement. This is considered to be appropriate in the context of the overall value of the properties.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	The liability is assessed by a pensions actuary.	The actuary uses professional judgement and actuarial data to assess the extent of the liability.	The actuary is appointed by the Kent County Council Pension Fund on behalf of the Council who are one of the members of the scheme.	A 0.1% increase in the discount rate and a 0.1% increased in the assumed level of pension increases is modelled, along with an increase of one year in life longevity. This is considered to be appropriate in the context of the overall value of the properties.	No
Provisions (including NNDR appeals)	An assessment based on data around current and potential losses from appeals against the rateable values of business premises. Other provisions are not material.	Valuation information is provided by the Valuation Office Agency (VOA)	The Council's appeals provision is made with reference to an assessment of potential losses by an external advisor.	A 10% increase in the yield losses from successful appeals is assessed to show the potential impact. Consideration will be given to alternative figures depending on the underlying economic conditions.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	Accruals of income and expenditure are recognised where the value exceeds £10,000.	Accruals are identified through commitment accounting and by service accountants in consultation with budget managers.	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used.	No
Impairment for doubtful receivables.	Allowances are made for doubtful receivables. Different methodologies are used for the different classes of debtor. Generally speaking, estimates are based on the age of the debt or known factors which indicate that debts may not be recoverable.	The calculation is derived from aged debtor listings taken from the general ledger and revenues and benefits systems.	No	The notes to the accounts detail the impact on debtor balances and a deterioration in collection rates is modelled.	No



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Agenda Item 19

Audit, Governance & Standards Committee

28 July 2021

Treasury Management Annual Review 2020/21

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Ellie Dunnet – Head of Finance
Lead Officer and Report Author	John Owen – Finance Manager
Classification	Public
Wards affected	All Wards

Executive Summary

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code requires that authorities report on the performance of the treasury management function at least twice a year (at mid-year and year-end).

Council has delegated the role of considering these reports to the Audit, Governance and Standards Committee. This report sets out the activities of the Treasury Management function for 2020/21 financial year.

Purpose of Report

This report requires noting from the Committee.

This report makes the following recommendations to this Committee:

1. That the review of the financial year 2020/21 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted.
2. That no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2020/21.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	28 July 2021

Treasury Management Annual Review 2020/21

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Treasury Management Function ensures the safeguarding of Council finances and the liquidity of funds when liabilities become due to support the strategic plan objectives.	Head of Finance
Cross Cutting Objectives	The report recommendations support the achievements of all the cross cutting objectives in the way stated above.	Head of Finance
Risk Management	Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2020/21 report. This report is purely for information purposes and has no risk management implications.	Head of Finance
Financial	This report relates to the financial activities of the council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Section 151 Officer & Finance Team
Staffing	None	Head of Finance
Legal	<p>Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.</p> <p>The legal implications are detailed within the body of the report which is compliant with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities.</p>	Legal Team
Privacy and Data Protection	None	Policy and Information Team

Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Policy & Information Team
Public Health	None	Public Health Officer
Crime and Disorder	None.	Head of Finance
Procurement	None	Head of Service & Section 151 Officer
Biodiversity and Climate Change	There are no implications on biodiversity and climate change.	Biodiversity and Climate Change Officer

2. INTRODUCTION AND BACKGROUND

2.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2020/21. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

2.1.1 The Treasury Management Strategy Statement (TMSS) for 2020/21 states the reporting requirements for the following reports:

- an annual treasury strategy in advance of the year (Full Council 26th February 2020)
- a mid-year treasury update report (Audit, Governance & Standards Committee 16th November 2020)
- an annual review following the end of the year describing the activity compared to the strategy (Audit Governance & Standards Committee - this report)

2.1.2 This report sets out the activities of the treasury management function for the 2020/21 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 12 months.

2.1.3 The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification,

monitoring and control of risk are therefore central to the Authority's treasury management strategy.

2.1.4 The Authority's Treasury Management Strategy Statement for 2020/21 was approved by full Council on 26th February 2020. The key elements of the Strategy are:

- Utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate; and
- Further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments is considered. Greater use of local authority investments will be used where the borrowers offer a high level of security.
- Review of the Council's borrowing options prior to cash balances being fully utilised.

2.2 Economic Overview

2.2.1 The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. A fast programme of vaccination during 2021, has appeared to have been instrumental in speeding economic recovery and the reopening of the economy.

2.2.2 Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs. The Monetary Policy Committee cut Bank Rate from 0.75% to 0.25% and then to 0.10% in March 2020 and embarked on a £200bn programme of quantitative easing QE (purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC then increased QE by £100bn in June 2020 and by £150bn in November 2020 to a total of £895bn. The threat of negative rates was firmly discounted at the February 2021 MPC meeting when it was established that commercial banks would be unable to implement negative rates for at least six months, by which time the economy was expected to be making a strong recovery and negative rates would no longer be needed.

2.2.3 The Bank of England had to change its policy on the implementation of its 2% inflation target by stating that even if inflation rises to 2% in a couple of years' time, it may not necessarily mean Bank Rate will rise until it is clearly seen that the level of inflation is going to be persistently above target, if it takes no action on Bank Rate. Forecasts of Bank Rate are that it is not expected to increase prior to March 2024.

- 2.2.4 The Chancellor has implemented repeated rounds of support to businesses by way of cheap loans and other measures and has protected jobs by paying for workers to be placed on furlough. This support has come at a huge cost in terms of the Government's budget deficit ballooning in 20/21 and 21/22 so that the Debt to GDP ratio reaches around 100%. The Budget on 3rd March 2021 increased fiscal support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic. This will help further to strengthen the economic recovery from the pandemic and to return the government's finances to a balanced budget on a current expenditure and income basis in 2025/26. This will stop the Debt to GDP ratio rising further from 100%.
- 2.2.5 The final agreement on Brexit on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. There was much disruption to trade in January as form filling has proved to be a formidable barrier to trade. This appears to have eased somewhat since then but is an area that needs further work to ease difficulties, which are still acute in some areas.

2.3 Investment Activity

- 2.3.1 The CIPFA Code and Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council has adhered to these principles during 2020/21.
- 2.3.2 The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21 the Authority's investment balances have ranged between £5.24m and £48.6m. The average investment balance for the year was £22.385m. The Council held investments totalling £16.160m as at 31st March 2021. This final investment balance is an increase on previous year due to postponement of certain projects within the capital programme and the influx of Government grant funding due to COVID-19. A full list of the investments can be found within **Appendix A**.
- 2.3.3 Investment income for the year totalled £29k. This relatively low amount had been anticipated due to the dramatic fall in the Bank of England Base Rate prior to the financial year and the Council maintaining investment funds in short term instruments, to ensure they are readily available to fund the capital programme and grant payments.
- 2.3.4 Over the past financial year the Council's cash balances have, at certain intervals, been significantly higher than anticipated prior to the onset of the COVID-19 pandemic and associated government interventions. The key reasons for this are the upfront payments received for section 31 grants (to compensate for reductions in business rates income payable by ratepayers) and COVID-19 Business Grants which, although only held by the Council for a short time before being paid out to businesses, are significant in terms of value.

- 2.3.5 On Thursday 14th January 2021, the Council were informed that £12.4m was to be received from the government as grant funding. As local authorities around the country will have received similar allocations, the scope for short term lending to other councils was extremely limited. Options were to either retain the cash in the current account with Lloyds, or to allocate it to lower rated counterparties. These options were rejected to avoid the over concentration of risk in one area or compromising on the security of our cash deposits. It was decided by officers and agreed by the Section 151 Officer, that the funds would be spread over a number of counterparties using limits that were being proposed in the Treasury Management Strategy Statement 2021/22 that went to Audit, Governance & Standards Committee on 18th January 2021. All counterparties are highly rated institutions and in money market funds where the majority of the cash can be accessed instantly.
- 2.3.6 Due to the fact there was a breach of the counterparty limits agreed within the Treasury Management Strategy for 2020/21, this was reported to Policy & Resources Committee and agreed at full Council to address the breach of limits and adopting the new limits in advance of the previously envisaged adoption date of 1st April 2021.
- 2.3.7 The Council has invested its funds within the parameters set within the Treasury Management Strategy for 2020/21.

2.4 Borrowing Activity

- 2.4.1 During 2020/21, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as this reduces cost of carry and minimises counterparty risk on placing investments.
- 2.4.2 The Council started the year with £11m of short-term loan debt funded by other local authorities. £2m had previously been repaid, however an additional £2m was required close to the financial year end. The total amount of loan debt as at 31st March 2021 was £11m, which a full list of can also be found in **Appendix A**.
- 2.4.3 All Council's loan debt is short term and the decision to lock into longer term funding was discussed with the Council's treasury advisors, Link Asset Services. As interest rates on short term funding are at an all-time low and funding is readily available, it was decided to keep with short term debt throughout 2020/21. The decision to secure long term funding will be monitored during 2021/22.
- 2.4.4 The Council has borrowed funds within the parameters set within the Treasury Management Strategy for 2020/21.

2.5 Prudential and Treasury Indicators

- 2.5.1 The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to

borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the indicators that must be set and monitored each year.

2.5.2 The Council has operated within its Prudential and Treasury Indicators set out in the Treasury Management Strategy 2020/21 and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **Appendix B**.

2.6 Compliance Report

2.6.1 The Director of Finance & Business Improvement can confirm that all treasury management activities undertaken during 2020/21 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

3. AVAILABLE OPTIONS

- 3.1 The Audit, Governance and Standards Committee agrees that that the review of the financial year 2020/21 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted and that no amendments to the strategy are required in consequence.
- 3.2 The Audit, Governance and Standards Committee could propose changes to the current procedures as a result of the review of activities in 2020/21.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The Audit, Governance and Standards Committee agrees that that the review of the financial year 2020/21 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted and no amendments to the strategy are required as there is no justification to make any changes.

5. RISK

5.1 Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2020/21 report. This report is purely for information purposes and has no risk management implications.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 None.

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 If Audit, Governance and Standards Committee agrees that no changes are required in the current treasury management procedures, then there will be no further action.

8. REPORT APPENDICES

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

- Appendix A: List of Investments and Borrowing as at 31st March 2021.
 - Appendix B: Prudential and Treasury Indicators
-

9. BACKGROUND PAPERS

9.1 None.

Maidstone Borough Council Investments/Borrowing as at 31st March 2021

Investments

Counterparty	Type of Investment	Principal £	Start Date	Maturity Date	Rate of Return	MBC Credit Limits	
						Maximum Term	Maximum Deposit
Goldman Sachs International Ba	Callable Deposit	2,000,000			0.23%	6 Months	£5,000,000
Lloyds Bank Plc	Callable Deposit	1,000,000			0.10%	6 Months	£5,000,000
Handelsbanken	Callable Deposit	2,280,000			0.10%	12 Months	£5,000,000
Santander	Callable Deposit	5,000,000			0.35%	6 Months	£5,000,000
HSBC Bank	Callable Deposit	2,880,000			0.05%	12 Months	£5,000,000
Brentwood Borough Council	Fixed Term Deposit	3,000,000	05/03/2021	07/04/2021	0.10%	5 Years	£8,000,000

16,160,000

Borrowing

Counterparty	Type of Institution	Principal £	Start Date	Maturity Date	Rate of Return
Bridgend County Borough	Local Authority	3,000,000	30/12/2020	30/06/2021	0.12%
Warwick District Council	Local Authority	2,000,000	30/12/2020	30/06/2021	0.12%
London Borough of Tower Hamlets	Local Authority	4,000,000	20/11/2020	20/05/2021	0.10%
Lincolnshire County Council	Local Authority	2,000,000	22/03/2021	22/04/2021	0.06%

11,000,000

Prudential and Treasury Indicators

Prudential Indicators

Ratio of Financing Costs to Net Revenue Stream

2019/20 Actual %	2020/21 Estimate %	2020/21 Actual %
-0.89	0.02	0.04
2019/20 Actual £000	2020/21 Estimate £000	2020/21 Actual £000
-184.00	5.00	9.00

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. A negative figure shows investment income is higher than borrowing costs. This indicator is shown as a percentage and as a monetary value of the net revenue

Capital Expenditure

2019/20 Actual £m	2020/21 Estimate £m	2020/21 Actual £m
39.211	27.972	26.730

This indicator shows the total capital expenditure against budget.

Capital Financing Requirement

2019/20 Actual £m	2020/21 Estimate £m	2020/21 Actual £m
39.940	52.224	50.982

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. Borrowing can be made external or using the Council's own resources (internal borrowing).

Actual External Debt

2019/20 Actual £m	2020/21 Estimate £m	2020/21 Actual £m
14.047	11.007	13.527

This indicator shows the Council level of gross debt as at 31st March 2021.

Treasury Indicators

Authorised Limit for External Debt

	2019/20 Actual £m	2020/21 Estimate £m	2020/21 Actual £m
Borrowing	11.000	34.000	11.000
Other Long Term Liabilities	3.047	2.527	2.527
Total	14.047	36.527	13.527

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

Operational Limit for External Debt

	2019/20 Actual £m	2020/21 Estimate £m	2020/21 Actual £m
Borrowing	11.000	14.000	11.000
Other Long Term Liabilities	3.047	2.527	2.527
Total	14.047	16.527	13.527

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

Maturity structure of fixed rate borrowing during 2020/21

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

The Council's total external borrowing as at 31st March 2021 was £11m which was all short term debt. Maturity dates are due within 1 year.

Agenda Item 20

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

28 July 2021

Budget Strategy – Risk Assessment Update

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

Executive Summary

The principal budget risk faced by the Council is a resurgence of Covid-19. The experience of the last financial year shows that this would have a major impact on the Council's finances, although in the event a combination of government grant and the Council's own mitigation measures more than offset the impact of the pandemic last year.

In the medium term, general economic conditions and uncertainty about future funding arrangements for local government bring potential further risks.

This report makes the following recommendations to this Committee:

That the Audit Governance and Standards Committee notes the updated risk assessment of the Budget Strategy provided at Appendix A.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	28 July 2021

Budget Strategy – Risk Assessment Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council’s decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance and Business Improvement
Cross Cutting Objectives	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance and Business Improvement
Risk Management	Matching resources to priorities in the context of the significant pressure on the Council’s resources is a major strategic risk. Specific risks are set out in Appendix A.	Director of Finance and Business Improvement
Financial	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance and Business Improvement
Staffing	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
Legal	The Council has a statutory obligation to set a balanced budget and consideration of budget risk	Principal Solicitor Contentious and Corporate Governance.

	assessments, development of the MTFs and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	
Privacy and Data Protection	No implications.	Director of Finance and Business Improvement
Equalities	The Council's budgeted expenditure is intended to have a positive impact enhancing the lives of all members of the community through the provision of resources to core services. Equalities assessments as completed as part of an introduction or change to Policy or Service to ensure a positive impact for the community, achieved through the focus of resources into areas of need, supporting the Council's strategic priorities.	Director of Finance and Business Improvement
Public Health	None identified.	Director of Finance and Business Improvement
Crime and Disorder	None identified.	Director of Finance and Business Improvement
Procurement	None identified.	Director of Finance and Business Improvement

2. INTRODUCTION AND BACKGROUND

2.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the

Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.

Delivering the revenue budget

- 2.2 The Council set a balanced revenue budget for 2021/22 at its meeting on 24th February 2021. Although a deficit of £1.6 million was projected for the year 2021/22, arising primarily from the continued impact of Covid-19, this was covered through a planned transfer from reserves to achieve a balanced position. It is not sustainable to continue drawing on reserves to meet budget deficits, so the Medium Term Financial Strategy agreed by Council includes savings plans which will eliminate the ongoing budget gap by 2023/24.
- 2.3 The final out-turn for 2020/21 was more favourable than expected. Although there was additional unbudgeted expenditure and a significant shortfall in income arising from Covid-19, this was more than offset by central government grant and by measures taken by the Council itself to mitigate spend, leaving an underspend of £1.2 million. Policy and Resources Committee has agreed for the time being to transfer the underspend to General Fund reserves, although £140,000 has been earmarked for expenditure on non-spatial planning policy development.
- 2.4 It should be noted that the underspend for 2020/21 arose from one-off factors. The challenge of balancing the budget for the current year, 2021/22, and subsequent years remains.
- 2.5 At this relatively early stage in the financial year 2021/22 it is too early to project a variance from the forecast out-turn. Although income budgets were reduced to reflect the likely continued impact of Covid-19, at this stage some key income lines, in particular Parking, are failing even to achieve the reduced budgets.

Medium Term Financial Strategy

- 2.6 The Council's Medium Term Financial Strategy is updated each year. Policy and Resources Committee was due to initiate this process for the coming financial year by considering the relevant issues and risks at its meeting on 21st July 2021. The report to Policy and Resources Committee references the budget risk review carried out by this Committee. Strategic revenue projections were presented to the Committee, showing the forecast position assuming (a) continued Council Tax increases at 2% and (b) 0%, ie a Council Tax freeze. These showed that, in both scenarios, a balanced budget can be delivered in 2022/23, given current assumptions, but a continued freeze would lead to a rapidly increasing deficit, given that inflation is projected to be in line with the government's target of 2%.
- 2.7 The relatively favourable forecast in the short term, of a balanced budget in 2022/23, arises because it is now assumed that the government will roll forward the existing local government funding settlement. This is positive for Maidstone, as we will continue to receive a share of the amount by which business rates have grown in excess of inflation since the introduction of the current funding regime. In 2022/23 it is estimated that this will be

worth £1.164 million to the Council. It had been feared that there would be a business rates baseline reset, meaning that we would have lost this amount.

- 2.8 There is still likely to be a business rates reset, and the implementation of a 'Fair Funding Review', in 2023/24. For this reason, the longer term projections are less favourable.
- 2.9 The MTFS projections will be refined further and will be tested assuming favourable, neutral and adverse scenarios. The adverse scenario, for example, assumes that government measures to stimulate the economy are constrained by the economy's capacity to grow and the need to keep public expenditure under control. Capacity constraints and low economic growth compared with other national economies would lead, in this scenario, to prolonged inflation in excess of the government's 2% target. As a result, there would be minimal growth in Council external income and increased cost pressures would lead to spending cuts in order to ensure that statutory services are maintained.

Delivering the capital budget

- 2.10 The capital programme plays a vital part in delivering the Council's corporate objectives. The Council borrowed to fund the capital programme for the first time last year. The availability of funding is therefore essential to delivery of the programme.
- 2.11 At present, funding for the capital programme is readily available at very low cost. In the short term, funding is available through the market in borrowing and lending between local authorities. Longer term funding is available from the Public Works Loan Board. There is no indication currently that the government will withdraw this facility for local authorities, so long as the lending is not for purely commercial investment purposes.
- 2.12 Our treasury advisers expect Bank Rate to remain at 0.1% for the next couple of years at least, meaning that the current favourable conditions are likely to continue. However, given the possibility of higher inflation and a tightening of monetary policy, the risk to the Council's capacity to borrow to fund its capital programme cannot be entirely eliminated.

External factors

- 2.13 The Covid-19 pandemic shows how vulnerable the Council is to external factors. The corporate risk register therefore now includes risks relating to (a) major emergencies such as a new pandemic and (b) a resurgence of the current Covid-19 pandemic.
- 2.14 Covid-19 impacted directly on the budget in 2020/21 through additional direct costs, loss of Council Tax and Business Rates income, and loss of income from fees, charges and other sources. The corporate risk related to a resurgence of Covid-19 has therefore been mirrored in the Budget Risk Register.

2.15 Another major external risk previously identified was potential adverse financial outcomes from a disorderly Brexit. This risk was downgraded in both the last two iterations of the Budget Risk Register and it is proposed now to remove it altogether.

2.16 However, there is another corporate risk which it is appropriate to reflect in the Budget Risk Register, namely 'IT Security Failure'. Local authorities have been subject to cyber attacks over the past couple of years, and there would almost certainly be significant financial consequences if this was to happen at Maidstone.

2.17 A summary of changes in risk levels is set out below.

	Risk	Factor considered	Implications for risk profile
N	Adverse financial consequences from a disorderly Brexit	New trading arrangements were introduced on 1 st January 2021 without major disruption, although many individual businesses were affected adversely. Traffic management at the Channel ports has been subject to disruption from time to time over the past year, but the direct cause has usually been Covid-19 rather than Brexit. This risk has therefore been removed from the Budget Risk Register.	Removed from Budget Risk Register
Q (new)	IT security failure	A successful cyber attack on the Council would almost certainly have significant financial implications.	Impact – major Likelihood - possible

2.18 Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register. Additionally, at the Committee's request, the possible monetary impact of the risks has been indicated. Note that it is very difficult to quantify the financial impact of risks in precise terms. The information is provided simply to give an indication of the order of the risks' financial magnitude. The information is also set out in the form of a bar chart.

3. AVAILABLE OPTIONS

3.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact

the Council's service planning and/or be reflected in the developing Medium Term Financial Strategy.

- 3.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Option 2 – It is recommended that the Committee notes the risk assessment.
-

5. RISK

- 5.1 Risk is addressed throughout this report so no further commentary is required here.
-

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Each year the council as part of the development of the MTFs and the budget carries out consultation on the priorities and spending of the council. A Residents' Survey will be completed for the 2021/22 budget and the results will be reported to Service Committees as part of the budget setting process.
-

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.
-

8. REPORT APPENDICES

The following document is to be published with this report and forms part of the report:

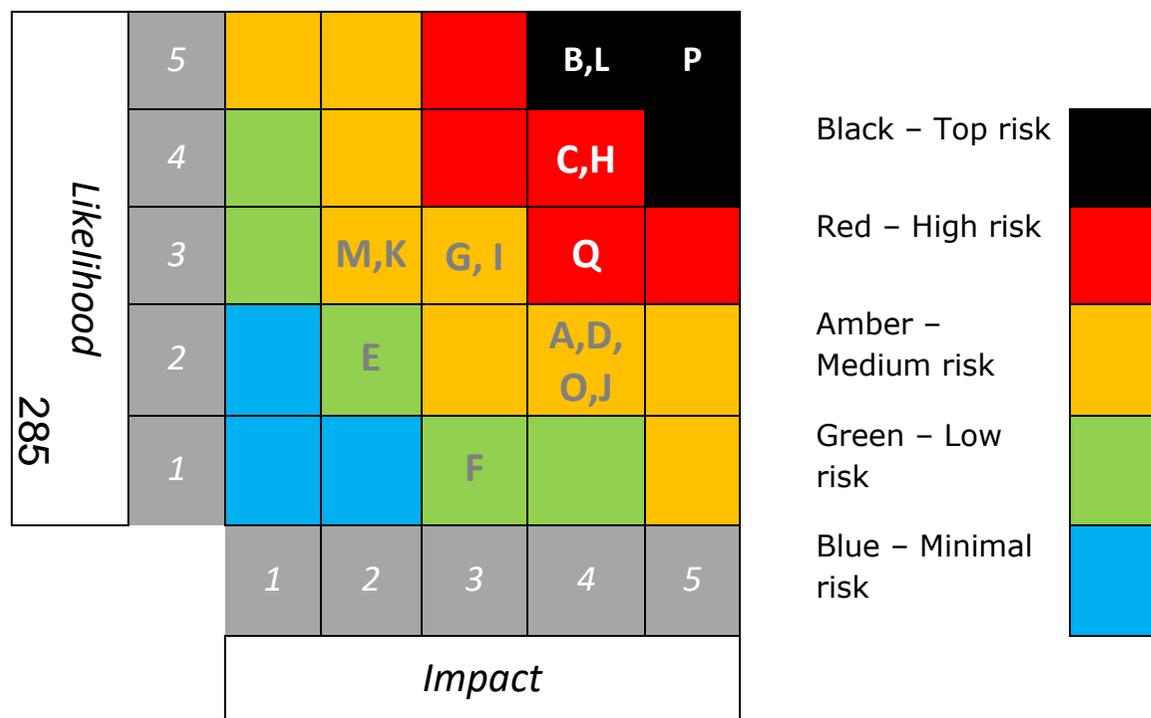
- Appendix A: Budget Strategy Risks
-

9. BACKGROUND PAPERS

None.

Budget Strategy Risks

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

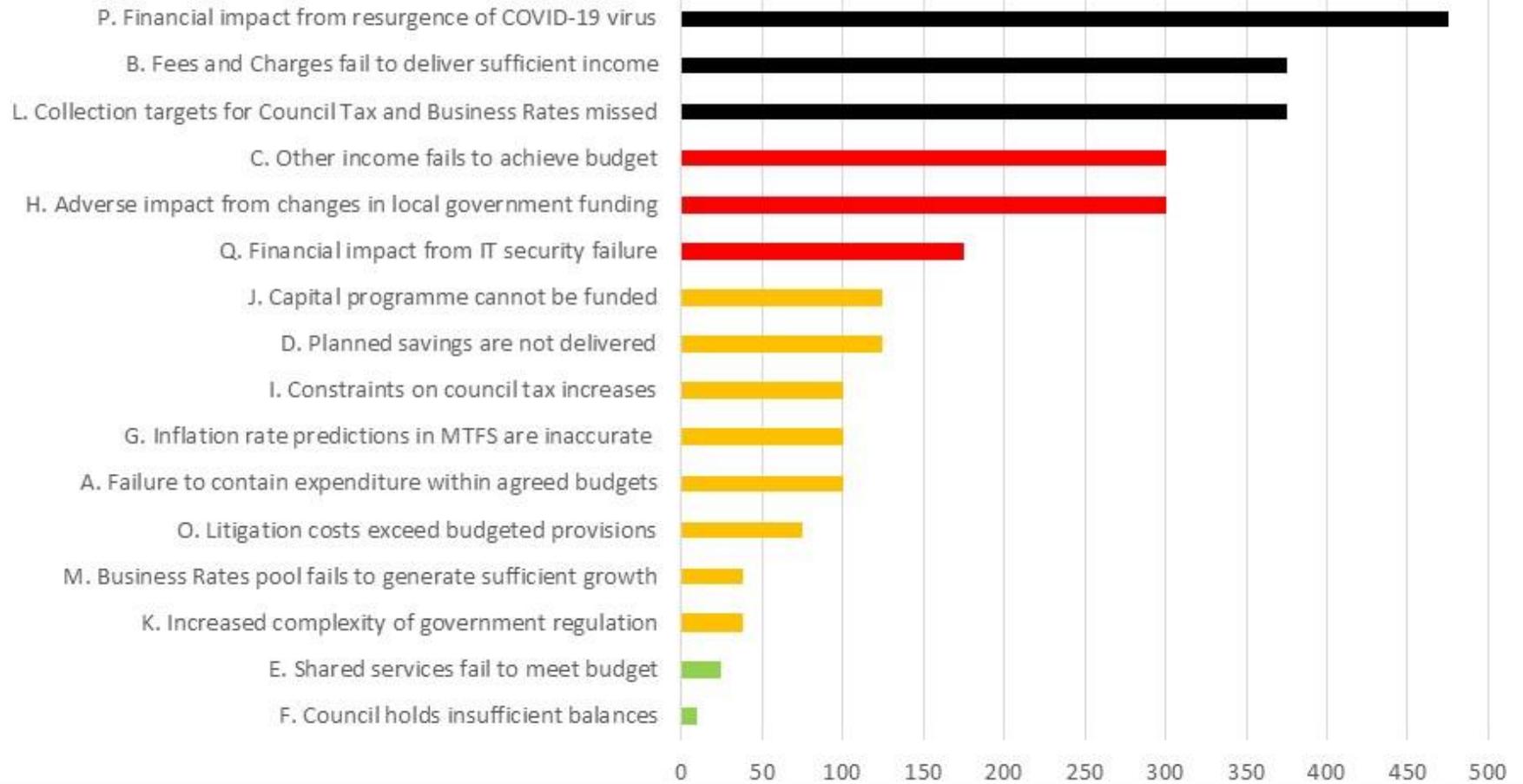


A. Failure to contain expenditure within agreed budgets	I. Constraints on council tax increases
B. Fees and Charges fail to deliver sufficient income	J. Capital programme cannot be funded
C. Other income fails to achieve budget	K. Increased complexity of government regulation
D. Planned savings are not delivered	L. Collection targets for Council Tax and Business Rates missed
E. Shared services fail to meet budget	M. Business Rates pool fails to generate sufficient growth
F. Council holds insufficient balances	O. Litigation costs exceed budgeted provisions
G. Inflation rate predictions in MTFs are inaccurate	P. Financial impact from a resurgence of Covid-19
H. Adverse impact from changes in local government funding	Q. Financial impact from IT security failure

The budget risks may be ranked, based on the scores shown below, as follows:

Risk	Ranking	Financial impact (in any one financial year)				
		Lower £000	Upper £000	Mid- point £000	Likelihood %	Weighted £000
P. Financial impact from resurgence of COVID-19 virus	1	250	750	500	95	475
B. Fees and Charges fail to deliver sufficient income	2=	200	600	400	95	380
L. Collection targets for Council Tax and Business Rates missed	2=	200	600	400	95	380
C. Other income fails to achieve budget	4=	200	600	400	75	300
H. Adverse impact from changes in local government funding	4=	100	900	400	75	300
Q. Financial impact from IT security failure	8=	100	600	350	50	175
R. Capital programme cannot be funded	6=	250	750	500	25	125
D. Planned savings are not delivered	6=	250	750	500	25	125
A. Failure to contain expenditure within agreed budgets	8=	200	600	400	25	100
G. Inflation rate predictions in MTFS are inaccurate	8=	100	300	200	50	100
I. Constraints on council tax increases	8=	100	300	200	50	100
Q. Financial impact from IT security failure	8=	100	300	200	50	100
O. Litigation costs exceed budgeted provisions	12	100	500	300	25	75
M. Business Rates pool fails to generate sufficient growth	13=	50	100	75	50	38
K. Increased complexity of government regulation	13=	50	100	75	50	38
E. Shared services fail to meet budget	15	50	150	100	25	25
F. Council holds insufficient balances	16	100	300	200	5	10

Chart - Budget risks



Budget Strategy Risk Register

The following risk register sets out the key risks to the budget strategy. The register sets out the consequences of each risk and the existing controls in place.

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
288	<p>A</p> <p>Failure to contain expenditure within agreed budgets The Council overspends overall against its agreed budget for the year</p>	<p>Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.</p>	<ul style="list-style-type: none"> - Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2021/22. - Strong controls over expenditure and established process for recovering from overspends 	4	2	8
	<p>B</p> <p>Fees & Charges fail to deliver sufficient income Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.</p>	<p>The total value of all Council income from fees and charges is around £20 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.</p>	<ul style="list-style-type: none"> - Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised. 	4	5	20
	<p>C</p> <p>Other income fails to achieve budget In addition to fees and charges, the Council relies on other income from capital investment, which may not deliver the expected level of income.</p>	<p>The medium term financial strategy includes a contribution from investment opportunities, so any shortfall would have an impact on the overall strategy.</p> <p>Income generation from investment activities supports the revenue budget and is required in order to pay back capital investment.</p>	<ul style="list-style-type: none"> - The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses. - Individual risks associated with specific projects within the capital strategy will be assessed, both as part of the project 	4	4	16

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			appraisal process and during the course of delivering the projects.			
289 D	<p>Planned savings are not delivered</p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p>	<p>The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.</p> <p>Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<p>- The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process.</p> <p>- Savings proposals are separately identified and monitored in the Council's general ledger.</p> <p>- The ability to achieve the targeted savings is monitored quarterly in budget monitoring reports to the Corporate Leadership Team and to Service Committees.</p>	4	2	8
E	<p>Shared Services</p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p>	<p>Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<p>The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.</p>	2	2	4
F	<p>Insufficient Balances</p> <p>Minimum balance is insufficient to cover unexpected events</p> <p>OR</p> <p>Minimum balances exceed the real need and resources are held without identified purpose with low investment returns</p>	<p>Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.</p> <p>The Council would not gain best value from its resources as Investment returns are low in the current market.</p>	<p>- The Council has set a lower limit below which General Fund balances cannot fall of £4 million.</p> <p>- At the beginning of the 2020/21 financial year unallocated General Fund reserves stood at £7.8 million.</p>	3	1	3
G	<p>Inflation rate predications in MTFS are inaccurate</p>	<p>Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.</p>	<p>- Allowances for inflation are developed from three key threads:</p>	3	3	9

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	Actual levels are significantly above or below prediction	Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities.	<ul style="list-style-type: none"> ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally <p>- MTFS inflation projections are based on the government's 2% inflation target.</p>			
H 290	<p>Adverse impact from changes in local government funding</p> <p>The financial implications of the new local government funding regime, now unlikely to be introduced until 2023/24, remain unclear.</p>	The Council no longer receives Revenue Support Grant (RSG), but the amount of Business Rates that it retains depends on the funding regime set by central government.	<p>- The Medium Term Financial Strategy to 2025/26 includes an adverse scenario which allows for a significant impact on the Council's resources,</p> <p>- The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.</p>	4	4	16
I	<p>Constraints on council tax increases</p> <p>The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than the referendum limit.</p>	The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be absorbed by making savings elsewhere.	<p>- The budget for 2021/22 incorporates a Council Tax increase of 2%.</p> <p>- Budget planning is based around the assumption of ongoing 2% increases in subsequent years.</p>	3	3	9
J	<p>Capital Programme cannot be funded</p> <p>Reduction or total loss of funding sources means that the capital programme cannot be delivered</p>	<p>The main sources of funding are:</p> <ul style="list-style-type: none"> ○ Internal borrowing ○ PWLB borrowing ○ New Homes Bonus ○ Capital Grants ○ Developer contributions (\$106) 	<p>- Council has been able to fund the capital programme without recourse to borrowing so far,</p> <p>- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.</p>	4	2	8

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		A reduction in this funding will mean that future schemes cannot be delivered.	- Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board but there is a risk that this may be subject to restrictions in future.			
K	<p>Increased volume and complexity of government regulation</p> <p>Covid-19 and the range of government support for local authorities and the community have led to a rapid increase in the volume and complexity of reporting and regulation.</p>	<p>Scaling up administrative resources to address the increased volume and complexity of reporting and regulation may divert attention from other priorities.</p> <p>Ultimately, failure to comply with new regulatory requirements could pose financial and reputational risk for the Council.</p>	<p>- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents.</p> <p>- Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.</p>	2	3	6
L	<p>Business Rates & Council Tax collection</p> <p>Council fails to maintain collection targets for business rates and council tax</p>	<p>Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> <p>Business rates amount to around £60 million in 2021/22 before Covid-19 relief and Council Tax due amounts to around £110 million.</p>	<p>- The Council has a good track record of business rates and Council Tax collection.</p> <p>- Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc.</p> <p>- Nonetheless, Covid-19 is leading to a reduction in collection rates.</p>	4	5	20
M	<p>Business Rates pool</p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool may not generate projected levels of income</p>	Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.	<p>- The pool is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a whole is projected to be around £10m in 2021/22.</p> <p>- Provisions have been made when projecting business rates income for bad debts and losses on</p>	2	3	6

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Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			appeal so any loss of income would relate to the excess over the provisions already made.			
O	<p>Litigation costs exceed budgeted provisions. The Council is often engaged in litigation and generally the costs of any award against the Council and associated costs of legal advice can be met from within budgets. However, it is prudent to acknowledge the risk that provisions may not in fact be sufficient to cover all likely costs.</p>	Costs in excess of budget would require a drawing on reserves and the identification of savings in subsequent years in order to replenish the level of reserves.	<ul style="list-style-type: none"> - Corporate Leadership Team is updated regularly on outstanding legal cases. - Appropriate professional advice is taken at all times. 	4	2	8
292 ^P	<p>Financial impact from a resurgence of COVID-19 A resurgence of the pandemic would see similar impact to those experienced in the first wave, eg reduction in fees and charges income arising from lower levels of economic activity and the effect of a broad reduction in economic growth on public finances.</p>	In the short term the Council would need to draw on reserves to cover the financial costs, but in the longer term savings would be required to replenish reserves.	<ul style="list-style-type: none"> - Senior officer group mobilised to address short term impacts - Mitigations to be developed over longer term 	5	5	25
Q	<p>Financial impact from IT security failure Local authorities have been subject to cyber attacks over the past few years, often with severe financial and service implications.</p>	The Council might have to suspend normal financial transactions for a period of time.	<ul style="list-style-type: none"> - Anti-virus software - Regular communications with staff to warn about risks - Back-up arrangements with neighbouring authorities 	4	3	12

Impact & Likelihood Scales

RISK IMPACT

Level	Service risk	Reputation Risk	H&S	Legal Risk	Financial Risk	En'ment Risk
Catas-trophic (5)	Ongoing failure to provide an adequate service	Perceived as failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment or significant fines	Uncontrollable financial loss or overspend over £500k	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries		Financial loss or overspend under £10k	Environmental incident with no lasting detrimental effect

RISK LIKELIHOOD

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