AGENDA

AUDIT COMMITTEE MEETING

MAIDSTONE
Borough Council

Date: Monday 26 January 2015
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Black (Chairman), Daley, Harper, Long and Perry

Continued Over/:

Issued on 16 January 2015

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact DEBBIE SNOOK on 01622 602030.** To find out more about the work of the Committee, please visit www.maidstone.gov.uk

Alison Broom

Alison Broom, Chief Executive, Maidstone Borough Council,
Maidstone House, King Street, Maidstone, Kent ME15 6JQ

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 24 NOVEMBER 2014

Present: **Councillor Daley (in the Chair) and Councillors Butler, Harper, Long and Perry**

Also Present: **Mr Keith Hosea of Grant Thornton (External Auditor)**

37. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from the Chairman, Councillor Black.

In the absence of the Chairman, the Vice-Chairman, Councillor Daley, took the Chair.

38. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor Butler was substituting for Councillor Black.

39. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

40. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

41. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

42. EXEMPT ITEMS

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

43. MINUTES OF THE MEETING HELD ON 15 SEPTEMBER 2014

RESOLVED: That the Minutes of the meeting held on 15 September 2014 be approved as a correct record and signed.

44. ANNUAL GOVERNANCE STATEMENT ACTION PLAN UPDATE

Angela Woodhouse, the Head of Policy and Communications, submitted a report updating progress against the Annual Governance Statement Action Plan. It was noted that:

- Progress against the Action Plan was being monitored by the Corporate Governance Working Group.

- Since the Annual Governance Statement was approved in July 2014 to accompany the Statement of Accounts, action had been taken in all areas highlighted for further development. For example, in terms of developing residents' involvement in decision making, this year's budget consultation had been combined with the consultation on the Strategic Plan. The consultation was completed in the main through a series of roadshows in rural and urban locations throughout the Borough, and the feedback was positive.

- Progress against the high priority recommendations identified in relation to the three audit projects which received limited assurance in 2013/14 (Housing Options (Housing Allocations Policy), Museum Collections and Artefacts and Freedom of Information) would be reported to the Committee in January 2015.

In response to a question by a Member regarding the production of a new Parish Charter, the Committee was informed that the Cabinet Member for Community and Leisure was working closely with Parish Councils on the drafting of this important document.

RESOLVED: That the update on progress against the Annual Governance Statement Action Plan be noted.

45. MEMBER DEVELOPMENT PROGRAMME

Russell Heppleston, Audit Manager, presented the report of the Head of Audit Partnership proposing a Member Development Programme linked to the Committee's terms of reference and the wider requirements set out in CIPFA's Audit Committee guide. It was noted that the themes and topics within the Programme coincided with significant reports and decisions mandated to the Committee through its annual work programme and was designed to supplement the core training required to be undertaken by Members and Substitute Members of the Committee.

The Committee felt that the proposed Programme represented a comprehensive package of training to address Members' development needs.

RESOLVED:

1. That the outline Member Development Programme, attached as an Appendix to the report of the Head of Audit Partnership, be approved.

2. That Strategic Risk Management and Countering Fraud should be covered in the first two sessions in January and March 2015.

3. That an invitation be extended to all Members of the Council to attend the Audit Committee training.

4. That the development needs of the Committee be kept under review in line with the overall Committee work programme and that the future shape of the Development Programme be updated in response to identified needs and workflow demands.

46. TREASURY MANAGEMENT STRATEGY MID-YEAR PERFORMANCE 2014/15

Ellie Dunnet, Chief Accountant, presented the report of the Director of Regeneration and Communities setting out details of the activities of the Treasury Management function as at 30 September 2014 in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It was noted that:

- As at 30 September 2014, the Council held investments totalling £29.83m. Income generated on these investments to 30 September 2014 was £101k against a budget of £125k. The adverse variance was a result of interest rates not increasing as expected due to the Bank Rate remaining static at 0.5%. The average rate of return on investments over this period was 0.69%.

- The Council was a member of the Capita Assets Services Local Authority Benchmarking Group alongside seven other authorities in Kent and Sussex. The analysis report as at 30 September 2014 showed that the Council was outperforming in its weighted average rate of return against a very low level of risk. As at September 2014, Maidstone's portfolio yielded the third highest rate of return and was assigned second lowest risk profile in the Group.

A Member said that he had attended a seminar recently when it had been suggested the Bank Rate was likely to remain at current levels until autumn 2015. He suggested that the Council could be achieving better rates for its investments, and offered to forward details to the Officers.

RESOLVED:

1. That the mid-year review which has been undertaken of the activities of the Treasury Management function in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities be noted.

2. That no amendments to the current procedures are necessary as a result of the review which has been undertaken of the activities of the Treasury Management function in 2014/15 to date.

47. EXTERNAL AUDITOR'S ANNUAL AUDIT LETTER

Keith Hosea of Grant Thornton introduced the External Auditor's Annual Audit Letter summarising the main findings from the work undertaken by the External Auditor for the year ended 31 March 2014.

In response to questions by Members, it was explained that:

- The audit fees as they stood at the moment were set by the Audit Commission and represented a 40% reduction on the scale fees before the tendering exercise when Grant Thornton were appointed. There was likely to be a further reduction from 2015/16. Historically, the fees were based on complexity and the size of the authority. Going forward, there would be more of an open market. The issue of audit fees could be covered in a Member training session.

- The External Auditor's recommendation that the Council should consider carefully whether the proposed reduction in usable reserves would provide sufficient financial resilience to fund projects and absorb future financial shocks would be raised with the Strategic Leadership and Corporate Services Overview and Scrutiny Budget Working Group and the Cabinet as part of their consideration of the Medium Term Financial Strategy having regard to benchmarked data. The External Auditor would not recommend an appropriate level of reserves, but would expect the Council to consider and confirm that it was comfortable with its approach.

RESOLVED: That the External Auditor's Annual Audit Letter for the year ended 31 March 2014, attached as an Appendix to the report of the Director of Regeneration and Communities, be noted.

48. AUDIT COMMITTEE UPDATE - NOVEMBER 2014

The Committee considered the report of the External Auditor on the progress to date against the 2014/15 Audit Plan. The paper also included a summary of emerging national issues and developments that might be relevant to the Committee together with a number of challenge questions in respect of these emerging issues.

Mr Hosea of Grant Thornton advised Members that work on the certification of claims and returns had now been completed and a report would be submitted to the Committee in January 2015.

RESOLVED: That the External Auditor's progress report, attached as an Appendix to the report of the Director of Regeneration and Communities, be noted.

49. AUDIT COMMITTEE WORK PROGRAMME 2014/15

RESOLVED: That the updated Audit Committee Work Programme 2014/15 be noted.

50. DURATION OF MEETING

6.30 p.m. to 7.05 p.m.

5

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 26 JANUARY 2015

REPORT OF DIRECTOR OF REGENERATION AND COMMUNITIES

Report prepared by Stephen McGinnes

1. GRANT CLAIM CERTIFICATION

1.1 Issue for Consideration

1.1.1 To consider the outcome of the Grant Thornton work to certify the subsidy claim that the Council submitted during 2013/14.

1.2 Recommendation of Head of Revenues and Benefits

1.2.1 That the Committee notes the Grant Thornton assurance that the Council maintains a strong control environment for the preparation and monitoring of grant claims and returns.

1.3 Reasons for Recommendation

1.3.1 Grant Thornton undertook work to certify the Housing Benefit grant claim that was submitted by the Council with a value of £46.3 million.

1.3.2 The level and form of testing reflect the value and specific requirements of the grant paying body, as detailed within Appendix A.

1.3.3 Whilst the work gave rise to minor amendments the overall assurance confirmed that the Council continues to have good systems in place to ensure the accuracy of its grant claim.

1.4 Alternative Action and why not Recommended

1.4.1 The report is provided for information only.

1.5 Impact on Corporate Objectives

1.5.1 The report supports the objective of providing corporate and customer excellence.

1.6 Risk Management

1.6.1 The accuracy of the grant claim represents a key financial risk, with the work undertaken by Grant Thornton in part aimed at mitigating that risk.

1.7 Other Implications

1.7.1

1.	Financial	x
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.7.2 The financial considerations have been outlined within the body of the report and attached appendices.

1.8 Relevant Documents

1.8.1 Appendices

Appendix A – Grant Thornton Certification letter

1.8.2 Background Documents

None

IS THIS A KEY DECISION REPORT?		**THIS BOX MUST BE COMPLETED**	
Yes		No	X

If yes, this is a Key Decision because: …………………………………………………………..

…….

Wards/Parishes affected: ……………………………………………………………………………..

……..

Zena Cooke
Director of Regeneration and Communities
Maidstone Borough Council
Maidstone House
King Street
Maidstone
Kent
ME15 6JQ

Grant Thornton UK LLP
Fleming Way
Manor Royal
Crawley
RH10 9GT

T +44 (0)1293 554 130

www.grant-thornton.co.uk

12 January 2015

Dear Zena

Certification work for Maidstone Borough Council for year ended 31 March 2014

As you are aware, we are required to certify certain claims and returns submitted by the Council. Certification arrangements are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return. The Audit Commission arrangements require us to report the outcome of certification work.

We certified one claim for the financial year 2013/14 relating to expenditure of £46.3 million (appendix A.)

We found the Council had put in place procedures to address the errors we identified in last year's claim and as a result no such errors recurred in 2013/14. However, this year's testing identified errors in two areas, both of which affects a relatively small number of cases. These errors resulted in an amendment and qualification of the claim:

- we identified three cases where the Council had not taken the correct value of childcare costs into account in calculating the benefit entitlement. The error resulted in a misclassification of £66 within the subsidy return and we reported an extrapolated error of £306 out of total expenditure on rent allowances of £45.8m to the Department. Officers have agreed to review all such cases going forward to ensure they are treated appropriately.
- we found three cases recorded as modified schemes were incorrectly classified. As there were only 25 such cases in total, with expenditure totalling £53k, the Council reviewed all such cases and we agreed an amendment to the claim which increased subsidy payable to the Council by £1,396. Officers should review all claims recorded as modified schemes each year to ensure they are correctly recorded.

The indicative fee for 2013/14 for the Council was based on the final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. The fees for certification of housing benefit subsidy claims have been reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme.

The indicative scale fee set by the Audit Commission for the Council for 2013/14 is £15,224. We are not proposing to make any changes to the indicative scale fee (appendix A).

Yours sincerely

For Grant Thornton UK LLP

Appendix A

(i) Details of claims and returns certified for 2013/14

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£46,324,468	Yes	1,396	Yes	Qualification arose due to errors in reflecting childcare costs in assessing benefit entitlement. Amendment arose from incorrect identification of cases as modified schemes when they should not have been.

(ii) Fees for 2013/14 certification work

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	15,809	15,224	15,224	-585	Reduction due to removal of council tax benefit subsidy, but more work required to quantify impact of errors identified this year compared to last.
National non-domestic rates return (NNDR3)	1,791	N/a	N/a	-1,791	No requirement to certify this return in 2013/14
Total	17,600	15,224	15,224	-1,915	

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

26 JANUARY 2015

REPORT OF HEAD OF AUDIT PARTNERSHIP

Report prepared by Russell Heppleston – Audit Manager

1. INTERIM - INTERNAL AUDIT REPORT 2014/15

1.1 Issue for Decision

1.1.1 The report provides an update to the Committee on work conducted by the Internal Audit service up to December 2014. In addition, the report provides updates on work conducted by the team, and highlights the impact of our work through assessment of management's work in implementing agreed audit recommendations.

1.2 Recommendation of the Head of Audit Partnership

1.2.1 That the Audit Committee **notes** the results of the work of the Internal Audit team as shown in the attached report.

1.2.2 That the Audit Committee **notes** the revised operational audit plan for the remaining year, as outlined in the attached report.

1.3 Reasons for Recommendation

1.3.1 Internal Audit is a statutory service under the Accounts & Audit Regulations 2011. The principle objective of Internal Audit is to examine and evaluate the adequacy of the Council's systems of internal controls, risk management and corporate governance.

1.3.2 As those charged with overseeing Governance, the Terms of Reference for the Audit Committee require it to 'review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary'. In order for the Committee to fulfil its duties regular updates are provided to the Committee on the performance and effectiveness of the Internal Audit Service.

1.4 Alternative Action and why not Recommended

1.4.1 The role of the Audit Committee includes the consideration of risk, controls and governance across the whole Council, in accordance with its terms of reference. Therefore, the Committee needs to have an awareness of the work conducted by Internal Audit, in order to adequately fulfil its duties. We recommend no alternative course of action.

1.5 Impact on Corporate Objectives

1.5.1 The role of the Audit Committee includes the consideration of risk, controls and governance across the whole Council. Having an effective Audit Committee therefore has an impact across all of the Council's Corporate Objectives.

1.6 Risk Management

1.6.1 Internal Audit seeks to establish and evaluate the controls that Management have put in place to manage risks.

1.7 Other Implications

1.7.1 None directly

1.	Financial	
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.8 Relevant Documents

1.8.1 Appendices

1.8.1.1 Interim Internal Audit Report (April – December 2014)

1.8.2 Background Documents

1.8.2.1 None

IS THIS A KEY DECISION REPORT?			**THIS BOX MUST BE COMPLETED**
Yes	**NO**	No	

If yes, this is a Key Decision because: ……………………………………………………………..

……….

Wards/Parishes affected: …………………………………………………………………………..

………..

MID KENT AUDIT

Interim
Internal Audit
Report

April 2014 – December 2014

Maidstone

Introduction

1. Internal audit is an independent and objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes[1].

2. Statutory authority for Internal Audit is within the Accounts and Audit Regulations 2011 that require the Council to undertake an adequate and effective internal audit of its accounting records and its systems of internal control in accordance with the 'proper practices'. From 1 April 2013 the 'proper practices' are the Public Sector Internal Audit Standards (PSIAS) that replaced the Code of Practice for Internal Audit in Local Government in the UK.

3. The Head of Audit Partnership must provide an annual opinion on the overall adequacy and effectiveness of the Council's framework of control, governance and risk. The opinion takes into consideration:

   a) Internal Controls: Including financial and non-financial controls.
   b) Corporate governance: Including effectiveness of measures to counter fraud and corruption, and
   c) Risk Management: Principally, the effectiveness of the Council's risk management framework.

4. This report provides an update to the Committee across all three areas covered in the opinion and the performance of the Internal Audit service for the first half of the year. In addition, the report provides updates on work conducted by the team, and highlights the impact of our work through assessment of management's work in implementing agreed audit recommendations.

[1] This is the definition of internal audit included within the Public Sector Internal Audit Standards

Internal Control

5. The system of internal control is a process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.

6. We obtain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan, approved by this Committee in March 2014.

Audit Plan Progress

7. The table below highlights progress against the audit plan by quarter up to December 2014. Since the plan was agreed in March 2014 there have been a number of revisions to the scheduling of audit projects over each quarter. The table below provides a summarised update of progress against the audit plan. (The audit plan is attached in Appendix II):

December 2014/15		**Audit Plan***			**Status**		
Authority	**Quarter work planned to begin**	**Planned Audits**	**Revised**		**Completed**	**Work in Progress**	**Not Started**
Maidstone	Q1	9	7		7	0	0
Maidstone	Q2	9	6		5	1	0
Maidstone	Q3	8	9		1	7	1
Maidstone	Q4	8	6		0	0	6
Total Assurance Projects		**34**	**28**		13	8	7

* See Appendix II

8. At the half yearly position the team have completed 13 audit projects, of which 7 include a full assessment and assurance rating. We have 8 projects in progress that we expect to complete by the end of the quarter. The remaining projects (7) fall due towards the end of the year and will be scheduled as appropriate.

9. Our audit plan must remain a flexible, reactive document capable of adaptation to the changing risks the Council faces as its needs and priorities develop. This year is no exception, and as a result there have been a small number of changes agreed with officers to the audit plan as presented to this Committee in March 2014. We detail these changes in appendix II.

Audit Review Findings to Date: Assurance Rated Reports

10. We have completed seven projects that included an assessment and assurance rating. An extract from each report, supporting the conclusion of the audit, is included below. We are pleased to report that officers have accepted our audit findings, and have set target dates for implementing the recommendations. We will follow up that implementation as the recommendations fall due over the coming months.

	Head of Service	Title	Assurance Rating
1	Head of Finance & Resources	Business Rates Retention (Risk)	**STRONG**
2	Head of ICT Shared Service	Compliance with Computer Use	**SOUND**
3	Head of Finance & Resources	VAT Management	**SOUND**
4	Head of Policy & Communications	Members' Allowances	**SOUND**
5	Head of Finance & Resources	Bank Reconciliation	**SOUND**
6	Head of Policy & Communications	Communications: Social Networking	**SOUND**
7	Head of Planning & Development	Emergency Planning	**WEAK**

Business Rates Retention (Risk)

11. We conclude based on our audit work that there are **STRONG** controls in place for the successful management of the risks associated with the Business Rates Retention Scheme.

12. The Council has identified and assessed the risks associated with the business rates retention scheme within its Medium Term Financial Strategy. Our testing confirmed that adequate actions exist to mitigate these risks though the current controls are not formally documented or assigned. The Council has sought to identify opportunities to maximise income through the scheme, analysing and approving appropriately where taken forward for implementation. The Council successfully manages and monitors its involvement in the Mid Kent Pool as part of the overall business rates retention scheme. The Council has additional resilience with regards to operating the scheme through the operation of the shared service.

Compliance with Computer Use Policy (ICT)

13. We conclude based on our audit work that there are **SOUND** controls in place to ensure the Council operates in compliance with its Computer Use Policy (the Policy).

14. Our work establishes the Policy is widely available and effectively incorporated within induction. Staff demonstrate a good awareness of the Policy both in their knowledge and day to day ICT use. The Policy is comprehensive, covering a range of ICT activity from purchase and disposal of hardware, guidance on software use and controls to monitor and inhibit unauthorised activity and connections. This is notable also because a shared Policy will soon be implemented across MKIP. However, we identified weaknesses for the Council to address in how it tracks hardware assets from purchase onto the asset register and ultimately to disposal.

VAT Management

15. We conclude based on our audit work that there are **SOUND** controls in place for the successful management of VAT returns in compliance with VAT legislation and the procedures adopted by HRMC.

16. Our work established that officers responsible for administering VAT have appropriate experience and knowledge to provide advice and support. Our testing also confirmed that input and output VAT is accurately accounted and allocated within the finance system. The Council prepares accurate and well evidenced VAT returns submitted each month in line with HMRC procedures. We did however identify that the Council does not currently monitor its partial exemption position in year. The Council was close to its exemption limit in 2012/13 (4.92% against a 5% limit), so a relatively small unexpected change in position could result in having to make repayments.

Members' Allowances

17. We conclude based on our audit work that the Council has **SOUND** controls in place over the management and administration of the Members' Allowances Scheme.

18. The Council's Members' Allowances Scheme fully complies with Regulations. Allowances and expenses paid to Members are paid in accordance with the Scheme and the Council's Financial Regulations. However, the total allowances paid for 2013/14 have not been correctly reported on the Council's website and the Members Allowance Scheme does not currently include the allowances paid to the Mayor and Deputy Mayor.

Bank Reconciliation

19. We conclude based on our audit work that there are **SOUND** controls in place over the reconciliation processes for the Councils bank account.

20. We established that the Council conducts its bank reconciliations in compliance with its Financial Procedure Rules. We did identify some minor weaknesses on clearing suspense accounts, particularly the timeliness and level of retained evidence.

Communications: Social Networking

21. We conclude based on our audit work that there are **SOUND** controls in place over the management and use of the Council's external and internal communications through the use of social media.

22. The Council has a clear Social Media Policy with controls to ensure content is reviewed before publishing. The Council is making good use of its social media presence, particularly during emergency events. We did however identify some areas for improvement to ensure that the controls in the policy reflect how the controls work in practice.

Emergency Planning

23. We conclude based on our audit work that emergency planning has **WEAK** controls to mitigate its risks and achieve its objectives.

24. Our review satisfies us that the Council is capable of responding to emergency events, not least because of the substantial capabilities and dedication of its staff as demonstrated in the floods last winter. However, there are significant weaknesses in the underlying plans and processes which leave the Council potentially vulnerable in being able to deal effectively with larger or more sustained events and leave it disproportionately reliant on staff goodwill to deliver its Major Emergency Plan. These weaknesses include a Plan that does not fully comply with legal requirements, uncertainty on the role of staff working in partnership and a potential lack of resources – including unfilled staff posts. In addition, we identified that the Council has no asset register for emergency supplies, as well as gaps in the security and re-stocking of the assets it holds.

25. Since we completed our review the service has continued to address our findings and work towards implementing the recommendations. None of the recommendations had implementation dates before 31 December 2014 and so we will begin our work reviewing the service in January 2015 and onwards as the actions fall due. However, an interim report from the service is encouraging and documents actions such as establishing a cross-partner dialogue and revising elements of the major emergency plan to align with legal requirements. We will report in full on the follow up of recommendations, and any potential revision to the assurance rating, in our year-end report to Members.

Audit Review Findings to Date: Non-Assurance Rated Reports

26. In addition we have completed six projects from the audit plan that have not been assigned an assurance rating. These projects have been delivered as agreed within the audit plan, but the scope of the projects have been to either support the Council more broadly, or support the further advancement and delivery of the Internal Audit service.

No.	Title	Type of work	Conclusion / Output
1	Business Assurance Mapping	Internal Project	The assurance map will be used to assist in creation of the Internal Audit strategic plan. It highlights the various forms of assurance received by the Council, which are in addition to Internal Audit. For instance, regulators and accreditations.
2	Teammate Development: Team Central	Internal Audit Service	Implementation of the internal audit recommendation tracking and reporting software to support the facilitation and management of the follow-up process.
3	Individual Electoral Registration: Data Matching	Special Project	Data matching of the electoral register with DWP to reduce the number of errors and invalid returns in the run up to the introduction of IER. Approx. 4,000 matches were reported.
4	Investigation Liaison Protocol	Procedure	Please see the Corporate Governance section of the report.
5	Fraud Risk Review	Compliance	Please see the Corporate Governance section of the report.
6	National Fraud Initiative	Data Matching	Please see the Corporate Governance section of the report.

Follow-up of Internal Audit Recommendations

27. In July 2014 the Audit Committee were asked to agree a revised process for the follow up of audit recommendations. Work has been on-going throughout the first half of the year to systematically follow-up on all audit recommendations that fell due by the 30 September 2014. The table below sets out our findings from that review:

Project	Agreed Actions	Actions Falling Due by 30/09/14	Actions Completed	Outstanding Actions past due date	Actions Not Yet Due
Public Sector Equalities Duty	15	14	14	0	1
Freedom of Information	5	3	3	0	2
Car Park Income & Season Tickets	3	1	1	0	2
Commercial Waste	8	8	8	0	0
Waste Collection Payment Processes	2	3	2	1	0
Treasury Management	5	3	3	0	2
Housing Options	4	2	1	1	1
VAT Management	2	1	1	0	1
Business Rates Retention Scheme (Risk)	3	2	0	2	1
Project Management Framework	14	12	12	0	2
CCTV	10	6	1	5	4
Museum Collections	13	9	9	0	4
Community Safety Grants	2	2	2	0	0
Food Safety (Commercial)	12	8	8	0	4
Accounts Receivable	5	5	5	0	0
General Ledger Feeder Systems & Journals	3	1	1	0	2
Property Income	6	2	0	2	4
Housing Grants	2	1	1	0	1
Mid Kent Legal Services	6	6	6	0	0
Mid Kent ICT - PC Internet Controls	18	2	2	0	16
Mid Kent HR - Recruitment	8	6	6	0	2
TOTAL	**146**	**97**	**86**	**11**	**49**
			89%		

Summary of Findings

28. Of the 21 audit projects that have been followed-up three originally received an adverse assurance rating of **limited**:

- Freedom of Information
- Museum Collections
- Housing Options

29. Each service has worked hard to address the issues raised in the audit, and has implemented the majority of recommendations falling due by the 30 September 2014. We have re-tested where appropriate and conclude that the controls for Freedom of Information and Museum Collection now provide a **substantial** level of assurance. As this review was conducted using the 2013/14 assurance ratings, we have for continuity, re-assessed the level of assurance as per the previous levels.

30. The remaining audit recommendations for Housing Options are not yet due, but we will follow them up later in the year and consider a re-assessment as appropriate.

31. Of the 96 recommendations falling due the Council has fully implemented 86 (89%). There are 11 actions which were outstanding at the time of reporting and the relevant Directors are putting in place actions to follow up progress.

32. The Council has successfully implemented all high priority recommendations which were due before 30 September 2014.

33. This is a highly creditable achievement and demonstrates audit and services working closely together to help improve the way the Council conducts its business.

34. We will follow up actions due after 30 September, including those arising as we complete our 2014/15 audit plan, later in the year. We will provide a final position to Members as part of our Annual Review in June 2015.

Corporate Governance

35. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.

36. We obtain 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.

37. We attend the following corporate groups:

- Corporate governance group
- Information governance group

38. We have also provided, and continue to provide, appropriate project assurance to the following ongoing enterprises within the Council:

- Cashless Pay & Display
- Energy generation
- Commercialisation strategy
- Rent Accounting System

39. We also prepared a response alongside partners on behalf of the four authorities to the CLG consultation on secondary legislation following on from the Local Audit and Accountability Act 2014. The consultation covered areas such as:

- Applying the legislation to smaller authorities (such as parishes),
- Arrangements for allowing collective procurement including the rules around using a 'specified person' to arrange and monitor audit provision,
- Timetable for accounts publication including bringing the publication date forward from 30 September to 31 July, Rights of access for local authority electors, including harmonising a single inspection window and
- Transparency Code for smaller bodies.

40. Our response to the consultation made the following main points:

- Any change to the date of the sign off accounts must balance the benefits against the costs. In a continuing time of financial restraint in the public sector, it is timely to consider the complexity of accounts while proposing earlier closedown. Reduced timescales are difficult but achievable, however will require assistance from CIPFA to stem and turn back the growth of local authority financial statements.
- The Regulations will need to ensure authorities are sufficiently informed to take the irrevocable opt-in/out decision [to allow a specified individual to select an

auditor and audit fee on its behalf], including setting out clearly how a specified person will manage and control its costs.

- We feel there is no pressing need to alter current public inspection arrangements, save the moves to online advertisement and streamlining to remove auditor involvement.
- The present publication of expenditure by local authorities is working well and enforcing through regulation will risk disrupting an effective process.
- We welcome general moves towards increasing 'online default' in information publishing.

41. The Government has now responded to the consultation, making minor changes to the proposals but retaining the key intentions of supporting large-scale joint procurement and bringing forward the date by which the audited accounts must be approved from 30 September to 31 July.

42. We were also commissioned by the three MKIP Chief Executives (Maidstone, Tunbridge Wells and Swale) to complete a project review examining implementation of the Planning Support shared service. This review was reported separately to the MKIP Board on 10 December with a summary report to Overview & Scrutiny Task & Finish Group on 8 December.

Counter Fraud & Corruption

43. We consider fraud and corruption risks in all of our regular audit projects as well as undertaking distinct activities to assess and support the Council's arrangements.

Investigations

44. During the period covered by this report there have been no matters raised with us that required investigation.

Whistle-blowing

45. The Council's whistleblowing policy nominates internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour. During 2014/15 so far we have received no such declarations.

Investigation Liaison Protocol

46. In July we established a joint protocol with colleagues in Human Resources setting out roles and responsibilities in the event of matters arising that might require joint or parallel investigations. The purpose of the protocol is to ensure that in the event of an investigation we work seamlessly to ensure that the right outcomes are achieved for the Council. Although no such matters have arisen at Maidstone Borough Council we have seen the protocol working effectively to assist investigations undertaken elsewhere in the audit partnership.

Fraud Risk Review

47. As directed within our audit plan we undertook a fraud risk review of the Council's arrangements for tackling corporate fraud and corruption. We assessed against the CIPFA Counter Fraud Code published in October 2014 (though available in draft since July).

48. Our review concluded that the Council is currently not in a position to make a 'compliant' declaration in its 2014/15 Annual Governance Statement. We will be working with the Council for the remainder of the year to improve the Counter Fraud arrangements, and strengthen the position to achieve adherence with the Code.

National Fraud Initiative

49. We have continued as co-ordinator of the Council's response to the National Fraud Initiative (NFI). NFI is a statutory data matching exercise, and we are required by law to submit various forms of data, securely, to the Audit Commission. Members may wish to note that the NFI regime will survive the end of the Audit Commission in March 2015 as it will become part of the Cabinet Office's responsibilities.

50. The 2014/15 NFI exercise includes the following services:

- Creditors
- Payroll
- Housing Benefits
- Licensing
- Parking
- Insurance

51. The Audit Commission will release matches in January 2015 for investigation. We will report any outcomes in the annual audit report to the Audit Committee later in the year.

Audit Commission Fraud Survey 2014

52. We coordinate and complete the survey and submit the information to the Audit Commission in May each year. There were no issues of concern reported. The results of the survey form part of the Audit Commission's annual publication "Protecting the Public Purse".

Attempted Frauds

53. So far this year we have helped to investigate a number of attempted frauds across the partner sites, though none with Maidstone BC as intended victim. Following on from these investigations though, we have provided guidance and support across the partnership sites to raise awareness and help prepare officers on how to identify and respond so these threats should they occur.

54. Recent attempts include:

- A fraudulent e-mail purporting to be from the Chief Executive was sent to the Finance department requesting a payment be made. The Council's robust financial procedures meant that the request went no further, and through the diligence of officers was highlighted immediately. IT department traced the original email address and a notification was sent to officers to remain diligent.

- Phoney requests to change bank details of suppliers – Councils have received a number of requests to change bank details. These are an increasingly common means of attempting fraud; seeking to misdirect a council in routing a payment to the fraudster's account rather than to the genuine supplier. The controls in place over the changing supplier bank details are strong, and officers independently verify any requests to change standing data. An all staff message was sent out across the Council to reinforce the needs for strong financial controls, and to thank the officers for identifying and dealing with the attempted fraud so quickly and effectively.

Risk Management

55. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.

56. We obtain audit evidence to support the Head of Audit Opinion through completion of our audit plan plus continuing monitoring of and contribution to the Council's risk management processes.

57. The Council currently has 6 strategic risks in the following themes:

- Effective Transport
- Skills for Employment
- Affordable Housing
- Clean Environment
- Reduce Deprivation
- Value for Money

58. At present, the Council plans to revisit and update its strategic risks in 2015/16, following on from resetting its corporate priorities.

59. More widely we are currently working with the Council to help improve the overall process and clarify the role of the audit service in assisting the Council's risk management. As part of this work, we will work with members and officers to develop a new risk management policy and strategy that will better guide the Council prior to reviewing and refreshing its strategic risks as well as providing clearer management for key operational risks.

60. We will update the Committee as this work progresses.

Mid Kent Audit Service Update

61. During September we agreed a refreshed collaboration agreement between the four Mid Kent Audit authority partners (Maidstone, Swale, Ashford and Tunbridge Wells). All four partners have re-affirmed their commitment to the partnership, and secured the arrangements for the next four and half years. The review and refresh of the collaboration agreement enabled the following improvements:

- Transfer of officers to one single employee (Maidstone).
- Creation of a single shared budget – bringing with it greater opportunity for investment in training and development.
- Re-affirming the role Internal Audit has on counter fraud and risk management.
- A commitment to data sharing between the Councils; allowing us to more clearly highlight and report learning and good practice.

62. In June we advertised a secondment opportunity across all 4 authorities, and were able to successfully appoint into the role an officer from the Maidstone Finance team. This was the first time that such an opportunity had been offered, and has been a great experience for us. The service has benefited greatly by having an experienced professional from within the Council, and the individual has been able to develop internal audit skills and insight that would not have otherwise been possible.

63. Looking forward, we aim to continue to grow the service by reinstating the career grade position dormant for more than five years. This will allow us to develop an individual within the team through to a professional qualification.

64. Three members of the team are currently studying towards professional internal audit qualifications with the Institute of Internal Auditors. We are pleased to report a 100% success rate within the team on IIA exams in 2014/15 and hope to build on that during 2015/16, looking to end that year with more than half the team holding a professional qualification. Also we have a member of the team studying towards the Certificate in International Risk Management that will give us more specialised knowledge and expertise.

65. The successful completion of professional studies for the team will mean that Mid Kent audit will hold qualifications in the following areas:

- Internal Audit
- Finance
- Counter fraud and investigation
- Risk Management

66. Both the Head of the Partnership and Maidstone Audit Manager are grateful for the continuing efforts of the audit team who have worked extremely hard over the last nine months during a period of significant change and transition. The achievements and improvements in service standards would not have been possible without their continued commitment, determination and highest levels of professionalism.

Performance

67. Aside from the progress against our audit plan we also report against a number of specific performance measures designed to monitor the quality of service we deliver to partner authorities. The Audit Board (with David Edwards as Maidstone's representative) considers these measures at each of its quarterly meetings, and also consolidated into reports submitted to the MKIP Board (which includes the Council's Chief Executive and Leader).

68. Below is an extract of the most recent such performance report. We have withheld only one measure from publication – cost per audit day – as it is potentially commercially sensitive in the event of the Partnership seeking to sell its services to the market. We would be happy, however, to discuss with Members separately on request.

69. Note that most figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

Measure	Outturn @ 6m	Outturn @9m	Target & Commentary
Customer satisfaction overall	100%	100%	Based on customer satisfaction survey circulated with each completed audit project.
Customer satisfaction with audit conduct	100%	100%	Based on customer satisfaction survey.
Customer satisfaction with auditor skills	100%	100%	Based on customer satisfaction survey
Chargeable days	72%	75%	Based on the proportion of available days spend on productive work rather than administration, training and so on. General target in local government audit is 70%.
Audits completed on time	36%	41%	Proportion of individual reviews completed according to timescales agreed at the outset of the audit. This is a new practice introduced in 2014/15 and forecasts have not taken adequate account of barriers such as staff availability, but we are developing more flexible approaches in response.
Audits completed on budget	41%	47%	Proportion of individual audit reviews completed within an agreed days budget as set out in the audit plan. This has been impacted by a move to comprehensive time recording which means manager time features in the outturn but not in the budget, but still represents an improvement on the equivalent 2013/14 figure (18%).
Draft report timeliness	12 days (median)	10 days (median)	Our target is to provide a draft report within 10 working days of completing fieldwork. This is a new target and drafts are a new part of the reporting process which is still becoming established.
Final report timeliness	5 days (median)	4 days (median)	Our target is to provide a final report within 5 working days of the closing meeting to agree recommendations.
Conformance to Public Sector Internal Audit Standards	50/56	50/56	As per report to Members in March 2014. We will be re-assessed by the Institute of Internal Auditors in early 2015 but are currently on track to achieve their recommendations before the end of 2014.
Recommendations implemented on time	n/a	89%	As reported elsewhere in this update.

Acknowledgements:

70. We would also like to thank Managers, Officers and Members for their continued support, assistance and co-operation as we complete our audit work during the year.

Appendix I: Assurance & Priority level definitions

Assurance Ratings 2014/15

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.	**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.	**Effective Service**
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.	**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.	**Ineffective Service**

Recommendation Ratings 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.

Appendix II: Audit Plan Progress 2014/15

No.	Q	Audit Project	Not Yet Planned	Brief Agreed	Fieldwork Commenced	Draft Report	Final Report	Assurance Rating
		Audit Assurance Projects						
1	Q1	Business Rates Retention (Risk)		◆	◆	◆	◆	STRONG
2	Q1	Compliance with Computer Use		◆	◆	◆	◆	SOUND
3	Q1	VAT Management		◆	◆	◆	◆	SOUND
4	Q2	Members Allowances		◆	◆	◆	◆	SOUND
5	Q2	Emergency Planning		◆	◆	◆	◆	WEAK
6	Q2	Bank Reconciliation		◆	◆	◆	◆	SOUND
7	Q2	Communications & Social Networking		◆	◆	◆	◆	SOUND
8	Q2	Leisure Centre Contract		◆	◆	◆		
9	Q3	Data Protection		◆	◆	◆		
10	Q3	Members & Officers Declarations of Interest		◆	◆	◆		
11	Q3	Payroll (Systems Audit)		◆	◆	◆		
12	Q3	Waste Collection Contract		◆	◆			
13	Q3	Planning Support Shared Service - Income Controls		◆	◆	◆		
14	Q3	Accounts Payable		◆				
15	Q3	Corporate Governance		◆				
16	Q3	Corporate Credit Cards	◆					
17	Q4	Asset Management Plan	◆					
18	Q4	Procurement	◆					
19	Q4	Rent Accounting System	◆					
20	Q4	Repair & Renew Grant - Sign-off	◆					
21	Q4	Business Rates (Systems audit)	◆					
22	Q4	ICT: Business Support	◆					
		Other Projects						
23	Q1	Business Assurance Mapping		◆	◆	◆	◆	COMPLETE
24	Q1	Teammate Development: Team Central		◆	◆	◆	◆	COMPLETE
25	Q1	Individual Electoral Registration: Data Matching		◆	◆	◆	◆	COMPLETE
26	Q1	Investigation Liaison Protocol		◆	◆	◆	◆	COMPLETE
27	Q2	Fraud Risk Review		◆	◆	◆	◆	COMPLETE
28	Q3	National Fraud Initiative		◆	◆			PHASE 1

Changes to the Audit Plan

The Internal Audit plan needs to be flexible and reactive to the changing risks of the Council. As the needs and priorities of the Council change, assurance work is re-directed to ensure that it remains relevant and valuable. The plan is therefore reviewed regularly, and projects are removed, added or deferred accordingly.

Following consultation and agreement with management, it is considered a more valuable use of Internal Audit resources and more valuable assurance to make the following changes to the plan:

Removed from the Plan (where assurance has been provided elsewhere)

No.	Head of Service	Title	Outcome	Comments
1	Head of Policy & Communication	Channel Shift Project	**REMOVED**	The project has not advanced yet to a stage where audit assurance would be useful.
2	Head of Environment & Public Realm	Street Cleansing	**REMOVED**	Internal quality assessment conducted. Low Risk.
3	Head of Policy & Communication	Information Management	**REMOVED**	The area has received an external assessment.
4	Head of Internal Audit Partnership	Risk Management Framework	**REMOVED**	This time will be used to support Risk Management Strategy work in Q4.
5	Head of Commercial & Economic Development	Commercialisation Programme	**REMOVED**	The Head of Audit Partnership has provided guidance on risk and controls through consultation on the Commercialisation Strategy rather than through a dedicated audit project.
6	Head of Policy & Communication	Customer Services	**REMOVED**	The service received an external review in November 2014.

Projects Deferred from the Plan

No.	Head of Service	Title	Outcome	Comments
1	Head of Finance & Resources	Commercial Property Development	**DEFERRED**	Delays in the project to be subject of audit review means we have had to defer our work accordingly into 2015/16.
2	Head of Planning & Development	Land Charges	**DEFERRED**	Delays in the project to be subject of audit review means we have had to defer our work accordingly into 2015/16.
3	Head of Planning & Development	Business Continuity Planning	**DEFERRED**	Delays in the project to be subject of audit review means we have had to defer our work accordingly into 2015/16.

Projects Added to the Plan

No.	Head of Service	Title	Outcome	Comments
1	Head of Finance & Resources	Individual Electoral Registration (IER): Data Matching	**ADDED**	Service Request to provide assurance over the integrity of IER data transfer.
2	Head of Finance & Resources	Repair & Renew Grant	**ADDED**	Internal Audit review is a requirement of the grant award.
3	Head of Internal Audit Partnership	Fraud Protocol	**ADDED**	Finalisation work from 2013/14.

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 26 JANUARY 2015

REPORT OF HEAD OF FINANCE & RESOURCES

Report prepared by Paul Riley

1. BUDGET STRATEGY 2015/16 ONWARDS – RISK ASSESSMENT

1.1 Issue for Decision

1.1.1 On 17 December 2014 the Cabinet agreed a draft Budget Strategy 2015/16 Onwards and referred the decision to Strategic Leadership and Corporate Services Overview and Scrutiny Committee for consideration.

1.1.2 As the remit of the Audit Committee includes consideration of risk it is also appropriate that the decisions are considered by this Committee, with a specific emphasis on the consideration of the risk analysis produced for the Finance Section's service plan.

1.2 Recommendation of Head of Finance & Resources

1.2.1 That Audit Committee considers the risk assessment of the Budget Strategy provided at Appendix D and makes comment or recommendations to Cabinet for consideration on 11 February 2015.

1.3 Reasons for Recommendation

1.3.1 On 17 December 2014 the Cabinet considered a draft Budget Strategy 2014/15 Onwards. The update covered three reports one on the revenue strategy, one on the capital strategy and one on fees and charges. The Cabinet decisions are attached as Appendices A - C. Members may wish to review the reports to Cabinet and these are contained within the agenda for 17 December 2014 meeting.

1.3.2 Members should note that some of the detail in the reports on the agenda for the Cabinet meeting was superseded by the finance settlement announced in parliament shortly after the Cabinet meeting.

1.3.3 A full risk assessment of the proposals agreed by Cabinet are set out in Appendix D of this report.

1.3.4 The strategic risk in relation to the budget relates to failure to deliver a balanced budget. The risk assessment given at Appendix D considers operational risks rather than the strategic risk and the actions to mitigate these risks form part of the service plan of the Finance Section for 2015/16. In some cases the risks will also be reflected in other service plans.

1.3.5 To assist the Committee's consideration of the risks set out in Appendix D the details of the major monitoring and control processes in place at the Council to identify and act upon any emerging factors that trigger such risks are:

a) The key control is monitoring and reporting of the budget throughout the year. A reporting process exists that ensures budget managers receive monthly reports and Cabinet and Management Team receive quarterly reports.

b) Additional monitoring and reporting occurs in relation to specific financial risk areas examples for 2015/16 include:

   i. employee costs due to value;
   ii. major contracts such as the waste contract due to significant single contract;
   iii. business rates collection levels due to new pooling arrangements;
   iv. council tax support take-up levels due to the local scheme having significant cost implications;
   v. income from fees and charges due to the variable influence of demand upon actual levels of income; and
   vi. outcome of agreed commercial activity due to the added risks during start-up of such activities.

c) The Constitution also requires additional reports on the under recovery of any income budget where this is greater than £40,000.

d) All of these reports are produced with full accrual of the cost of works or goods received but not paid for at the effective date. They are therefore as accurate as possible.

e) The monthly management reports are produced within 10 working days making them as timely as possible. Reports to Management Team and Cabinet are prepared for the next available meeting and incorporate a projected outturn for the year. The reports identify all necessary actions that must be taken to resolve developing problems and consider other major balance sheet items such as collection rates and treasury management activity.

f) Officers and senior members have well developed relationships with organisations similar to this Council, such as through the Kent Finance Officers' Association. These relationships ensure a broader range of information flow to and from the Council on financial matters.

g) The Committee will be aware of a number of governance controls in place including the Corporate Governance group and the Council's relationship with its external auditor which take a high level overview of the controls in place to mitigate these risks. The Council has contractual relationships with advisors such as Sector Treasury Management who advise the Council on specific projects. Also, through links to the Kent Finance Officers' Association, to other advisors who provide specific analysis of major issues such as business rates retention and analysis of the finance settlement for 2015/16.

1.3.6 With monitoring such as this in place the Council is well placed to recognise and act upon emerging trigger events. The mitigating actions taken in each case will be the most appropriate. Depending on the value or consequence of the event it may be reported to the relevant Cabinet Member or Cabinet along with any mitigating action for approval.

1.3.7 Each risk detailed in Appendix D now includes an assessment of the specific situation. This will enable members to set each risk in the context of any mitigation that exists. Each risk also shows the "likelihood / impact" value used to plot the risk on the risk profile chart set out on the final page of Appendix D

1.3.8 Considering the risk profile on the final page of Appendix D it can be seen that the highest risks in terms of both likelihood and impact are risks 4, 6, 10 & 11. These risk areas will receive enahanced monitoring during 2015/16.

a) Risk 4 in relation to the council tax increase has risen as a risk due to the greater potential for changes to the budget at Council on 25 February 2015. This council now operates in a "no overall control" environment and this makes the potential for late change to the budget greater than in previous years.

b) Risk 6 in relation to commercial activity has arisen due to the fact that the proposals have been considered by overview and scrutiny and informally by cabinet members but have not been submitted for formal approval at this time.

c) Risk 10 in relation to the collection fund is a high risk due to the value of council tax and business rates collected. A small proportionate change in collection rates can be a significant financial value.

d) Risk 11 in relation to the business rates pool is a high risk issue due to its value, the increase in members of the pool for 2015/16 and the high level of influence over the value of business rates held by central government and the valuation office agency.

1.3.9 Should the Committee wish to consider further risks not detailed in Appendix D or vary the impact or likelihood of any risks this will amend the Finance Section's service planning for 2015/16 and will be reported to Cabinet for consideration along with the Medium Term Financial Strategy on 11 February 2015.

1.4 Alternative Actions and why not Recommended

1.4.1 There is no constitutional requirement for Cabinet to consult with the Audit Committee on this matter. Irrespective of the constitutional requirement the Audit Committee's role in consideration of risk and governance make it appropriate that the Committee considers the risks identified in such a significant strategy and make recommendations to Cabinet regarding their assessment.

1.5 Impact on Corporate Objectives

1.5.1 The Budget Strategy is developed to complement the Strategic Plan. Resources identified within the budget are therefore focused on delivering the Council's strategic priorities.

1.5.2 Any failure to identify and/or adequately mitigate a risk within the Budget Strategy may have a direct consequence on the delivery of strategic priorities.

1.6 Risk Management

1.6.1 Risks identified within the strategy and considered in this report will be monitored by the Finance Section as part of the section's service plan objectives. Any risk not identified will not be formally monitored and could increase the possibility of failure of the strategy.

1.6.2 The risks identified are comprehensive and have been subject to debate with Internal Audit, Corporate Leadership Team and Cabinet and are now presented to Audit Committee. If unidentified risks remain the key mitigation is horizon scanning and coordinated working across Kent to ensure the risk is identified as early as possible.

1.7 **Other Implications**

1.	Financial	X
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.7.1 The financial implications are set out in the body of the report.

1.8 **Relevant Documents**

1.8.1 Appendices

Appendix A – Record of decision Budget Strategy 2015-16 Onwards – Revenue
Appendix B – Record of decision Budget Strategy 2015-16 Onwards – Capital
Appendix C – Record of decision Budget Strategy 2015-16 Onwards – Fees & Charges
Appendix D – Risk Analysis.

IS THIS A KEY DECISION REPORT?

Yes [ ] No [X]

If yes, when did it first appear in the Forward Plan?

……..

This is a Key Decision because: ……………………………………………………………………..

…….

Wards/Parishes affected: ………………………………………………………………………………..

………..

MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 17 December 2014

BUDGET STRATEGY 2015 16 ONWARDS - REVENUE

Issue for Decision

The report is produced annually to update the Cabinet on the budget strategy and normally follows the publication of the provisional finance settlement figures. The Autumn Statement was given by the Chancellor of the Exchequer on 3rd December 2014 and the provisional finance settlement, although imminent, had not been received at the time of writing this report.

A decision on the recommendations in this report also enabled the Cabinet to formally consult the Strategic Leadership and Corporate Services Overview and Scrutiny Committee on the current situation in relation to the budget strategy in January 2015. Such consultation is a requirement of the Constitution.

It was essential that Cabinet considered the latest information at this time in order to remain on target for a balanced budget to be presented to Council at the end of February 2014.

Decision Made

That:

(a) the provisional allocation of the local council tax support funding be agreed as set out in Appendix B to the report of Corporate Leadership Team and be notified to parish councils along with their tax base;

(b) the revised strategic revenue projection be agreed as detailed in Appendix A to the report which incorporates the changes outlined in sections 1.7 to 1.9 of the report and amended to include £0.16m contribution to temporary accommodation costs in the housing service, resourced by an equivalent reduction in the local plan budget within planning policy be agreed;

(c) the proposed savings as set out in Appendix C to the report be agreed;

(d) the proposed use of earmarked reserves and the allocation of the general fund balances be agreed as set out in Appendix D to the report as amended to include an allocation to planning policy for a maximum sum of £0.48m to allow for the completion of the local plan over a three year period;

(e) the outcome from the completed consultation exercise and the impact on the budget strategy as set out in 1.13 to the report be noted; and

(f) the work of the budget working group and formally consult Strategic Leadership and Corporate Services Overview and Scrutiny Committee on the decisions arising from this report be noted.

Reasons for Decision

On 10th September 2014 the Cabinet considered the initial budget strategy for 2015 onwards. At that time a strategic revenue projection (September SRP) was agreed, including a provisional level of Council Tax as a planning and consultation tool. The September SRP included increases for inflation based on information provided by key officers and future indices from sources such as the office of budget responsibility.

The September SRP used an estimate of resources at £32.7m and predicted expenditure, including new budget pressures, of £33.6m. This meant a need to find savings in 2015/16 of £0.9m. At that time a number of risks were considered by Cabinet:

a) The future consequence of the government's spending round 2013.
b) Possible enhancements to the business rates pool.
c) Potential council tax levels.
d) The level of other income being achieved.
e) Commercial activity
f) Future year's issues on single tier pensions.
g) A series of local pressures including King Street Multi Storey Car Park and the Local Plan.

Since the initial report some of the factors have changed and the effect of these changes on the September SRP is considered later in this report.

The Chancellor of the Exchequer made the Autumn Statement to parliament on 3rd December 2014 and this is considered below. As a consequence of that statement the Department for Communities and Local Government (DCLG) provide each authority with its provisional finance settlement for the following year, at the time of writing this report the settlement information had not been received.

<u>The Autumn Statement</u>

The Autumn Statement is one of two major statements made by the Chancellor of the Exchequer each year. The other is the Budget Statement usually presented in March. The Chancellor presented the Autumn Statement to Parliament on 3rd December 2014. This announcement precedes the receipt of the provisional finance settlement.

Issues important to local government in the Autumn Statement include:

a) Recognition of the work of the public sector in reducing the deficit and a commitment that the new decisions announced will not be funded through a further reduction in local government funding;

b) A commitment to the continued support of small and medium enterprises including a second year of capping the business rates increase to 2%;

c) The continuance of the small business rates relief extension and other small business exemptions currently in existence;

d) A commitment to review the structure of business rates in 2016 that will be fiscally neutral but with no commitment to this neutrality being at the level of individual authorities; and

e) Changes to the period over which business rates appeals are backdated.

The statement contained no detail at a service or local level and at this time it is expected that the additional support to health and other services will continue to impact on the funding provided to district councils in a disproportionate way.

Until the details of the provisional finance settlement are published by the DCLG it will be difficult to identify the exact impact on this council.

Review of Current Performance

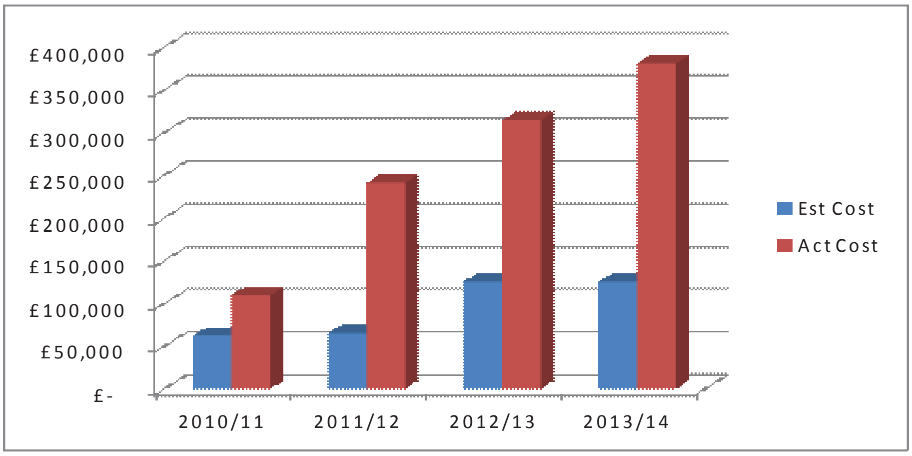
The current year's financial performance is reported to the Corporate Leadership Team and to the Cabinet on a quarterly basis. The first two quarterly reports show a favourable position with an expected outturn of £0.36m under spend at 31st March 2015.

The main budget messages are the continued increase in cost of temporary accommodation and the continued increase in income from both waste & recycling and planning services.

The increase in temporary accommodation costs began in 2010 as can be seen from the chart below. The chart shows, over four years, the budgetary provision and the actual net spend on temporary accommodation:

1. The left hand set of bars represent the budget provided for each year,

2. The right hand set shows the actual expenditure in each year.



The increase in income from the waste & recycling service and the planning service are continuations of the increase in demand seen in those areas in 2013/14. The income is providing support for the overall level of fees and charges which has not delivered to target. This issue is set out in the Fees and Charges Report elsewhere on this agenda.

Review of Revenue Resources

Given at Appendix A to the report of Corporate Leadership Team was a revised strategic revenue projection (revised SRP) that took into account all of the changes set out in the following sections of this report.

The finance settlement

As stated earlier in the report the DCLG is due to publish the provisional finance settlement for 2015/16 but at the time of writing this report no information has been received. The details in this report are based on the notional figures provided as part of the 2014/15 settlement which set the provisional level of revenue support grant received by the council and the baseline level of business rates retained by the council as those given in the table below:

	£,000
Revenue Support Grant	2,251
Business Rates	2,983
Total	**5,234**

It was expected that the provisional finance settlement for 2015/16 would be announced before the meeting of Cabinet and it was intended that Officers give a verbal update to this report at the meeting. However, no figures had been announced by the time of the meeting.

The settlement figures include the central funding towards local council tax support (LCTS) that replaced council tax benefit from 1st April 2013. At its meeting on 12th December 2012 the Council approved the current scheme in operation in the borough and has reconsidered the scheme annually, most recently the scheme was considered by the Council at its meeting on 10th December 2014.

The government funding for the scheme, as set up back in 2013/14, represented 90% of the government's predicted expenditure on council tax benefit. This was based on actual costs for the year 2012/13. By 2014/15 the funding for LCTS was no longer identified separately in the settlement figures.

Part of the LCTS funding related to the benefit paid to claimants in parish areas. This is because the local scheme affects parish precepts in the same way as it affects the Council's income from council tax. As in prior years, the effect was considered by the General Purposes Group when it set the Tax Base for 2015/16. The government has stated that it expects appropriate consideration of the funding of parish councils to be made by district councils when planning for overall funding levels. However it has not legislated for the payment of this funding on to parishes.

In previous years the Council has chosen to pass on the funding to parish councils. Resources totalling £110,631 were passed on in 2013/14. Resources totalling £96,802 were passed on in 2014/15. The reduction in the level of resource has been linked to the overall reduction in the level of the funding received by the Council through the finance settlement each year. On that basis the indicative reduction for 2015/16 would be 15.27% of the current year's distribution.

96,802 * 15.27% = £14,778.

Reducing the current year's resource by £14,778 would leave a balance of £82,024 to be distributed in 2015/16.

Individual parish council funding is distributed on the basis of predicted demand for the local council tax support in each parish as set out in the decision of General Purposes Group and the proposed distribution is given at Appendix B to the report.

The estimate was the best available at this time. Following consultation with Strategic Leadership and Corporate Services Overview and Scrutiny Committee in January 2015 and the announcement of the confirmed financial settlement figures in February 2015 the Cabinet will have a second opportunity to consider this issue. However, it will be too late by then to notify parish councils of the outcome if they are to incorporate the figures into the calculation of their precept.

Parishes are required to notify the council of their precept requirement before the end of January 2015.

Council Tax

The Council's 2014/15 council tax charge is £231.12 per annum for a band D property.

At the meeting on 10th September 2014 the Cabinet agreed a SRP for planning purposes that included an assumed 2.5% increase in council tax income. This represented a 1.99% increase in the council tax charge and a 0.5% increase in the tax base arising from new property.

In 2013 the Government announced support for a council tax freeze for the two years 2014/15 and 2015/16. This announcement offers a grant equivalent to a 1% increase for the two years. The Council did not accept the freeze grant in 2014/15 as it presents an increased financial risk to the future resources of the Council.

On 8th December 2014 the General Purposes Group approved a tax base of 56974.3 for the borough area. This is a 0.94% increase over the tax base for 2014/15. This actual tax base figure is higher than the tax base prediction that was used in the production of the September SRP.

A council tax increase of 1.99% will produce a band D charge of £235.72. This represents an increase of £4.60 per annum or 38 pence per month. This level of charge made on the tax base detailed above would generate council tax receipts of £13.4m for the council.

It was noted that a decision on the level of council tax that the Cabinet would wish to recommend to the Council need not be taken at this time. Cabinet noted that the revised SRP given at Appendix A to the report included a 1.99% increase consistent with the increase set for planning purposes in September 2014.

Elsewhere on the agenda Cabinet had considered a report on the collection fund adjustment. The recommendation of that report was to distribute approximately £1.8m across the major preceptors and this council. The share calculated for this council is £302,209 and this has been added to the resources available to the Council in the revised SRP set out at Appendix A to the report.

Income from Other Sources

The estimated income for the council generated from other source is £13.9m for 2014/15. This represented all income and does not account for the cost of the services that generate this income. In some cases this income is a contribution to overall costs. From a small number of services the council generates a surplus from the activities. This surplus is used to support other service provision except in cases where legislation limits the use of a surplus.

This income is divided between:

Income Type	**£,000**
Grants and contributions	341
Charges to other organisations (incl. partnership)	4,591
Interest on investments	250
Rents (commercial and residential)	1,063
Fees and charges to service users	7,693
Total	**13,938**

Cabinet approved the Commercialisation Strategy at its meeting in August 2014. This strategy proposed a target level of net increase in income of £1m over five years. The SRP attached assumes an equal annual increase in income generated of £0.2m. Cabinet will soon consider the business case for each of a series of proposals that will enable the Council to generate this income.

Elsewhere on the agenda Cabinet considered a report on future fees and charges. The report recommended increases in some fees and charges that will increase income budgets by £76,300 in 2015/16. Those increases have been included in the revised SRP attached at Appendix A to the report and any amendment to the recommendations in that report will affect the figures as shown.

Combining the resources available to this council from the revenue support grant, business rates income, council tax income, the collection fund adjustment and income from other sources gives estimated resources for the period of the revised SRP of £33.2m for 2015/16 as tabled below. Cabinet noted that the level of resources available from revenue support grant estimated for the years 2016/17 and beyond assume an effect related to the future spending review 2015 announced by the Chancellor in March 2013. Although a projection is given, no actual detail is available on the rate at which the resources available to this council will reduce or whether the reduction will be seen through the revenue support grant or through another source of government funding.

	2015/16 £,000	**2016/17 £,000**	**2017/18 £,000**	**2018/19 £,000**	**2019/20 £,000**
Revenue Support Grant	2,251	1,463	922	420	0
Business Rates	2,983	3,043	3,104	3,166	3,229
Business Rates growth	42	52	62	72	82
Collection Fund Adjustment	302	0	0	0	0
Council Tax	13,430	13,766	14,110	14,462	14,824
Other Income	14,214	14,414	14,614	14,814	15,014
Available Resources	**33,222**	**32,738**	**32,812**	**32,934**	**33,149**

Review of Strategic Projection

When the Cabinet agreed the September SRP officers were set the task of continuing to review the budget pressures and identify additional savings to balance the budget.

Since that time there has been a series of meetings managed by the Chief Accountant in order for her to meet with each Head of Service and identify proposals that offer potential savings and efficiencies and these were considered later in the report.

No further amendments were proposed in relation to budget pressures and the revised SRP set out in Appendix A to the report, taken in combination with the revised assessment of resources available to the Council, requires the provision of savings in 2015/16 of £0.42m compared to the £0.94m requirement set out in the Cabinet decision in September 2014. The values for each year of the five year projection are set out in the table below:

	2014/15 £,000	**2015/16 £,000**	**2016/17 £,000**	**2017/18 £,000**	**2018/19 £,000**
Available Resources	33,222	32,738	32,812	32,934	33,149
Projected Requirement	33,640	34,026	33,272	33,388	33,438
Savings Target	**418**	**1,288**	**460**	**454**	**289**

Review of Savings Proposals

Savings and efficiency data were not reported in detail to Cabinet in September 2014. The targets were set out and it was identified that some savings proposals existed, in the main these came from plans developed for the 2014/15 strategy. The September 2014 report suggested that, set against a need to find £0.96m in savings, plans existed to save £0.4m.

As stated previously, the revised SRP at Appendix A to the report showed a need to save £0.42m in 2015/16 and attached at Appendix C to the report was a more detailed analysis of savings. Along with the savings previously identified this list includes additional proposals that have been identified through meetings between the Council's Chief Accountant, Heads of Service and relevant Cabinet Members. The value of these proposals, set against the required need for savings in each of the five years considered by the revised SRP, are tabled below.

	2014/15 £,000	**2015/16 £,000**	**2016/17 £,000**	**2017/18 £,000**	**2018/19 £,000**
Savings requirement in SRP	418	1,288	460	454	289
Savings proposals	418	304	50	0	0
Savings still required	**0**	**984**	**410**	**454**	**289**

The savings requirement set out above assumes approval to the proposed fees and charges set out in a report elsewhere on the Cabinet agenda. In addition the delivery of £0.2m from commercial activity in 2015/16 has been assumed. Should the resources delivered by either of these be amended, it will be necessary to identify additional savings from new ideas or, where possible, bring forward proposals currently identified for 2016/17 or later years.

Strategic Leadership and Corporate Services Overview and Scrutiny Committee – Budget Working Group

The budget working group has now met on three occasions since the Cabinet meeting in September 2014 when the Cabinet agreed the September SRP for planning and consultation purposes.

The working group has completed an in-depth review of the provisional business plans and proposals that will be brought forward to achieve the objectives of the commercialisation strategy. This was completed so that the group could be confident that the assumptions built in to the medium term financial strategy are achievable.

The group has also considered a number of other aspects of the medium term financial strategy:

a) the proposed fees and charges increases set out in a separate report elsewhere on this agenda;

b) the link between budgetary provision and the priorities set out in the draft strategic plan elsewhere on this agenda; and

c) the savings and efficiencies set out in Appendix C of the report;

In addition the group considered a reference from Audit Committee arising from the external auditor's report on the accounts. Two issues were raised in that report that the Audit Committee felt would benefit from seeking the views of the budget working group before consideration by the Audit Committee and by the Cabinet, they were:

a) That the level of balances relative to net revenue expenditure, held by the Council is low in when compared to the Council's local authority family group.

   While the budget working group recognised the statement as fact they also felt that it was not necessarily evidence of good financial management to hold excessive levels of balances. It also noted that, given the current financial climate, it would not be appropriate for the Council to raise its level of balances if this meant an additional rise in council tax rather or diverting resources from service provision.

b) That the Council only recognises a single general fund balance and does not identify earmarked reserves for specific purposes.

   The budget working group felt that there were appropriate elements of the Council's general balance that could be identified as earmarked reserves and felt that officers should seek approval of Cabinet to set up earmarked reserves when such action was truly appropriate. It is proposed later in this report that a small number of earmarked reserves should be created.

The group will report on its work to the January 2015 meeting of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee. At that meeting the Committee will formally consider the Cabinet's decisions on issues relating to the budget strategy arising from various reports on this agenda.

<u>New Homes Bonus</u>

Along with the finance settlement, it is expected that the government will also announce the allocation of New Homes Bonus for the forthcoming year. This is the fifth year of the programme and the Council should receive an amount equivalent to last year's payment plus the new sum specifically for housing growth during the period October 2013 to October 2014.

The Chancellor has previously announced a review and top slice of NHB to support a £2bn growth fund. This matter was deferred and resources to support the growth fund were identified at a national level from other budgets. It remains appropriate to assume that the new homes bonus programme will be subject to a review of effectiveness in the next parliament and that the Council should remain prepared for a change in resources received from this programme.

Cabinet had previously considered the future use of NHB and agreed that resources should be set aside to support the Capital Programme and the level of future funding is considered in the Capital Budget Strategy report elsewhere on the Cabinet agenda.

<u>Balances</u>

Given the detrimental factors that will continue to face local government Cabinet were mindful of the level of resources and the potential need that the Council may have for those resources to remain financially stable, until the current economic situation improves.

The estimated level of general fund balance as at 31st March 2015 is £4.5m plus provisionally allocated sums of another £1.4m. There are no proposed uses in 2015/16 at this time and balances are assumed to remain stable. A statement of balances was set out in Appendix D to the report.

For 2014/15 the Council has set a minimum level of balances of £2m and the Cabinet have agreed to set a working balance of £2.3m below which it is not expected that the Cabinet will utilise balances. This means that balances in the sum of £2.2m remain available for use.

In paragraph 1.9.4 of the report it was identified that the budget working group had given consideration to the recommendations of the council's external auditor regarding the level of balances and earmarked reserves. At this time the council does not earmark reserves for specific purposes and this allows a greater flexibility over the use of those resources. It does however mean that in cases where the council has made a specific decision to set aside resources this is not identified clearly when reviewing the statement of accounts or reports, such as the report, on financial matters.

At the request of the Audit Committee the budget working group has considered the issue and it is felt that, given the current financial pressures facing the Council it would be impossible to increase the level of reserves significantly and any such plan should not be part of the MTFS at this time. The budget working group did agree that the use of earmarked reserves would be beneficial in two circumstances:

a) Where a decision has been made to set aside specific resources rather than general balances, such as is the case with new homes bonus receipts being set aside for the financing of capital expenditure; and

b) Where statutory or other decisions require specific resources to be held for a specific purpose, such as surpluses from trading accounts (i.e. building control) that are able to generate a surplus in a single year but must break even over a rolling period.

It was recommended that the following earmarked reserves were created for the current year so that they are identified in the statements on 31st March 2015 and carried forward:

a) Capital support from revenue resources. This would incorporate all revenue resources set aside to support the capital programme. In the main this means new homes bonus receipts but can mean specific one off contributions made by managers to support specific services.

b) Local plan funding. This incorporates the specific resources previously set aside to produce the local plan and currently carried forward each year within general fund balances.

c) Trading account surpluses. This would incorporate surpluses and deficits generated by statutory trading accounts to ensure they break even in accordance with legislation, normally on a three year rolling basis.

The expected level of resources in those earmarked reserves was also set out in Appendix D to the report.

<u>Consultation</u>

This year's budget consultation was combined with the consultation on the new strategic plan. This was completed, in the main, through a series of roadshows. Officers and Cabinet Members have taken the roadshow to multiple locations throughout the borough during October and November. The results are set out in detail in the report on the Strategic Plan 2015 – 2020 elsewhere on the Cabinet agenda.

The public response indicates that the greatest importance is placed on two priorities: clean and safe; and transport.

The clean and safe priority is the area with the highest level of revenue funding within the budget. This area has also provided the greatest level of efficiency savings in recent years due to initiatives like the current refuse contract and the in-house commercial waste service.

Transport infrastructure is not the direct responsibility of the council but there are revenue resources directed to public transport and parking management. In addition there council has agreed to set aside substantial capital resources for infrastructure and is developing a community infrastructure levy. Planned uses for these resources are linked to the local plan and include transport proposals.

Medium Term Financial Strategy and Strategic Plan

The medium term financial strategy (MTFS) is closely aligned to the strategic plan which was reported elsewhere on the Cabinet agenda. In addition the MTFS must reflect the Cabinet's decisions arising from this report along with the finance settlement information that has not yet been published by the DCLG.

The element of the MTFS that relates to the Council's capital programme has been updated for the period 2015/16 to 2019/20 and was provided as an appendix to the Capital Budget Strategy report elsewhere on the Cabinet agenda.

The element of the MTFS that relates to the Council's Revenue Budget Strategy has not been updated at this time. It will however be amended based on the various outstanding decisions on the agenda along with data from the Council's finance settlement once known. The complete document, both capital and revenue, will be reported to the Cabinet in February 2015 when consideration is given to the recommendations of Cabinet to Council on the budget and council tax levels.

Alternatives considered and why rejected

The production of the budget is an element of the statutory process of setting the council tax each year. In addition the final document and budget is required to be robust and adequate under the Local Government Act 2003 and the Chief Financial Officer is required to give a statement to that fact. On this basis the actions outlined in this report must be considered and a balanced budget ultimately set by March 2015.

A number of the assumptions set out in this report remain uncertain and alternative options are possible. The main examples include:

a) The finance settlement – As the DCLG has not yet provided the Council with the provisional settlement figures for 2015/16 the figures used in this report are the indicative figures provided to the Council a year ago. Although the Chancellor's Autumn Statement suggests that there will be no significant financial impact on local government nationally the statement is not specific enough to confirm that this will be the case for this Council.

b) The indices used to calculate future inflation and contractual commitment – These indices are continuously updated and a revised set of values could be developed, however the level of change likely to occur is not significant and it is proposed that current resources will be re-prioritised if the level of growth allowed in any particular budget area proves to be insufficient.

c) Savings – The identification of significant and deliverable savings is becoming increasingly difficult. Careful and thorough monitoring of outcomes will need to continue during 2015/16.

Background Papers

None

Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Policy and Communications by: **30 December 2014**

MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 17 December 2014

BUDGET STRATEGY 2015 16 ONWARDS - CAPITAL

Issue for Decision

To determine the strategy for developing the future Capital Programme, for 2015/16 onwards, as part of the consideration of the Medium Term Financial Strategy (MTFS).

To consider and approve the amount and allocation of capital resources for the delivery of the objectives of the strategic plan and other key strategies.

Decision Made

That approval for consultation is given to:

(a) the draft Medium Term Financial Strategy for capital, as set out in Appendix B to the report of Corporate Leadership Team;

(b) the capital funding projection set out in Appendix C to the report; and

(c) the proposed capital programme 2014/15 onwards set out in Appendix D to the report.

Reasons for Decision

Attached at Appendix A to the report of Corporate Leadership Team was a summary of the current capital programme. The programme, as given in Appendix A, was approved by Council in February 2014. Subsequently Cabinet had approved amendments at its meetings in May 2014 and August 2014 that are not reflected in Appendix A. However, the agreed amendments have been taken into account in the development of the recommendations in the report.

The Medium Term Financial Strategy (MTFS) is directly influenced by the country's economic situation and the government's strategy to remove the structural deficit. The impact covers both the revenue and capital elements of the strategy and must be considered in any review of the capital programme.

In regular spending reviews since 2010 the government has reduced the level of resources available for capital expenditure. The most direct effect for Maidstone has been seen in the area of support for affordable housing through the Homes and Communities Agency. Members noted that there was no addition to capital resources for the council set out in the Chancellor’s Autumn Statement on 3rd December 2014.

At the present time most of the balance of government funding is being directed through Local Enterprise Partnerships (LEPs). Proposals must therefore be submitted as bids to the South East LEP (SELEP) if the resources are to be directed towards Maidstone initiatives. The Council has had some success in gaining funding for schemes through bids to government by the SELEP and these are considered as part of the future programme in section 1.8 of the report.

Determining the Strategy - MTFS Principles.

The strategy set out in the report has been developed from the current MTFS. It is a stand-alone capital strategy separate from the revenue strategy. The two strategies combine to form the MTFS. This approach, to have two separate strategies, was proposed by Strategic Leadership and Corporate Services Overview and Scrutiny Committee in 2012/13 and was utilised last year for the first time.

The strategy for 2015/16 onwards is attached at Appendix B to the report.

MTFS Principles

Appraisal of Schemes

All schemes within the capital programme are subject to appropriate option appraisal. Any appraisal must comply with the requirements of the Prudential Code and the following locally set principles:

a) Where schemes fit within a specific strategy and resources are available within the capital programme for that strategy, such as the Asset Management Plan, the schemes would also be subject to appraisal and prioritisation against the objectives of that strategy. These schemes must be individually considered and approved by the relevant Cabinet Member following the approval of the full programme.

b) Where schemes can be demonstrated to be commercial in nature and require the use of prudential borrowing, a business case must be presented to the Property Investment Advisory Panel. These proposals will receive final approval from the Property Investment Cabinet Committee.

Where schemes do not fit within the criteria above but an appropriate option appraisal has been completed use could be made of the budget working group of the Strategic Leadership and Corporate Services Overview and Scrutiny Committee to complete an evaluation however the prioritisation of such schemes will remain as previously approved by Council and set out below:

1st) For statutory reasons;

2nd) Fully or partly self-funded schemes focused on strategic plan priority outcomes;

3rd) Other schemes focused on strategic plan priority outcomes; and

4th) Other priority schemes with a significant funding gearing

If, following all considerations, there are a number of approved schemes that cannot be accommodated within the current programme a prioritised list will be created of schemes that can be added to the programme as future resources permit. Schemes that receive endorsement from the budget working group and Cabinet will be prioritised by Cabinet thus allowing officers to focus funding efforts on delivering schemes that are next in priority order.

The MTFS requires the Council to identify actual funding before commencement of schemes and that, while schemes may be prioritised for the programme, commencement of any individual scheme can only occur once all the necessary resources have been identified and secured.

Funding

The MTFS principles require that the Council will maximise the resources available to finance capital expenditure, in line with the requirements of the Prudential Code, through:

a) The use of external grants and contributions, subject to maintaining a focus on the priority outcomes of its own strategies;

b) Opportunities to obtain receipts from assets sales as identified in the asset management plan and approved for sale by the Cabinet Member for Corporate Services;

c) The approval of prudential borrowing when the following criteria also apply to the schemes funding by this method:

   i. they are commercial in nature;

   ii. the outcome returns a financial benefit at least equal to the cost incurred by borrowing to fund the schemes;

   iii. after covering the cost of funding, a further financial or non-financial benefit accrues to the Council that directly or indirectly supports the objectives of the strategic plan.

d) The provision of on-going revenue support to manage the needs of the Asset Management Plan and the ICT Strategy.

e) The use of New Homes Bonus for capital purposes in line with the Council’s strategic plan priorities.

f) The implementation of a community infrastructure levy (CIL) and the management of its use, along with other developer contributions (S106), to deliver the objectives of the infrastructure delivery plan.

The Amount and Allocation of Capital Resources

The funding assumptions made in the development of the future capital programme are essential to the development of the budget and specific detail in relation to each source is set out in the paragraphs below. Appendix C to the report set out the projected funding levels over the five year period of the MTFS.

Capital Grants

This funding source is the main focus of the Government's controls over the level of capital expenditure. In fact a number of the grants that were available to the council for funding capital projects no longer exist.

Recent projects that have received support through grants and contributions include the Museum, Mote Park, and the High Street. Some government grants are annual sums, such as the disabled facilities grant, but the majority of sums are one-off and scheme specific. The estimated grant for disabled facilities grants is set in the programme at £0.45m.

In 2014 the Council jointly with Kent County Council bid for funding for a number of infrastructure schemes and was successful in obtaining funding for two major schemes within the borough. Funding is subject to match funding from the Council or other sources. In submitting the bids the Council committed up to £2.4m of resources and the grant funding received is £8.75m. The two schemes: the bridges gyratory; and sustainable transport, were detailed in section 1.9 of the report. These schemes will be completed by Kent County Council who will receive the grant. The Council's contribution will be paid directly to the county council at the appropriate time.

Capital Receipts

From 2004 through to 2008 the receipt from the voluntary transfer of the housing stock was the main source of funding for the capital programme. Since then the council has sold surplus assets to provide support to the programme. Receipts in the current programme represent assets for which sale proceeds have been received. Council assets available for sale are diminishing although some potential asset sales still exist. In line with the principles of the MTFS the capital receipts from these potential sales will not be recognised in the programme until they are confirmed.

Further asset sales are restricted by two issues, the difficulty in obtaining best consideration for the asset during the recession and evidencing, in advance of sale, the greater benefit to be derived from the proceeds of the sale when compared to current or alternative uses of the asset. No assets can be sold until the Cabinet Member for Corporate Services has confirmed that a suitable business case exists or they are surplus to requirements.

No additional capital receipts are assumed in the programme. It is possible that windfall receipts could occur from the sale of minor assets.

Prudential Borrowing

In 2012 the Council approved in principle expenditure of up to £6m through prudential borrowing for acquisition of commercial property, acquisition of property to alleviate homelessness and action to enable stalled development to progress.

The Council has the power to borrow to finance capital expenditure subject to the guidance set out in the Prudential Code. This code of practice is published by the Chartered Institute of Public Finance and Accountancy and covers the full range of capital planning not just borrowing. Compliance with the code is a statutory requirement and the Council’s MTFS has been developed to ensure compliance. In summary the key objectives of the code are:

a) To ensure within a clear framework that capital expenditure plans are affordable, prudent and sustainable;

b) That treasury management decisions are taken in accordance with good professional practice;

c) That local strategic planning, asset management planning and proper option appraisal are supported; and

d) To provide a clear and transparent framework to ensure accountability.

Revenue Support

In recent years the Council created a permanent revenue resource of £0.35m to directly support programmed capital expenditure. This funding was provided because the Council foresaw the end of the resources available from asset sales and wished to ensure that asset management and ICT provision do not suffer from the lack of available resources. Since that time the agreement to utilise new homes bonus for capital purposes has meant that the £0.35m has be taken as a revenue saving.

A number of windfall cash receipts have also been used to support the capital programme. Examples include the use of the refund from the Fleming VAT claim and the outcome the bidding process for the use of the revenue under spend in 2011/12 and 2012/13.

The revenue support to the capital programme is the most flexible of the available resources because, arising as it does from the revenue budget, it can be utilised for both revenue and capital purposes. For this reason the Council has always elected to use other available resources first when funding actual capital expenditure and the balance of revenue support has grown to £10.3m. This is a cash resource.

Full use of this balance to fund the capital programme is expected by the end of 2016/17 as other sources of funding are diminishing.

New Homes Bonus (NHB)

Previous government announcements support a longer term attitude by government to the principles of the NHB system. It is therefore possible to continue to account for the receipt of NHB in all years of the current MTFS.

However the government still intends to review the NHB system and there remains a risk that there will be a change in the focus and/or calculation of the bonus.

The programme set out in this report assumes a funding level of 65% of estimated NHB for all future years. This approach allows for the loss of 35% of currently expected NHB following the completion of the Government's review. Once the review is completed any additional funding above the 65% assumption can be incorporated into a future capital programme.

The provisional calculation of NHB receipts for 2015/16 is based on an additional 431 dwellings. Including continued bonus for prior years the 2015/16 receipt is expected to be £4.2m 65% of that figure is £2.8m. For future years an assumed level equivalent to 330 additional dwellings has been made. Once the NHB system has been in operation for six years receipts will begin to recycle as the oldest year is removed from the payment and the resources are used to finance the bonus for the latest year. This recycling effect begins in 2017/18.

Other Contributions

The major other contributions are developer contributions through s106 and, in the future, the community infrastructure levy (CIL).

The intention of CIL and an element of s106 contribution is the completion of the priority schemes detailed in the Infrastructure Delivery Plan (IDP). The plan remains at a formative stage at this time as it must reflect the infrastructure needs of housing and business development in the final agreed local plan and these must be considered in accordance with the location of strategic sites.

It is however possible to identify an expected level of CIL given the information in the current draft Local Plan and an assumption that CIL will be introduced by 1st April 2016. The values attributable to CIL and other developer contributions within the programme period are provisional. The calculated figures are included with the detailed values of the other funding streams set out below.

Overall Funding

The funding available for the capital programme, based on the detail above, was given in Appendix B to the report. The appendix provided details of the available funding. The table below summarises the level of funding assumed for each resource type:

Estimate 2014/15 £,000	Capital Funding	Estimate 2015/16 £,000	Estimate 2016/17 £,000	Estimate 2017/18 £,000	Estimate 2018/19 £,000	Estimate 2019/20 £,000
450	Capital Grants	450	450	450	450	450
597	Capital Receipts					
6,000	Prudential Borrowing					
6,516	Revenue Contribution					
3,740	New Homes Bonus	2,754	3,117	2,900	2,900	1,926
	Developer Contributions		1,963	1,963	1,963	1,963
17,303		**3,204**	**5,530**	**5,313**	**5,313**	**4,339**

Current Programme

The current programme, set out in Appendix A to the report, was approved by Council in February 2013 and only annual programmes were included after 2014/15. The main reason behind the decision not to develop the programme beyond 2014/15 at that time was the limited detail available on future funding and the needs of the infrastructure delivery plan. The draft IDP available at that time predicted a need for resources that could not be completely covered by either the Council's current access to resource or the development of a community infrastructure levy.

In May 2014 Cabinet considered the outturn for 2013/14 and in August 2014 and November 2014 Cabinet considered the capital programme as part of the quarterly monitoring reports for 2014/15. Approved recommendations from those reports have amended the current programme since the document reproduced as Appendix A to the report. The report takes account of those approvals in developing proposals for a future programme.

Future Programme

Even though a finalised IDP does not exist at this time and the Council intends to retain NHB, CIL and S106 developer contributions to deliver the IDP, it is necessary to make some assumptions about future use of council resources for other services. Appendix D to the report sets out a proposed programme based on proposals that have come forward to date, as set out below.

A number of schemes exist in the current programme that should be carried forward. At this time it is proposed to retain the current budgets for these schemes. These are:

a) Enterprise Hub: The scheme has previously funding of £0.7m for the Council at a time when the assumed cost of the full scheme was to be part funded by Kent County Council. As alternative proposals are developed it has been assumed that a minimum budget of £0.7m should remain.

b) Play Areas: At this time the strategy is being considered by the Cabinet Member and Officers. It is proposed that funding for the completion of all the works will be most effectively utilised over a longer period of time and the budget of £1.8m for the scheme has been spread over the five years from 2014/15.

c) Ongoing housing support: This covers private sector grants and support to registered providers. The budgets from 2014/15 to 2018/19 match the budgets approved by Council in 2014. The budgets proposed for 2018/19 match those previously approved for 2017/18.

d) Information and Communications Technology (ICT) & Asset Management: These budgets cover maintenance of the Council's own ICT and property assets and expenditure should reflect the two strategies. Funding for 2018/19 has been maintained in line with the previously agreed funding levels to 2017/18 of a total of £0.35m.

In addition there are other schemes that require funding based on previous commitments.

a) Commercialisation projects: The commercialisation projects in business case stage require an overall investment of approximately £4.2m including some final costs as a result of the redevelopment of Chillington House.

b) Commercial acquisitions: Two main schemes are currently in planning stage. The total resource required for these schemes is in the region of £4.1m over the two years 2014/15 and 2015/16. The developing proposals will be reported to the Property Investment Advisory Board and the Property Investment Cabinet Committee for approval before any expenditure will occur. Together with the costs set out in item a) above the total expenditure is budgeted as £8.3m leaving a balance of £1.4m for further acquisitions or commercial projects at this time.

c) Gyratory system: This scheme is grant aided from the Growth Fund through a joint bid with Kent County Council who will be the lead authority. At the time of submitting the bid for funding the Council committed £1.4m of its own resources.

d) Sustainable Transport: This scheme is grant aided from the Growth Fund through a joint bid with Kent County Council who will be the lead authority. The scheme will develop cycle paths into the town centre along the River Medway. At the time of submitting the bid for funding the Council committed a maximum of £1m of its own resources.

Incorporating these schemes into the programme, at the values indicated, is possible within the projected funding as set out in Appendix C to the report. If the programme is approved, a balance of unused NHB will exist of £6.2m. This sum is proposed for use in delivering the IDP as complementary funding to the provision of S106 and CIL from developers.

The programme as set out in Appendix D to the report includes subheadings from within the draft IDP and identifies levels of funding that could be used to deliver schemes under each heading. Some schemes will be required regardless of the final format of the Local Plan and are most effectively completed early, to support and enable development.

Alternatives considered and why rejected

Cabinet could at this time have chosen to take no further action in relation to the capital programme. An approved programme through to the end of the financial year 2018/19 exists as set out in Appendix A to the report of Corporate Leadership Team and amended by more recent Cabinet decisions. Whilst Cabinet could have chosen to wait, giving consideration at a future time, resources are available for immediate use and it is appropriate to consider options as part of the medium term financial strategy for 2015/16 onwards.

Cabinet could have chosen any variation on the strategy, funding assumptions and programme as set out in the appendices to this report for approval:

a) The strategy has been set using the MTFS approved for 2014/15. It also considers current circumstances. However, Cabinet could have considered amending some of the principles set out in the report allowing for a variation to the programme. However, the principles are set in accordance with national guidelines and previous Council approvals and it is not recommended that changes be made at this time.

b) The funding levels could be varied but they are based upon prudent assumptions made from the latest information available. It was not recommended that Cabinet amend these assumptions at this time.

c) The programme is based upon the known schemes that have come forward for consideration or require match funding to enable receipt of grant funding. All schemes meet the Council’s priorities. Any additional schemes that Cabinet may wish to propose should be considered initially by the budget working group as set out in the MTFS.

Cabinet could have considered the use of prudential borrowing to finance a larger capital programme. Whilst achieving the Council’s strategic aims at a quicker pace, such a strategy would place additional pressure on the revenue budget. An alternative strategy such as this would not, at this time, support the requirements of the Prudential Code. Such a change requires approval by Council of changes to prudential borrowing levels and the related prudential indicators.

Background Papers

None

Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Policy and Communications by: **30 December 2014**

MAIDSTONE BOROUGH COUNCIL

RECORD OF DECISION OF THE CABINET

Decision Made: 17 December 2014

BUDGET STRATEGY 2015 16 ONWARDS - FEES & CHARGES

Issue for Decision

To consider proposals for setting the level of fees and charges for 2015/16 for services where the Council raises income by charging the user of the service and where the setting of the fee or charge is discretionary. To also note the level of fees and charges that are set in accordance with statutory requirements.

To consider the impact of the proposed changes in the level of fees and charges on the Council's medium term financial strategy.

Decision Made

That:

(a) the proposed fees and charges for 2015/16 totalling an additional £76,300 as set out in Appendix A to the Report of the Head of Finance and Resources be approved;

(b) the proposed changes to income budgets that occur as a consequence of the proposed fees and charges as set out in paragraph 1.3.8 to the report be approved; and

(c) Officers be instructed to give further consideration to the charges and budgets for the parking and the development management services and report back to Cabinet in February on options that provide additional income from these services.

Reasons for Decision

The Council adopted a corporate fees and charges policy in May 2009. The Policy promotes consistency across the Council, is focused on the strategic aims of the Council and sets out the approach that the Council takes in setting fees and charges.

The Policy covers fees and charges that are set at the discretion of the Council. It does not apply to services where the Council is prohibited from charging, e.g. collection of household waste or services where the charge is currently determined by Central Government, e.g. planning application fees. Consideration of any known changes to such fees and charges and any consequence to the medium term financial strategy were detailed in the report of Corporate Leadership Team.

The headline objective of the Policy is that fees and charges are set at the maximum level after taking into account conscious decisions on the subsidy level for individual services, concessions, impact of changes on users and any impact on the delivery of the Strategic Plan. Therefore there is a presumption that a charge would be levied for a service unless justified by strategic consideration or legal constraints.

The Policy also proposed that a review of all fees and charges will occur annually in line with the development of the Medium Term Financial Strategy. The review of fees and charges should consider the following factors:

a) The Council's vision, objectives and values, and how they relate to the specific services involved;

b) The level of subsidy currently involved and the impact of eliminating that subsidy on the level of fees and charges, the effect on users and the social impact;

c) The actual or potential impact of any competition in terms of price or quality;

d) Trends in user demand including the forecasted effect of price changes on customers;

e) Customer survey results;

f) Impact on users of proposals both directly and in terms of delivery of the Council's objectives;

g) Financial constraints including inflationary pressure and service budget targets;

h) The implications arising from developments such as an investment made in a service;

i) The corporate impact on other service areas of Council wide pressures to increase fees and charges;

j) Alternative charging structures that could be more effective;

k) Proposals for targeting promotions during the year and the evaluation of any that took place in previous periods.

The results of the annual review of fees and charges as required by the policy are reported to the Cabinet in a single report each December. The work completed last December created an increase of £50,440 in the budgeted income from fees and charges for the current year.

It was noted that the second quarter's budget monitoring report that income levels achieved in the first half of 2014/15 are above the midyear target in total however most services have not reached their target. At September 2014 the development management and refuse and recycling services were significantly above target and supporting shortfalls in most other service.

The detailed results of the review carried out this year were set out in Appendix A to the report of Corporate Leadership Team and approval was sought to the amended fees and charges for 2015/16.

The table below summarises the 2014/15 estimate and predicted outturn for income from the different fees and charges. It showed the proposed budget increase that can be achieved from each service and the percentage increase in budget this creates resulting in a budget proposal for 2015/16 for each service. The table is sub-divided by the effect any increase can have on the medium term financial strategy and approval was sought to the proposed levels of budgeted income for 2015/16 as shown in the table.

Service Charge Type	2014-2015 Estimate	2014-2015 Outturn	Budget 2015/16 Proposed Increase - £	Proposed Increase - %	2015/16 Estimate
Cemetery	118,950	118,950		0.00%	118,950
Crematoriu,	1,104,780	1,084,780		0.00%	1,104,780
Licenses	123,240	123,240		0.00%	123,240
Hackney Carriage and private Hire Drivers Linenses	40,250	40,250		0.00%	40,250
Recycling & Refuse Collection	760,060	810,060	50,000	6.58%	810,060
Conservation	21,470	21,470		0.00%	21,470
HMO Licensing	2,380	2,380		0.00%	2,380
Parking Services	2,752,270	2,752,270	21,300	0.77%	2,773,570
Town Hall	2,150	2,150		0.00%	2,150
SUPPORT TO BUDGET STRATEGY	**4,925,550**	**4,955,550**	**71,300**	**1.45%**	**4,996,850**
Environmental Enforcement	193,920	193,920		0.00%	193,920
Licensing Statutory	131,320	131,320		0.00%	131,320
Development Management - Planning	1,068,940	1,103,920	5,000	0.47%	1,073,940
STATUTORY CHARGES	**1,394,180**	**1,429,160**	**5,000**	**0.38%**	**1,399,180**
Building Control	346,320	346,320		0.00%	346,320
Development Management - Land Charges	253,750	253,750		0.00%	253,750
OBLIGATION TO BREAK EVEN	**600,070**	**600,070**		**0.00%**	**600,070**
Parks & Open Spaces	70,040	70,040		0.00%	70,040
Street Naming & Numbering	29,000	29,000		0.00%	29,000
PRE-SET TARGETS	**99,040**	**99,040**		**0.00%**	**99,040**
Museum	80,040	80,040		0.00%	80,040
Environmental Health	12,480	12,480		0.00%	12,480
Market	179,840	179,840		0.00%	179,840
Park & Ride	401,350	401,350		0.00%	401,350
CURRENT BUDGET SHORTFALL	**673,710**	**673,710**		**0.00%**	**673,710**
Total	**7,692,550**	**7,757,530**	**76,300**	**0.99%**	**7,768,850**

As required by the Policy, the level of increase in fees and charges budgets for 2015/16 set out in the table at paragraph 1.3.8 of the report reflected consideration of the effect of increasing the charges, such as elasticity of demand and creating movement of users to competitors or ceasing to use a service. A number of services have either not proposed an increase or, where they have, the increase has not resulted in an increased budget. The reasoning behind these actions is all in line with the Policy’s guidance.

Each service has been considered separately and in all cases the Policy has been followed. Brief explanations of the consideration officers have given to significant issues are set out in the following paragraphs:-

Fees & Charges Supporting Medium Term Financial Strategy

For comparison purposes, there was an average increase of 1.03% in these fees in 2014/15. An increase in income has the same effect as a saving on the corresponding budget.

The fees and charges policy identified current performance as a factor for consideration when setting future fees and charges. Officers considered this factor in setting the proposed fees and the result is an average increase of 1.45%.

Specific issues that were noted:

a) It is possible that there will be a shortfall in a number of services areas. At this time most services have developed plans to mitigate the shortfall or remove it and the success of these plans will be monitored throughout the remainder of the year;

b) There is currently a downturn in income from the crematorium that is unlikely to be mitigated;

c) There is additional income from recycling and from garden waste bins;

d) The increase in parking income is the result of increased usage.

Statutory Charges
(Set by others but may count as a saving)

These charges are set in accordance with regulation or specified by central government.

The environmental enforcement penalty charge is already set at the maximum. It is not expected at this time that statutory licensing income will increase in 2015/16.

Development Control charges were increased by an average of 15% in November 2012 by Central Government and have not been amended since that date. This income budget already reflects assumptions about increased income to fund additional staffing in 2014/15 and a further review of the level of staffing compared to the volume of applications is being completed. If a further increase in budget is possible without related increases in staffing costs this will be reported to Cabinet in February 2015, in time to be included in the final budget for 2015/16.

The fee for pre-application advice is set locally and the increase in income for Development Control reflects an increase in the hourly rate for this advice. As the increased salary cost has already been taken into account in the Medium Term Financial Strategy, this increase can be utilised to support the budget for 2015/16.

Review of Revenue Resources

Both Building Control and Land Charges have a statutory obligation to break even. Both services will consider any necessary increase following budget setting and, if necessary, report this to the relevant Cabinet Member.

Any increase set will not benefit the medium term financial strategy as it will be set to maintain a break even cost of service.

Pre-set Targets

These services have pre-set obligations such as the targets set through the Medium Term Financial Strategy in previous years. At this time no increases are proposed that will have an additional effect on income budgets.

Current Budget Shortfall

These services are currently reporting significant difficulty in generating income. Any increase in fees proposed is designed to support current targets.

Alternatives considered and why rejected

Cabinet Members could have considered their respective service proposals individually. This was not recommended as the consideration of the full range of fees and charges in this way enables the impact of all charges to be considered together. This gives Cabinet the ability to assess the impact of changes on individual customers. The consideration of fees and charges in this way removes the need to set a generic target for increases as part of the medium term financial strategy. This is in line with the approved policy on fees and charges.

The Cabinet could have agreed different increases to those proposed. Officers have considered all aspects of the policy in developing these proposals and they are in line with the factors set out earlier in this report.

Background Papers

None

Should you be concerned about this decision and wish to call it in, please submit a call in form signed by any two Non-Executive Members to the Head of Policy and Communications by: **30 December 2014**

Risk Management: Budget Strategy 2015/16 Onwards – Financial Risks **APPENDIX D**

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
1.	Level of Balances	Effectiveness of agreed minimum level of working balances. For 2015/16 this is expected to be £2.3m which is 12% of net revenue expenditure	a. Minimum balance is insufficient to cover unexpected events. This would require a large single event or multiple unexpected events greater than £2.3m. b. Minimum balance is in excess of real need and resources are held without identified purpose with low investment returns.	a. The Council would need to identify additional resources the results of which could be immediate budget reductions or use of earmarked reserves. b. The Council would not gain best value from its resources as Investment returns are low in the current market.

At this time balances are in excess of the minimum level at £3.6m for 2015/16. This value is over and above mitigation measures for some risks, such as commercial activities, already considered by Cabinet in developing the budget.

The Council's external auditor has identified the council's level of general balances is in the lower quartile for its nearest neighbour group. They have however stated that holding significant balances is not necessarily evidence of good financial management and the Council holds other resources, which are earmarked, along with general balances.

E-II

Risk Management: Budget Strategy 2015/16 Onwards – Financial Risks **APPENDIX D**

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
2.	Inflation rate prediction	Inflation allowances are set for: • Utilities • Fuel • Contracts • Business rates • Insurance costs • Employee costs Inflationary increases create a growth pressure of £0.47m in 2015/16	a. Actual levels are above prediction b. Actual levels are below predictions	a. A failure to resource expenditure levels accurately will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances. b. The services may have supported the budget strategy through savings that were unnecessary, resulting in an increase in balances or unused resources that could be used to achieve strategic priorities.

The allowances for inflation are developed from three key threads:

1. The advice and knowledge of professional employees
2. The data available from national projections
3. An assessment of past experience both locally and nationally

The inflation allowances produce a growth pressure that is low at approximately 1.4% of gross revenue expenditure. In addition they cover a range of expenditure types, allowing for a reasonable spread of risk.

C-I

Risk Management: Budget Strategy 2015/16 Onwards – Financial Risks **APPENDIX D**

Section: FINANCE

<table>
<tr><th>Risk No</th><th>Risk Name</th><th>Vulnerability
(Why, what’s happening, what’s the problem)</th><th>Trigger/risk
(What’s the event/ what could go wrong?)</th><th>Consequences
(What would occur as a result, how much of a problem would it be, to whom and why?)</th></tr>
<tr><td>3.</td><td>National Strategy</td><td>Effectiveness of central government strategy as outlined in the spending review 2010 and 2013 along with more recent budget announcements.</td><td>A failure of the national strategy to reduce the structural deficit as planned.</td><td>The country has remained in recession longer than the originally planned period and the Chancellor of the Exchequer has indicated that public sector reductions will continue through the next parliament at a similar level to the period since 2010. The provisional finance settlement figures for 2015/16 indicate a reduction in central government funding of £1m. The strategy assumes that Government funding will be zero by 2019/20.</td></tr>
<tr><td colspan="5">The medium term financial strategy to 2019/20 has been developed to allow for a significant impact on the Council’s resources giving the Council maximum opportunity to identify and manage the changes necessary to ensure the provision of alternative resources and the identification of efficiencies. The Council has focussed on developing other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.

D-III</td></tr>
</table>

Risk Management: Budget Strategy 2015/16 Onwards – Financial Risks **APPENDIX D**

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
4.	Limitation of council tax increases	The current arrangement announced by central government for a council tax freeze includes a grant equivalent to a 1% increase in council tax. This is coupled with the requirement for a public referendum on "excessive" increases in council tax above 2%.	Should the grant be accepted by the Council, provision must be made in 2015/16 to finance £0.12m without the possibility of a tax increase to mitigate the loss in future years.	A 1% freeze for 2015/16 would provide freeze grant of £144,000 The Council would forego £117,000 in 2015/16 rising to £298,000 by 2018/19 if the freeze grant was accepted in preference to a 2% increase in council tax. Acceptance of this grant would create an immediate additional budget pressure for which savings have not been identified of the £117,000 identified above.

To date planning for the budget 2015/16 has been based upon a 1.99% increase including public consultation and consultation with Strategic Leadership and Corporate Services Overview and Scrutiny Committee. No issues have been raised in relation to the proposed increase through either consultation route. Should a proposal be made to accept the council tax freeze grant the Council could only approve this as part of the approval of a balanced budget so the proposal would also need to include options to identify £0.12m of savings.

C-III

Section: FINANCE

Risk No	Risk Name	Vulnerability (Why, what's happening, what's the problem)	Trigger/risk (What's the event/ what could go wrong?)	Consequences (What would occur as a result, how much of a problem would it be, to whom and why?)
5.	Fees & Charges	Fees & charges and other service based income sources could fail to deliver expected income levels	Fee charging services are being affected by falling demand due to the economy.	A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met. The total value of all income from fees and charges is in excess of £7.8m. Budget monitoring shows that the budgeted income from fees and charges in the current year is being exceeded but only due to the support of two services where demand is resistant to price increases.

For the past two years most services have not achieved their income targets and no additional increases have been proposed for 2015/16. In a small number of areas income has remained in excess of the budgeted level and these services have enabled total fees and charges to match with the budgeted level of income. Evidence exists to show that the economy is improving and low interest rates and low inflation will influence public spending. However low wage growth will also have a negative contributory effect.

The increase proposed for 2015/16 is solely in those areas that have shown resilience to the current economic climate and represent only a 1% increase in total income from fees and charges.

D-III

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
6.	Commercial Activities	The Council is considering a number of commercial opportunities and the medium term financial strategy assumes a contribution from these proposals in 2015/16 of £0.2m.	The commercial opportunities currently under consideration are not approved or do not deliver the expected level of income in 2015/16.	The medium term financial strategy includes a contribution from commercial opportunities of £1m over the five year period of the strategy. Should proposals slip or not be approved a shortfall will occur in 2015/16 of up to £0.2m. If delivery of the additional resources in 2015/16 is delayed it does not mean that future years could slip and a target of up to £0.4m would be required in 2016/17.

The medium term financial strategy includes assumptions for commercial property purchases in 2016/17 that can now be expected to deliver early. This will provide a resource in 2015/16 that would enable a partial deferral of the need to provide resources from the commercial opportunities currently under consideration. The resource that is expected to be available will not allow a complete deferral of the need to provide resources from commercial activities.

When developing the initial strategy for commercial activity the Council did 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.

D-II

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
7.	Capital financing	Availability of funding for the capital programme	There are a number of sources of funding for the capital programme all of which may not be available in the medium term: New Homes Bonus – a government review is expected and may lead to a reduction in funding. Revenue support – removed due to need of revenue budget savings Capital grants – The disabled facilities grant now forms part of the Better Care Fund paid to the county council. Capital receipts –reducing due to availability of assets for sale and a greater focus on commercial use of assets for revenue generation Prudential borrowing – approved by Council but limited in use to commercial property acquisitions. Developer contributions – a community infrastructure levy will not be in place until adoption of the local plan	Funding may not be available for future schemes.

The programme does not identify schemes that would utilise all potential resources and the medium term financial strategy requires resources to be available prior to commencement of any one project. This enables the Council to assess risk on a scheme by scheme basis.

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
8.	Horizon scanning	Appropriate risks and opportunities must be recognised in advance.	Horizon scanning requires input from all service managers and the financial consequences of future issues may not be clearly identified. Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at a early stage.	On a small number of occasions the financial consequences of future events are likely to be significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy. In general these events bring consequences to other agencies and external relationships.
The Council has a number of formal procedures for monitoring new legislation, consultations and policy / guidance documents. In addition our relationship with organisations such as the Council's external auditor provides access to additional knowledge regarding relevant future events. E-II				

Risk Management: Budget Strategy 2015/16 Onwards – Financial Risks **APPENDIX D**

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
9.	Efficiency	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.	Failure to deliver savings and / or failure to monitor and react to non-delivery.	Savings proposals for 2015/16 do not present a high risk. Excluding the target for commercial activity set out separately at risk 6 the medium term financial strategy has no high risk savings proposals for 2015/16.

Savings proposals are separately identified and monitored in the Council's general ledger. The ability to achieve the targeted savings is reported quarterly to Corporate Leadership Team and to Cabinet. This enables in year actions to be considered at the earliest opportunity.

E-II

Risk Management: Budget Strategy 2015/16 Onwards – Financial Risks **APPENDIX D**

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
10.	Collection Fund	Collection rates.		
		a) The retention of business rates means that collection rates have become of local importance to ensure the retained element of business rates is maximised. Business rates due is in excess of £58m for 2015/16.	The Council currently collects in excess of 97% of business rates due in year. This level of collection must be maintained or improved to ensure expected resources are received.	In both cases the consequence will be a reduced 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.
		b) The localisation of support for council tax means that a charge is now made to some benefit claimants with little or no previous experience of handling money or paying for any part of their council tax. This increases the risk of non-collection. Council tax due is in excess of £80mm per annum with the cost of local support exceeding £10m per annum	For tax payers on benefit and of working age there has been a requirement from 2014/15 to pay additional amounts of tax. Only 87% of the assessed benefit will now be supported by the local scheme and tax payers may find it difficult to identify resources to pay the balance due.	

The two schemes commenced on 1st April 2013 and almost two years of experience exists in relation to collection rates. It is clear that collection rates for the business rates are on target and have delivered on target during 2013/14. The collection rates for council tax and particularly the collection of residual charges under the local council tax support scheme were significantly better than estimated in 2013/14 and to date in 2014/15. This is evidenced by the surplus in excess of £1m on the collection fund in the previous year.

D-II

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
11.	Business Rates Pool	The Council has entered a business rates pool with Kent County Council for 2014/15. This arrangement means that the Council cannot rely on central government safety net funding should the level of business rates fall by more than 7.5%. For 2015/16 the pool will include 10 new members adding to the complexity and potential for vulnerability.	a) Major changes may occur in the rateable value of properties following appeal. b) Other members of the business rates pool may fail to deliver stability or growth, requiring support from this council.	In all cases the result will be a reduction in income from business rates and a potential consequence for the Council. Provisions exist so any loss of income would relate to the excess over the provision already made.

The Council entered a business rates pool in 2014/15 between the Council and Kent County Council. The predicted additional resources this gained for the Council in the current year is £95,000. The pool has been reconfigured for 2015/16 to include an additional 9 districts and Kent Fire & Rescue. This is evidence of its potential benefits and the predicted gain for this Council in 2015/16 is £200,000. The pool is monitored quarterly Kent wide and this Council is the Pool administrator. The pool contains a provision for poor performing districts and the Council can exit the pool on 1st April in any year by giving notice by the previous September.

Section: FINANCE

Risk No	**Risk Name**	**Vulnerability** (Why, what's happening, what's the problem)	**Trigger/risk** (What's the event/ what could go wrong?)	**Consequences** (What would occur as a result, how much of a problem would it be, to whom and why?)
12.	Medium term	The medium term financial strategy must be the link between the strategic priorities of the council and its financial resilience. The Council will consider for approval a new strategic plan for the period 2015/16 to 2020/21. It is essential that resources exist to deliver the priorities set out in the strategic plan finally approved.	These issues must all be identified in the medium term financial strategy at a level considered adequate to cover the likely consequences to this authority.	In reviewing the strategy the consequences of some of the Council's plans could be misinterpreted and the strategy could fail to take full account of the risks. Developing the strategy alongside the strategic plan will ensure that some of this risk is mitigated.

The Cabinet Member for Corporate Services has requested that the budget be reported through its links to the strategic priorities as a method of reporting the level of funding and expenditure on each priority. This would improve awareness of the links between the Strategic Plan and the medium term financial strategy.

E-III

Risk Management: Risk Profile

The risks have been mapped against a typical appetite to risk. The risk assessment has been prepared in the context of key service objectives. The risks at this stage have not been 'mitigated'.

The **vertical axis** shows **Likelihood**:

A = very high; B = high; C = significant; D = low; E = very low; F = almost impossible

The **horizontal axis** shows **Impact**:

1= catastrophic; 2 = critical; 3 = marginal; 4 = negligible

Likelihood

A				
B				
C	2	4		
D		3, 5, 7, 12	6, 10, 11	
E		1	8, 9	
F				
	IV	III	II	I

Impact

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

26 JANUARY 2015

REPORT OF DIRECTOR OF REGENERATION AND COMMUNITIES

Report prepared by John Owen

1. TREASURY MANAGEMENT STRATEGY 2015 16

1.1 Issue for Decision

1.1.1 In accordance with CIPFA's Code of Practice on Treasury Management, the Audit Committee is asked to consider the Draft Treasury Management Strategy for 2015/16 including the Treasury and Prudential Indicators.

1.2 Recommendation of Director of Regeneration & Communities

1.2.1 That the Audit Committee considers the draft Treasury Management Strategy Statement as set out in **Appendix A** and associated appendices to this report, and recommends it to Cabinet for consideration and recommendation to Council.

1.3 Reasons for Recommendation

1.3.1 The Council has adopted CIPFA's Code of Practice on Treasury Management (the Code) which requires an annual report on the strategy and plan to be pursued in the coming year to be made to full Council. This report considers the proposed strategy for 2015/16 onwards along with current guidance from CIPFA and the DCLG.

1.3.2 The primary requirements of the Code are as follows:

a) Receipt by full Council of an annual Treasury Management Strategy that includes the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead.

b) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

c) Delegation by the Council of the role of scrutiny of the treasury management strategy and policies, a Mid-Year Review Report and an Annual Report covering activities during the previous year to an appropriate committee. These functions have previously been delegated to the Audit Committee by the Council.

1.3.3 The agreed process previously approved by Council is:

a) Audit Committee will consider, as part of their monitoring role, the initial draft and make recommendations to Cabinet.

b) Cabinet will consider the draft and any recommendations from Audit Committee and recommend to Council.

c) Council will approve the strategy by March of each year for the forthcoming financial year.

1.4 The 2014/15 Strategy

1.4.1 The Strategy for 2014/15 was approved by Council in March 2014 and set the following objectives:-

a) Increasing the maximum duration limits with some part-nationalised groups to 2 years from 1 year;
b) Invest up to £5m of core cash for over 1 year if rates were to improve. Maybe using property funds;
c) To consider the use of core cash during 2014/15 for internal borrowing if not used for longer term investments.

1.5 Current Cashflow Performance

1.5.1 At the November 2014 meeting of the Audit Committee the mid-year performance report included details for 2014/15 of the position as at 30 September 2014. An update on that position is provided below.

1.5.2 £3m has been invested with Lloyds Bank (part nationalised bank) for 2 years at a rate of 1.3%. £2m has been set aside for investment with Royal Bank of Scotland for two years duration, although this deal is yet to be finalised. This represents the £5m core cash as agreed within the strategy, to use for investments with a duration of over 1 year.

1.5.3 All other investments have been short term (less than 1 year).

1.5.4 During 2014/15, the Council had to borrow for one week due to cash flow shortage in June 2014.

1.5.5 Due to capital slippage and revenue underspends, there have been some difficulties in finding highly rated institutions in which to invest Council funds.

1.5.6 Details of the Council's investments and performance to date are as follows;

	£m	%
Investments as at 1st April 2014	19.186	
Investment Balance as at 31st Dec 2014	32.1	
Investment Income as at 31st Dec 2014	0.156	
Ave Balance/Rate of Investments to 31st Dec 2014	30.6	0.69
Est. Investments as at 31st March 2015	22.4	

1.6 Developing the Strategy

1.6.1 In formulating and executing the strategy for 2015/16, the Council will continue to have regard for the DCLG's guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectional Guidance Notes.

1.6.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.6.3 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. However, an authority may borrow in advance of need and a policy would need to be in place on how these funds were to be invested as stated. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds

1.6.4 The Council, in conjunction with its treasury management advisor, Capita Asset Services, will use Fitch, Moodys and Standard and Poors ratings in combination to derive its credit criteria. All credit ratings will be monitored daily. The Council is alerted to changes in ratings of all agencies through its use of the Capita's creditworthiness service.

1.6.5 The Council has previously only used UK institutions to invest funds, with the exception of Svenska Handelsbanken. However it is proposed that overseas institutions are used where the country's sovereign rating is the same as or better than the UK's AA+ rating and the institution itself is of a high credit quality. All the relevant counterparties with associated durational bands based on the above credit criteria are detailed within **Appendix B**.

1.6.6 If a downgrade means the counterparty or investment scheme no longer meets the Council's minimum criteria, its use for further investment will be withdrawn immediately. If funds are already invested with the downgraded institution, a decision will be made by the Head of Finance & Resources whether to withdraw the funds and potentially incur a penalty.

1.6.7 If a body is placed under negative rating watch (i.e. there is a probability of a rating change in the short term and the likelihood of that change being negative) and it is currently at the minimum acceptable rating for placing investments, then no further investments will be made with that body.

1.6.8 In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap against the iTraxx benchmark and other market data on a weekly basis. A credit default swap is an insurance policy to cover the lender for the risk of a borrower defaulting on a loan. Monitoring this market, the credit risk of any particular counterparty can be assessed and appropriate action can be taken to reflect this risk within counterparty's rating.

1.6.9 The strategy will permit the use of leading building societies for investment purposes. This will be limited to the top 5 ranked on a combination of management expenses of the group, as shown within the Income and Expenditure Account, as well as the asset size.

1.6.10 Other market intelligence will also be used to determine institutions' credit worthiness, such as financial press, financial broker advice and treasury management meetings with other authorities, e.g. Kent Treasury Management Forum. If this information shows a negative outcome, no further investments will be made with that body.

1.6.11 The Head of Finance & Resources has previously been given delegated authority to use alternative forms of investment, should the appropriate opportunity arise to use them, and should it be prudent and of advantage to the Council to do so. This delegated authority is subject to prior consultation with the Cabinet Member for

Corporate Services on any possible use of these instruments. This delegation has not been exercised to date.

1.7 <u>A Forward Look</u>

1.7.1 Capita Asset Services has revised its Interest Rate Forecast. Previously, it was thought that rates would increase in June 2015, however it looks like this will now be either late 2015 or early 2016. This has reduced investment rates. Current investment rates are as follows:

- Instant Access 0.40%
- 3 months 0.50%
- 6 months 0.65%
- 1 year 0.95%
- 2 years 1.25%
- 5 years 1.85%

1.7.2 The Council's advisors, Capita Asset Services, have provided the following interest rate forecast.

Capita Asset Services Interest Rate View													
	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank Rate View	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.50%	0.50%	0.60%	0.80%	0.90%	1.10%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	2.10%
6 Month LIBID	0.70%	0.70%	0.80%	1.00%	1.10%	1.20%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.30%
12 Month LIBID	0.90%	1.00%	1.10%	1.30%	1.40%	1.50%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.60%
5yr PWLB Rate	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
10yr PWLB Rate	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
25yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
50yr PWLB Rate	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Bank Rate													
Capita Asset Services	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	1.75%	1.75%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	-	-	-	-	-
5yr PWLB Rate													
Capita Asset Services	2.20%	2.20%	2.30%	2.50%	2.60%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.60%
Capital Economics	2.20%	2.50%	2.70%	3.00%	3.10%	3.20%	3.30%	3.40%	-	-	-	-	-
10yr PWLB Rate													
Capita Asset Services	2.80%	2.80%	3.00%	3.20%	3.30%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%
Capital Economics	2.80%	3.05%	3.30%	3.55%	3.60%	3.65%	3.70%	3.80%	-	-	-	-	-
25yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.25%	3.45%	3.65%	3.85%	3.95%	4.05%	4.15%	4.25%	-	-	-	-	-
50yr PWLB Rate													
Capita Asset Services	3.40%	3.50%	3.70%	3.80%	4.00%	4.20%	4.30%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%
Capital Economics	3.30%	3.50%	3.70%	3.90%	4.00%	4.10%	4.20%	4.30%	-	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

The previous change in bank rate was expected to be June 2015, however partly due to the UK economy growth not being as high as previously predicted, the rate change has now moved to the end of 2015.

Short Term PWLB rates have also reduced to reflect the current abnormally low level in rates.

1.7.3 The following table shows the balance of investments which will mature during 2015/16 and the total of this balance which will be needed to fund the revenue/capital expenditure.

Investment	**2015/16 £m**
Short Term Investments at start of Year	17.4
Use of Balances/Capital receipts	13.6
Total Core Cash	4.8

1.7.4 These maturities will therefore cover the anticipated use of cash balances for the period and leave a minimum of £4.8m available for investment, along with day to day cash flow management funds. It is suggested that £3m of these funds may be set aside to be used for longer term rates if they become more appealing. It is felt that investing a further £3m of core funds longer term would ensure that the Council retains adequate funds for the management of its day to day cashflow.

1.7.5 The use of property funds has been considered as an alternative source of investment income. At this stage the expected returns from such investments are not sufficient to justify the additional risks to security of capital and liquidity associated with this type of investment, although this will continue to be monitored during the course of the year.

1.7.6 A number of authorities have been investing in certificates of deposits (CDs) which allow authorities to invest with highly secure counterparties such as HSBC and Standard Chartered which would not normally be accessed by the Council through other means. Certificates of deposits are purchased via a custodian who takes a small fee from the purchase. CDs are highly liquid as they do not need to be held to maturity and can be sold in the secondary bond market. However, the downside risk to this is that these may be sold at a loss. It is proposed that the 2015/16 strategy should incorporate the option to use these financial instruments, as detailed within Summary of Changes Proposed 1.11.4.

1.8 Capital Programme and Prudential Borrowing

1.8.1 As part of the development of the prudential indicators, which form part of the treasury management strategy, the Council must consider the affordability of its capital programme.

1.8.2 In the past the programme has been financed by the use of capital resources such as receipts from asset sales and grants. More recently the Council has also used receipts from the New Homes Bonus initiative. The affordability of the programme is therefore calculated by the lost revenue income from the possible investment of the resources.

1.8.3 The authority to borrow up to £6m for the financing of capital expenditure is included in the current capital programme and the current prudential indicators. This report includes the continuation of that authority within the calculation of the indicators. If the Council is to borrow then the affordability of the capital programme must include an assessment of the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.

1.8.4 At this time the strategy proposes the use of additional core cash of up to £3m to be held for longer term investment of over one year, if the rates are appealing.

1.8.5 The current long term borrowing rate from the Public Works Loan Board given in the table at paragraph 1.7.2 is 3.4% for 25 years. Were the Council to temporarily borrow the necessary resources from its own cash balances rather than complete a further one year investment it would save the equivalent of 2.7% of the amount borrowed. The affordability of the capital programme has been calculated based upon the assumption that internal borrowing would occur initially.

1.8.6 Should rates move quicker than the forecast predicts, the current and proposed strategies do allow the Head of Finance and Resources to take advantage of external borrowing.

1.9 Cashflow Projection to 2017/18

1.9.1 A cash flow projection up to March 2018 has been created reflecting the spending proposals in the Budget Strategy 2015/16 onwards. The cash flow projection shows that anticipated investment income will be £0.27m 2015/16, £0.3m 2016/17 and £0.3m in 2017/18. The Council may need to accept a higher level of risk in order to achieve these targets, whilst maintaining due regard for security of capital and liquidity. This matter will be revisited as part of the mid-year review.

1.9.2 The strategy will also operate in conjunction with the council's commercialisation strategy, ensuring that treasury management decisions support the delivery of the council's commercialisation plans, and in turn that due regard is given to treasury management factors in the development of current and future commercial projects.

1.9.3 With reference to the proposal to use internal borrowing to finance the capital programme, as set out in section 1.8 above, the investment income suggested by the cash flow projection may be provided in part from internal charges or through the surplus generated by commercialisation projects.

1.10 Minimum Revenue Provision

1.10.1 Where spend is financed through the creation of debt, the Council is required to pay off an element of the accumulated capital spend each year. The total debt is identified as the capital financing reserve and ensures that the Council includes external and internal borrowing along with other forms of financing considered to be equivalent to borrowing.

1.10.2 The payment is made through a revenue charge (the minimum revenue provision - MRP) made against the Council's expenditure. The Council is also allowed to make optional additional voluntary payments if required (voluntary revenue provision - VRP).

1.10.3 Although the Council has maintained a capital financing reserve based upon the prudential borrowing limit previously set, the MRP was based upon the actual payments made under the Serco Paisa arrangements for the capital works completed by Serco at Maidstone Leisure Centre. Debt repayment is made by annual installments over the 15 year life of the contract and it is therefore considered appropriate to base MRP payments on this value and no additional voluntary provision is deemed necessary.

1.10.4 With the real potential for the use of prudential borrowing it is felt appropriate that a policy statement is approved by Council in line with the requirements of the Code. The Code states that there is a choice between two options, or a combination of methods based on the nature of different arrangements:

a. **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

b. **Depreciation method** – MRP will follow standard depreciation accounting procedures.

1.10.5 Due to the requirement to split assets into component parts and depreciate different components at different rates, the asset life method of calculating MRP would provide a more stable and transparent method for the Council to use.

1.11 Summary of Changes Proposed

1.11.1 The following changes are proposed to the existing strategy:

1.11.2 Invest additional core cash of up to £3m for over 1 year if rates were to improve, with the option to use this amount to invest in property funds;

1.11.3 Include overseas institutions within the council's counterparty list who are listed on Capita's credit quality listing and the country's sovereignty rating is equal or above the UK rating AA+.

1.11.4 The Head of Finance & Resources be given delegated authority to invest within the certificate of deposit market to access highly secure counterparties.

1.12 Draft Strategy for 2015/16

1.12.1 The council will maintain a counterparty list to identify institutions suitable for investment. The counterparty list will be maintained using the following principles.

a) Use the Council's Treasury Management Consultant's scheme for rating of institutions for creditworthiness which uses a sophisticated modeling approach with credit rating agencies, Moodys, Fitch and Standard & Poors, along with Sovereign ratings, CDS spreads and credit watches.

b) Group limits placed on institutions within the same group and not separate for each institution. The group limit will be the highest individual credit criteria for the group.

c) An institution will never have a higher credit rating than the sovereign country it operates within. If the sovereign is downgraded below the rating of an institution, the institution is downgraded to the same level.

d) Duration limits with part nationalised is 2 years.

e) Use of the top 5 Building Societies is ranked using the management expenses and asset size ranking.

f) The Head of Finance & Resources has delegated responsibility to add or withdraw institutions from the counterparty list when ratings change, either as advised by Capita Assets Services (the Council's advisors) or from another reliable market source.

1.12.2 The DCLG provides criteria for specified investments with all other investments being non-specified. The following principles are applied to their use.

a) Only the top five building societies (with the exception of Nationwide Building Society) and investments over a 1 year duration with a credit worthy institution will be non-specified.

b) Funds will be invested short term (up to one year) so that funds are available to invest when rates increase.

c) The use of an additional £3m core cash deposits for greater than one year (bringing maximum total long term investments to £8m) if rates are at a premium over predicted base rates and funds are available for the term, with the potential to invest within property funds.

d) The use of enhanced cash funds and Money Market Funds which are AAA rated funds. These funds spread the risk over many counterparties and funds may be withdrawn by giving a short notice period.

e) The use of overseas banks to be included which are on Capita Asset Services counterparty list and who's country sovereignty rating is the same or higher than the UK.

1.13 Minimum Revenue Provision 2015/16

a) The assumption is to borrow up to a maximum of £6m through the most economically advantageous method, as decided by the Head of Finance & Resources, from PWLB loans or other reputable sources of lending.

b) The Council will use the asset life method for the calculation of the Minimum Revenue Provision on all future unsupported borrowing;

c) The Minimum Revenue Provision relating to the arrangement with Serco Paisa for leisure centre improvements will be based on principle repaid during the year.

1.14 Prudential and Treasury Management Indicators

1.14.1 The Prudential and Treasury Management Indicators that have been developed based upon the proposed strategy set out in section 1.12 above.

1.15 Alternative Action and why not Recommended

1.15.1 The Council is required to endorse a Treasury Management Strategy and monitor and update the strategy and Prudential Indicators as necessary. The Council could endorse a simple strategy for Treasury Management. However this would be contrary to best advice from the Council's advisors and likely to produce a reduced income stream from investments.

1.15.2 Limits - the proposed strategy allows maximum investments with certain institutions of £8m. The Council could choose to retain the current limit of £8m or even reduce this level. Given the difficulty in identifying opportunities to lend at suitable rates within the counterparty list, it is considered appropriate to incorporate sufficient flexibility by retaining the current limit for investments with the most secure organisations.

1.15.3 Counterparties - the proposed strategy allows non-specified investments with other local authorities and the top five building societies. The Council could choose to utilise additional counterparties from the non-specified investments group. However, due to the fact that this would involve an increased level of risk to the security of the council's cash, this is not considered to represent a prudent course of action and is therefore not recommended.

1.15.4 Alternative use of cash - the Council could utilise the resources invested in expenditure on key priority outcomes. However the core cash held by the Council is either set aside for future expenditure, such as the capital programme, or held as a form of risk mitigation, such as the minimum level of revenue balances. To utilise these resources for alternative projects could compromise liquidity and put the Council at future risk should an unforeseen event occur.

1.15.5 External Fund Managers – by appointing external managers local authorities may possibly benefit from security of investments, diversification of investment instruments, liquidity management and the potential of enhanced returns. Managers do operate within the parameters set by local authorities but this involves varying degrees of risk. This option has been discounted on the basis of the risk which would make it difficult to ascertain a suitable sum to assign to an external manager.

1.16 Impact on Corporate Objectives

1.16.1 The Treasury Management Strategy will impact upon all corporate objectives through the resource it provides from the investment of the council's balances. These resources are incorporated in the council's budget.

1.17 Risk Management

1.17.1 Risk Management is included within the Treasury Management Practices which the council adheres to. The main risks to the council are counterparty risk, liquidity risk and interest rate risk which are closely monitored on a regular basis using the council's treasury advisors, Capita, and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken immediately through delegated authority.

1.17.2 The Prudential and Treasury Management Indicators that have been developed based upon the proposed strategy set out in section 1.11 above.

1.18 Other Implications

1.	Financial	X
2.	Staffing	
3.	Legal	X
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.18.1 The financial implications are set out in the body of the report.

1.18.2 The legal implications, including the Council's ability to borrow and to invest, are also set out in the body of the report.

1.19 Relevant Documents

1.19.1 Appendices

Appendix A – Treasury Management Strategy Statement 2015/16
Appendix B – Counterparty List
Appendix C – Treasury & Prudential Indicators

1.20 Background Documents

None

IS THIS A KEY DECISION REPORT?		**THIS BOX MUST BE COMPLETED**	
Yes		No	X

If yes, this is a Key Decision because: …………………………………………………………..

…….

Wards/Parishes affected: ……………………………………………………………………………..

……..

Treasury Management Strategy Statement
Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Maidstone Borough Council
2015/16

INDEX

1 INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines treasury management as:

> *"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Council. This role has previously been undertaken by the Audit Committee.

A quarterly update on the Council's treasury management position is also provided through budget monitoring reports presented to Cabinet.

1.3 Treasury Management Strategy for 2015/16

The strategy for 2015/16 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- the investment strategy; and
- creditworthiness policy.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

1.4 Treasury management consultants

The Council uses Capita Asset Services, Treasury solutions as its external treasury management advisors.

Responsibility for treasury management decisions ultimately remains within the organisation and officers will not place undue reliance on the advice of external service providers.

The terms of appointment and value gained through use of treasury management consultants will be subject to regular review.

1.5 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. A treasury management training session was delivered by Capita, the Council's treasury management advisors in December 2014 and was open for all members to attend. Further training will be arranged as required.

The training needs of treasury management officers are also periodically reviewed.

2 THE CAPITAL PRUDENTIAL INDICATORS

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Capital expenditure forecasts are shown below:

2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
11,673	5,170	5,528	5,310	5,086

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes the liability for the arrangement with Serco Paisa for leisure centre improvements. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

CFR projections are shown in the table below:

2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
-65	-2,033	-2,033	-2,033	-2,033

2.3 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
-1.1	0.0	0.0	-0.3	-1.1	-1.1

The estimates of financing costs include current commitments and the proposals in this budget report.

2.4 Incremental impact of capital investment decisions on council tax

This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

Incremental impact of capital investment decisions on the band D council tax

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Council tax - band D	1.20	4.4	4.42	4.34	4.21

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Debt	6,000	6,000	6,000	6,000
Other long term liabilities (Serco Pasia*)	5,426	4,971	4,514	4,033
Total	11,426	10,971	10,514	10,033

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit	2014/15 £000	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Debt	10,000	10,000	10,000	10,000
Other long term liabilities (Serco Pasia*)	5,426	4,971	4,514	4,033
Total	15,426	14,971	14,514	14,033

* Other Long Term Liabilities is the same for Operational Boundary and Authorised Limit due to no additional liabilities will be incurred during 2015/16.

3.2 Prospects for interest rates

The Council's advisors, Capita Asset Services, have provided the following interest rate forecast:

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	**25 year**	**50 year**
Mar 2015	0.50	2.20	3.40	3.40
Jun 2015	0.50	2.20	3.50	3.50
Sep 2015	0.50	2.30	3.70	3.70
Dec 2015	0.75	2.50	3.80	3.80
Mar 2016	0.75	2.60	4.00	4.00
Jun 2016	1.00	2.80	4.20	4.20
Sep 2016	1.00	2.90	4.30	4.30
Dec 2016	1.25	3.00	4.40	4.40
Mar 2017	1.25	3.20	4.50	4.50
Jun 2017	1.50	3.30	4.60	4.60
Sep 2017	1.75	3.40	4.70	4.70
Dec 2017	1.75	3.50	4.70	4.70
Mar 2018	2.00	3.60	4.80	4.80

Previously the bank rate was anticiptated to rise in June 2015. However, partly due to the UK economic growth not being as high as previously predicted, the forecast has now been revised to the end of 2015. Investment returns are therefore expected to remain relatively low during 2015/16 and beyond.

These rates are also reflected in the corresponding reduction in short term PWLB lending rates.

3.3 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has been funded using cash supporting the Council's reserves, balances and cash flow as a temporary measure, rather than through loan debt. This strategy is prudent as currently investment returns are low and counterparty risk is relatively high.

The authority to borrow up to £6m for the financing of capital expenditure is included in the current capital programme and the current prudential indicators. The 2015/16 strategy includes the continuation of that authority within the calculation of the indicators. If the Council is to borrow then the affordability of the capital programme must include an assessment of the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.

Should rates move more quickly than the forecast predicts, the current and proposed strategies do allow the Head of Finance and Resources to take advantage of external borrowing. The Council's policy on borrowing in advance of need is set out at section 3.4 of this strategy.

The current long term borrowing rate from the Public Works Loan Board is 3.4% for 25 years. Were the Council to temporarily borrow the necessary resources from its own cash balances rather than complete a further one year investment it would save the equivalent of 2.7% of the amount borrowed. The affordability of the capital programme has been calculated based upon the assumption that internal borrowing would occur initially.

3.4 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

The council will maintain a counterparty list to identify institutions suitable for investment. The counterparty list will be maintained using the following principles.

a) Use the Council's Treasury Management Consultant's scheme for rating of institutions for creditworthiness which uses a sophisticated modeling approach with credit rating agencies, Moodys, Fitch and Standard & Poors, along with Sovereign ratings, CDS spreads and credit watches.

b) Group limits placed on institutions within the same group and not separate for each institution. The group limit will be the highest individual credit criteria for the group.

c) An institution will never have a higher credit rating than the sovereign country it operates within. If the sovereign is downgraded below the rating of an institution, the institution is downgraded to the same level.

d) Duration limits with part nationalised is 2 years.

e) Use of the top 5 Building Societies is ranked using the management expenses and asset size ranking.

f) The Head of Finance & Resources be given delegated responsibility to add or withdraw institutions from the counterparty list when ratings change, either as advised by Capita Assets Services (the Council's advisors) or from another reliable market source.

The DCLG provides criteria for specified investments with all other investments being non-specified. The following principles are applied to their use.

a) Only the top five building societies (with the exception of Nationwide Building Society) and investments over a 1 year duration with a credit worthy institution will be non-specified.

b) Funds will be invested short term (up to one year) so that funds are available to invest when rates increase.

c) The use of an additional £3m core cash deposits for greater than one year (bringing maximum total long term investments to £8m) if rates are at a premium over predicted base rates and funds are available for the term, the potential to invest within property funds.

d) The use of enhance cash funds and Money Market Funds which are AAA rated funds. These funds spread the risk over many counterparties and funds may be withdrawn by giving a short notice period.

e) The use of overseas banks to be included which are on Capita Asset Services counterparty list and who's country sovereignty rating is the same or higher than the UK.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria.
A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are set out below:

	*** Minimum credit criteria / colour band**	**** Max % of total investment s/ £ limit per institution**	**Max. maturity period**
Debt Management Account Deposit Facility (DMDAF) – UK Government	N/A	100%	6 months
UK Government gilts	UK sovereign rating		2 years
UK Government Treasury blls	UK sovereign rating		2 years
Bonds issued by multilateral development banks	UK sovereign rating		6 months
Money market funds	AAA	100%	Liquid
Enhanced money market funds with a credit score of 1.25	AAA	100%	Liquid

Enhanced money market funds with a credit score of 1.5	AAA	100%	Liquid
Local authorities	N/A	100%	2 years
Term deposits with banks and building societies	Yellow Purple Blue Orange Red Green No Colour		Up to 2 years Up to 2 years Up to 2 years Up to 1 year Up to 6 Months Up to 100 days Top 5 Building societies only
CDs or corporate bonds with banks and building societies	Yellow Purple Blue Orange Red Green No Colour		Up to 2 years Up to 2 years Up to 2 years Up to 1 year Up to 6 Months Up to 100 days Top 5 Building
Corporate bond funds			
Gilt funds	UK sovereign rating		
Property funds			

SPECIFIED INVESTMENTS:
(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	*** Minimum 'High' Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	--	In-house
Term deposits – local authorities	--	In-house
Term deposits – banks and building societies **	Capita Green Rating	In-house

Term deposits with nationalised banks and banks and building societies

	*** Minimum Credit Criteria**	**Use**
UK part nationalised banks	Capita Blue Rating	In-house
Banks part nationalised by high credit rated (sovereign rating) countries – non UK	Sovereign rating AA+	In-house

Collateralised deposit (see note 2)	UK sovereign rating	In-house

Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating	In-house
UK Government Gilts	UK sovereign rating	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house buy and hold
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government (refers solely to GEFCO - Guaranteed Export Finance Corporation)	UK sovereign rating	In-house buy and hold
Sovereign bond issues (other than the UK govt)	AAA	In-house buy and hold
Treasury Bills	UK sovereign rating	In house

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Government Liquidity Funds	Capita Yellow Rating	In-house
2. Money Market Funds	Capita Yellow Rating	In-house
3. Enhanced Money Market Funds with a credit score of 1.25	Capita Dark Pink Rating	In-house
4. Enhanced Money Market Funds with a credit score of 1.5	Capita Light Pink Rating	In-house
5. Bond Funds	AAA	In-house
6. Gilt Funds	AAA	In-house

NON-SPECIFIED INVESTMENTS A maximum of 25% will be held in aggregate in non-specified investment

1. Maturities of ANY period

	* Minimum Credit Criteria	Use
Fixed term deposits with variable rate and variable maturities: -Structured deposits	Capita Green Rating	In-house
Term deposits with unrated counterparties : any maturity	Top five Building Societies based on a combination of Asset size and Man Exp	In-house
Commercial paper issuance covered by a specific UK Government (explicit) guarantee	UK sovereign rating	In-house
Commercial paper other		In-house
Corporate bonds	* Short-term __, Long-term __, Viability __, Support __	In-house
Other debt issuance by UK banks covered by UK Government (explicit) guarantee	UK sovereign rating	In-house
Property fund: ***the use of these investments would constitute capital expenditure***	--	In house

2. Maturities in excess of 1 year

	* Minimum Credit Criteria	Use	Max. maturity period
Term deposits – local authorities	--	In-house	2 yrs
Term deposits – banks and building societies	Capita Blue Rating	In-house	2 yrs
Certificates of deposit issued by banks and building societies covered by UK Government (explicit) guarantee	UK sovereign rating	In-house	2yrs
Certificates of deposit issued by banks and building societies	Capita Blue Rating	In-house	2 yrs
UK Government Gilts	UK sovereign rating	In-house	2 yrs

Bonds issued by multilateral development banks	AAA	In-house	2 yrs
Sovereign bond issues (other than the UK govt)	AAA	In-house	2 yrs
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)			
1. Bond funds	AAA	In-house	2 yrs
2. Gilt funds	AAA	In-house	2 yrs

Accounting treatment of investments.

The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

4.2 Creditworthiness policy

This Council employs the creditworthiness service provided by Capita Asset Services. This service uses a modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are used in conjunction with the following information:

- credit watches and credit outlooks from credit rating agencies;
- credit default swap, an insurance policy to cover the lender for the risk of a borrower defaulting on a loan, is monitored to reflect the risk within a counterparty's rating;
- sovereign ratings to select counterparties from only the most creditworthy countries (AA+ or above).

The end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments, with the following exceptions:

1. The suggested maximum duration for semi nationalised UK Banks is 1 year. This council's treasury management strategy enables investments with these institutions for up to 2 years, as previously agreed as part of the 2014/15 strategy.

2. The council's treasury management strategy allows the use the top 5 Building Societies (some falling into the 'no-colour' category based on the Capita bandings). Ranking will be based on the management expenses and asset size ranking.

The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years
- Dark pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 2 years (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used (except for the top 5 Building Societies ranked using the management expenses and asset size)

Based on these criteria, the current counterparty list is as follows:

	Maximum Deposit	**Suggested Term**
UK Institutions		
Bank of Scotland Plc	£8m	12 mths
Lloyds Bank Plc	£8m	12 mths
National Westminster Bank Plc	£8m	12 mths
The Royal Bank of Scotland Plc	£8m	12 mths
Coventry BS	£2m	Building Society - 6 mths
Leeds BS	£2m	Building Society - 6 mths
Skipton BS	£2m	Building Society - 6 mths
Yorkshire BS	£2m	Building Society - 6 mths
Close Brothers Ltd	£3m	100 days
MBNA Europe Bank	£3m	100 days
Bank of New York Mellon (International) Ltd	£5m	12 mths
HSBC Bank plc	£5m	12 mths
Standard Chartered Bank	£5m	12 mths
Nationwide BS	£3m	6 mths
Abbey National Treasury Services plc	£3m	6 mths
Barclays Bank plc	£3m	6 mths
Cater Allen	£3m	6 mths
Merrill Lynch International	£3m	6 mths
Santander UK plc	£3m	6 mths
Collateralised LA Deposit*	£5m	60 mths
Debt Management Office	£5m	60 mths
Supranationals	£5m	60 mths
UK Gilts	£5m	60 mths
Overseas Institutions		
Norddeutsche Landesbank Girozentrale	£3m	100 days
Silicon Valley Bank	£3m	100 days
Australia and New Zealand Banking Group Ltd	£5m	12 mths
Commonwealth Bank of Australia	£5m	12 mths
National Australia Bank Ltd	£5m	12 mths
Westpac Banking Corporation	£5m	12 mths
Bank of Montreal	£5m	12 mths
Bank of Nova Scotia	£5m	12 mths
Canadian Imperial Bank of Commerce	£5m	12 mths
Royal Bank of Canada	£5m	12 mths

Toronto Dominion Bank	£5m	12 mths
Nordea Bank Finland plc ~	£5m	12 mths
Pohjola Bank	£5m	12 mths
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	£5m	12 mths
The Hong Kong and Shanghai Banking Corporation Ltd	£5m	12 mths
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	£5m	12 mths
Qatar National Bank	£5m	12 mths
Samba Financial Group	£5m	12 mths
DBS Bank Ltd	£5m	12 mths
Oversea Chinese Banking Corporation Ltd	£5m	12 mths
United Overseas Bank Ltd	£5m	12 mths
Nordea Bank AB	£5m	12 mths
Svenska Handelsbanken AB	£5m	12 mths
Bank of New York Mellon, The	£5m	12 mths
HSBC Bank USA, N.A.	£5m	12 mths
JPMorgan Chase Bank NA	£5m	12 mths
Northern Trust Company	£5m	12 mths
State Street Bank and Trust Company	£5m	12 mths
U.S. Bancorp	£5m	12 mths
Wells Fargo Bank NA	£5m	12 mths
Landwirtschaftliche Rentenbank	£5m	24 mths
NRW.BANK	£5m	24 mths
Banque et Caisse d'Epargne de l'Etat	£5m	24 mths
Clearstream Banking	£5m	24 mths
Bank Nederlandse Gemeenten	£5m	24 mths
Nederlandse Waterschapsbank N.V	£5m	24 mths
Macquarie Bank Limited	£3m	6 mths
BNP Paribas Fortis	£3m	6 mths
KBC Bank NV	£3m	6 mths
National Bank of Canada	£3m	6 mths
Danske Bank	£3m	6 mths
BNP Paribas	£3m	6 mths
Credit Agricole Corporate and Investment Bank	£3m	6 mths
Credit Industriel et Commercial	£3m	6 mths
Credit Agricole SA	£3m	6 mths
Societe Generale	£3m	6 mths
BayernLB	£3m	6 mths
Deutsche Bank AG	£3m	6 mths
Landesbank Baden Wuerttemberg	£3m	6 mths
Landesbank Berlin AG	£3m	6 mths
Landesbank Hessen-Thueringen Girozentrale (Helaba)	£3m	6 mths
ING Bank NV	£3m	6 mths
DnB Bank	£3m	6 mths
Arab National Bank	£3m	6 mths
Riyad Bank	£3m	6 mths
Skandinaviska Enskilda Banken AB	£3m	6 mths
Swedbank AB	£3m	6 mths
Credit Suisse AG	£3m	6 mths

UBS AG	£3m	6 mths
Citibank International Plc ~	£3m	6 mths
Credit Suisse International ~	£3m	6 mths
Goldman Sachs International ~	£3m	6 mths
Goldman Sachs International Bank ~	£3m	6 mths
Morgan Stanley & Co. International plc ~	£3m	6 mths
Sumitomo Mitsui Banking Corporation Europe Ltd ~	£3m	6 mths
UBS Ltd ~	£3m	6 mths
Bank of America, N.A.~	£3m	6 mths
BOKF, NA	£3m	6 mths
Citibank, N.A. ~	£3m	6 mths
Money market Funds AAA Rated	£8m	60 mths
Cash Enhanced Funds AAA Rated	£8m	60 mths

As well as limits on the amount of funds that can be placed with individual counterparties, Capita would suggest imposing group limits. The group limit should be equal to the individual limit of one counterparty within the same group

All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of Capita's creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. A credit default swap is an insurance policy to cover the lender for the risk of a borrower defaulting on a loan. Monitoring this market, the credit risk of any particular counterparty can be assessed and appropriate action can be taken to reflect this risk within counterparty's rating. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch. The list of countries that qualify using this credit criteria as at the date of this report are shown above at 4.2. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Capita Asset Services has revised its Interest Rate Forecast. Previously, it was thought that rates would increase in June 2015, however it looks like this will now be either late 2015 or early 2016. This has reduced investment rates. Current investment rates are as follows:

- Instant Access 0.40%
- 3 months 0.50%
- 6 months 0.65%
- 1 year 0.95%
- 2 years 1.25%
- 5 years 1.85%

Investment treasury indicator and limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested > 364 days			
	2015/16 £000	**2016/17 £000**	**2017/18 £000**
Principal sums invested > 364 days	8,000	8,000	8,000

Maidstone Borough Council Proposed Counterparty List 2015/16

	Maximum Deposit	Suggested Term
UK Institutions		
Bank of Scotland Plc	£8m	12 mths
Lloyds Bank Plc	£8m	12 mths
National Westminster Bank Plc	£8m	12 mths
The Royal Bank of Scotland Plc	£8m	12 mths
Coventry BS	£2m	Building Society - 6 mths
Leeds BS	£2m	Building Society - 6 mths
Skipton BS	£2m	Building Society - 6 mths
Yorkshire BS	£2m	Building Society - 6 mths
Close Brothers Ltd	£3m	100 days
MBNA Europe Bank	£3m	100 days
Bank of New York Mellon (International) Ltd	£5m	12 mths
HSBC Bank plc	£5m	12 mths
Standard Chartered Bank	£5m	12 mths
Nationwide BS	£3m	6 mths
Abbey National Treasury Services plc	£3m	6 mths
Barclays Bank plc	£3m	6 mths
Cater Allen	£3m	6 mths
Merrill Lynch International	£3m	6 mths
Santander UK plc	£3m	6 mths
Collateralised LA Deposit*	£5m	60 mths
Debt Management Office	£5m	60 mths
Supranationals	£5m	60 mths
UK Gilts	£5m	60 mths
Overseas Institutions		
Norddeutsche Landesbank Girozentrale	£3m	100 days
Silicon Valley Bank	£3m	100 days
Australia and New Zealand Banking Group Ltd	£5m	12 mths
Commonwealth Bank of Australia	£5m	12 mths
National Australia Bank Ltd	£5m	12 mths
Westpac Banking Corporation	£5m	12 mths
Bank of Montreal	£5m	12 mths
Bank of Nova Scotia	£5m	12 mths
Canadian Imperial Bank of Commerce	£5m	12 mths
Royal Bank of Canada	£5m	12 mths
Toronto Dominion Bank	£5m	12 mths
Nordea Bank Finland plc ~	£5m	12 mths
Pohjola Bank	£5m	12 mths
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	£5m	12 mths
The Hong Kong and Shanghai Banking Corporation Ltd	£5m	12 mths
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Ra	£5m	12 mths
Qatar National Bank	£5m	12 mths
Samba Financial Group	£5m	12 mths
DBS Bank Ltd	£5m	12 mths
Oversea Chinese Banking Corporation Ltd	£5m	12 mths
United Overseas Bank Ltd	£5m	12 mths
Nordea Bank AB	£5m	12 mths
Svenska Handelsbanken AB	£5m	12 mths
Bank of New York Mellon, The	£5m	12 mths
HSBC Bank USA, N.A.	£5m	12 mths
JPMorgan Chase Bank NA	£5m	12 mths
Northern Trust Company	£5m	12 mths
State Street Bank and Trust Company	£5m	12 mths
U.S. Bancorp	£5m	12 mths
Wells Fargo Bank NA	£5m	12 mths
Landwirtschaftliche Rentenbank	£5m	24 mths
NRW.BANK	£5m	24 mths
Banque et Caisse d'Epargne de l'Etat	£5m	24 mths
Clearstream Banking	£5m	24 mths
Bank Nederlandse Gemeenten	£5m	24 mths
Nederlandse Waterschapsbank N.V	£5m	24 mths
Macquarie Bank Limited	£3m	6 mths
BNP Paribas Fortis	£3m	6 mths
KBC Bank NV	£3m	6 mths
National Bank of Canada	£3m	6 mths
Danske Bank	£3m	6 mths
BNP Paribas	£3m	6 mths
Credit Agricole Corporate and Investment Bank	£3m	6 mths
Credit Industriel et Commercial	£3m	6 mths
Credit Agricole SA	£3m	6 mths
Societe Generale	£3m	6 mths
BayernLB	£3m	6 mths
Deutsche Bank AG	£3m	6 mths
Landesbank Baden Wuerttemberg	£3m	6 mths
Landesbank Berlin AG	£3m	6 mths
Landesbank Hessen-Thueringen Girozentrale (Helaba)	£3m	6 mths
ING Bank NV	£3m	6 mths
DnB Bank	£3m	6 mths
Arab National Bank	£3m	6 mths
Riyad Bank	£3m	6 mths
Skandinaviska Enskilda Banken AB	£3m	6 mths
Swedbank AB	£3m	6 mths
Credit Suisse AG	£3m	6 mths
UBS AG	£3m	6 mths
Citibank International Plc ~	£3m	6 mths
Credit Suisse International ~	£3m	6 mths
Goldman Sachs International ~	£3m	6 mths
Goldman Sachs International Bank ~	£3m	6 mths
Morgan Stanley & Co. International plc ~	£3m	6 mths
Sumitomo Mitsui Banking Corporation Europe Ltd ~	£3m	6 mths
UBS Ltd ~	£3m	6 mths
Bank of America, N.A.~	£3m	6 mths
BOKF, NA	£3m	6 mths
Citibank, N.A. ~	£3m	6 mths
Money market Funds AAA Rated	£8m	60 mths
Cash Enhanced Funds AAA Rated	£8m	60 mths

As well as limits on the amount of funds that can be placed with individual counterparties, Capita would suggest imposing group limits. The group limit should be equal to the individual limit of one counterparty within the same group.

PRUDENTIAL INDICATORS

Ratio of Financing Costs to Net Revenue Stream

	2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
Interest Paid	0	204	204	204	204	204
Interest Received	-210	-200	-200	-250	-400	-400
Net Revenue Expenditure	19116	19008	18324	18198	18120	18135
	-1.1	0.0	0.0	-0.3	-1.1	-1.1

This indicator shows the proportion of the net revenue stream (revenue budget) that is attributable to financing costs of capital expenditure. As estimated investment income is higher that interest costs, this results in a negative total.

Incremental Impact of Capital Investment Decisions on the Council Tax

	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
i) Forecast of total budgetary requirement no changes to capital programme	1,970	5,170	5,528	5,310	5,086	5,086
ii) Forecast of total budgetary requirement after changes to capital programme	11,673	5,170	5,528	5,310	5,086	5,086
iii) Additional Council Tax Required	1.20	3.57	3.54	3.50	3.47	3.43

Demonstrates the affordability of the capital programme. It demonstrates the impact of the proposed capital programme upon the Council Tax.

Current Financial Plan

2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
11,673	5,170	5,528	5,310	5,086	5,086

This is the estimate of capital expenditure taken from the Corporate Budget Strategy 2014/15 Onwards .

Capital Financing Requirement

2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
-65	-2,033	-2,033	-2,033	-2,033	-2,033

This is a measure of the capital expenditure incurred historically by the council that has yet to be financed. The negative figures shows that the Council's Capital Programme is fully funded

TREASURY MANAGEMENT INDICATORS

Authorised Limit for External Debt

	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
Borrowing	10,000	10,000	10,000	10,000	10,000	10,000
Maidstone Leisure Centre	5,426	4,971	4,514	4,033	3,526	3,005
Other Long Term Liabilities	5,426	4,971	4,514	4,033	3,526	3,005
Total	15,426	14,971	14,514	14,033	13,526	13,005

This limit is the main limit set as a maximum for external borrowing. It fulfils the requirements under section 3 of the Local Government Act 2003.

Operational Boundary

	2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
Borrowing	6,000	6,000	6,000	6,000	6,000	6,000
Maidstone Leisure Centre	5,426	4,971	4,514	4,033	3,526	3,005
Other Long Term Liabilities	5,426	4,971	4,514	4,033	3,526	3,005
Total	11,426	10,971	10,514	10,033	9,526	9,005

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.

Upper Limit for Fixed Interest Rate Exposure

2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
100	100	100	100	100	100

This is the maximum amount of net borrowing and investment that can be at a fixed rate.   Variable rate call accounts may be cleared during period s of high payments eg Precept so fixed rate can peak during these periods.

Upper Limit for Variable Interest Rate Exposure

2014/15 %	2015/16 %	2016/17 %	2017/18 %	2018/19 %	2019/20 %
80	80	80	80	80	80

This is the maximum amount of net borrowing and investment that can be at a variable rate. The limit set reflects the fact that during the year there can be excess surplus funds available for short term investment. These arise from timing differences between receipts received and payments made.

Maturity Structure of New Fixed Rate Borrowing during 2014/15

	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 over	100	0

It is may be necessary to borrow at fixed term rates during 2013/14. This will be monitored as the year progresses and a decision will then be made.

Principal Invested for more than 364 Days

2014/15 £,000	2015/16 £,000	2016/17 £,000	2017/18 £,000	2018/19 £,000	2019/20 £,000
5,000	8,000	8,000	8,000	8,000	8,000

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

MONDAY 26 JANUARY 2015

REPORT OF HEAD OF FINANCE & RESOURCES

Report prepared by Ellie Dunnet

1. AUDIT COMMITTEE UPDATE - JANUARY 2015

1.1 Issue for Decision

1.1.1 To consider the report of the External Auditor which updates the Committee on progress with the 2014-15 audit and provides and a summary of emerging national issues and developments. Representatives from Grant Thornton will be present at the meeting to present their report and respond to questions.

1.2 Recommendation of the Head of Finance and Resources

1.2.1 It is recommended that the Audit Committee notes the External Auditor's update report attached at **Appendix A**.

1.3 Reasons for Recommendation

1.3.1 External audit services are provided by Grant Thornton who successfully tendered for the five year contract from 2012-13 following the abolition of the Audit Commission's audit practice.

1.3.2 This report provides an update on progress with the 2014-15 audit and updates the Audit Committee on a number of relevant emerging issues and developments

1.3.3 Members have previously commented that they have found this type of report to be useful.

1.4 Alternative Action and why not Recommended

1.4.1 Given the respective responsibilities of both the External Auditor and the Audit Committee, an update report of this nature is judged to be appropriate for consideration. To not consider the report could have an adverse impact on the Audit Committee's ability to discharge its responsibilities in relation to External Audit and governance.

1.5 Impact on Corporate Objectives

1.5.1 The report is focused on ensuring that the Auditor's opinion on the 2014-15 financial statements is issued by the statutory deadline of 30 September 2015.

1.6 Risk Management

1.6.1 This report supports the Committee in the delivery of its governance responsibilities. It also helps to mitigate the risk of non-compliance with the statutory timetable for the production and audit of the annual accounts through timely communication of any potential issues.

1.7 Other Implications

1.7.1

1.	Financial	
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.8 Relevant Documents

1.8.1 Appendices

Appendix A – Audit Committee Update January 2015

1.8.2 Background Documents

None

<u>IS THIS A KEY DECISION REPORT?</u>		**<u>THIS BOX MUST BE COMPLETED</u>**	
Yes	☐	No	X

If yes, this is a Key Decision because: ……………………………………………………………..

…….

Wards/Parishes affected: ……………………………………………………………………………..

……..

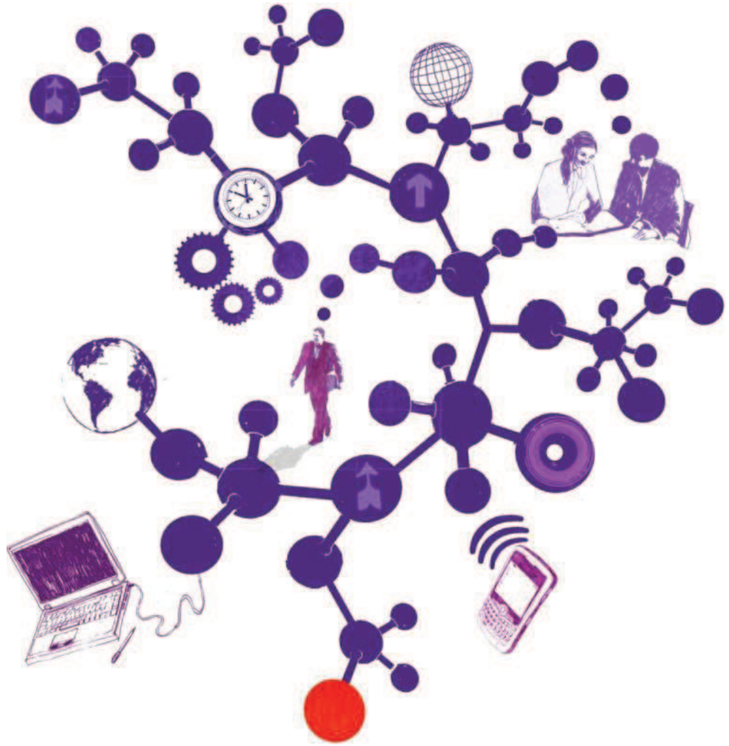
Audit Committee Update for Maidstone Borough Council

Year ended 31 March 2015

26 January 2015

Darren Wells
Director
T +44(0)1293 554 120
E Darren.J.Wells@uk.gt.com

Keith Hosea
Manager
T +44(0)20 7728 3231
E Keith.J.Hosea@uk.gt.com



.

Contents

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (http://www.grant-thornton.co.uk/en/Services/Public-Sector/). Here you can download copies of our publications including:

- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Darren Wells, your Engagement Lead or Keith Hosea, your Audit Manager.

Progress at 14 January 2015

Work	Planned date	Complete?	Comments
2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on your 2014-15 financial statements.	March 2015	N/A	
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing	January 2015 March 2015	N/A	We have updated our understanding of your control environment and systems in January, We will carry out further work in March including some early testing of transaction streams. We will issue an Audit Plan to summarise the findings from our work to date and the planned impact on our final accounts audit, which we will present to the March meeting of the Committee.
2014 -15 final accounts audit Including: • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts	July 2015	N/A	We will report the findings from our audit of your financial statements to the September meeting of this Committee.

Progress at 14 January 2015

Work	Planned date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2014-15 VfM conclusion comprises: • Review of your arrangements to secure financial resilience in the foreseeable future; • Review of your arrangements to challenge how to secure value for money.	March 2015 July 2015	N/A	We will carry out the bulk of our work in March based on your updated medium term financial strategy. We will consider any emerging issues in July whilst we undertake the audit of the financial statements.
2013/14 Certification of claims We have completed our certification work and reported the results of our work separately to this meeting of the Committee.	December 2014	Yes	
2014/15 Certification of claims We expect that the housing benefit subsidy claim will be the only return we are required to certify next year.	June to July 2015	N/A	

Emerging issues and developments: Accounting and audit issues

Group accounting standards

The CIPFA Code has adopted a new suite of standards for accounting for subsidiaries, associates and joint arrangements. These changes affect how local authorities account for services delivered through other entities and joint working with partners.

The key changes for 2014/15 are to:

- the definition of control over 'other entities'. The revised definition is set out in IFRS 10 and determines which entities are treated as subsidiaries
- the accounting for joint arrangements. This now follows IFRS 11 and includes changes to the definition of joint ventures and how joint ventures are consolidated in group accounts
- disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities as set out in IFRS 12.

Changes to the definition of control over 'other entities'

Control was previously defined in terms of power to govern the financial and operating policies of an entity. IFRS 10 sets out three elements for an investor to be considered as controlling an investee (all of which must be met):

- the investor has the rights to direct the relevant activities of the investee (relevant activities being the ones that determine the return for the investors – the return could be in the form of a service rather than money)
- the investor has exposure, or rights, to variable returns from its involvement with the investee
- the investor has the ability to use its power over the investee to affect the amount of the investor’s returns.

In the commercial sector, this is generally thought to have resulted in more entities being treated as subsidiaries. However, the change is in both directions: some subsidiaries have been redefined as associates. Local authorities with investments in 'other entities' will need to consider whether:

- they control any entities using the new definition. Local authorities will need to pay particular attention to special purpose vehicles and any other entities where there was a close judgement call under the old IAS 27
- there is a need for a prior period adjustment.

Accounting and audit issues (continued)

Group accounting standards

Changes to accounting for joint arrangements

Joint arrangements are contractual arrangements between two or more parties where there is joint control. IFRS 11 makes three key changes from IAS 31:

- there are now only two types of joint arrangements: joint operations and joint ventures
- In a joint operation the investing parties have rights and obligations in relation to the arrangement's assets and liabilities, whereas in a joint venture the parties have rights to the arrangement's net assets. IFRS 11 bases its definition of joint ventures on the substance of the arrangement rather than legal status. It is for the entity to assess whether a joint arrangement is a joint operation or joint venture by considering its rights and obligations arising from the arrangement. To do this the entity needs to consider the structure and legal form of the arrangement, the terms agreed by the parities and any other relevant facts and circumstances. Appendix B to IFRS 11 provides further explanation and examples of joint operations and joint ventures.

- local authorities are still required to consolidate joint ventures in their group accounts but must now do so using the equity (single line) method. The option for proportionate (line-by-line) consolidation has been removed.

The key challenge for most local authorities will be determining whether their joint arrangements are joint ventures or joint operations. The difference should be clear from the contract but in some cases judgement may be required. Local authorities that have previously used the proportionate consolidation method will need to account for the move to equity accounting as a prior period adjustment.

Disclosure of interests in other entities

IFRS 12 makes consistent the requirements for disclosures in relation to subsidiaries, joint arrangements, associates and unconsolidated entities. It includes the need for transparency about the risks to which the reporting entity is exposed as a consequence of its investment in such arrangements.

Challenge questions

- Has your Head of Finance and Resources assessed the potential impact of these standards for the authority's financial statements?

Accounting and audit issues

Earlier closure and audit of accounts

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Challenge questions

- Has your Head of Finance and Resources put in place a plan to address the earlier close date?

Emerging issues and developments: Grant Thornton

Rising to the Challenge

Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at:
http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

Emerging issues and developments: Local government guidance

Financial sustainability of local government

In November the National Audit Office published their report on the Financial Sustainability of Local Government.

The report concludes that Local authorities have coped well with reductions in government funding, but some groups of authorities are showing clear signs of financial stress. The Department for Communities and Local Government has a limited understanding of authorities' financial sustainability and the impacts of funding cuts on services, according to the National Audit Office.

The Government reduced its funding to local authorities by an estimated 28% in real terms between 2010-11 and 2014-15. Further planned cuts will bring the total reduction to 37% by 2015-16, excluding the Better Care Fund and public health grant. Although there have been no financial failures in local authorities in this period, a survey of local auditors shows that authorities are showing signs of financial pressure. Over a quarter of single tier and county councils had to make unplanned reductions in service spend to deliver their 2013-14 budgets. Auditors are increasingly concerned about local authorities' capacity to make further savings, with 52% of single tier and county councils not being well-placed to deliver their medium-term financial plans.

There are significant differences in the scale of funding reductions faced by different authorities. Authorities that depend most on government grant are the ones most affected by funding reductions and reforms. This was an outcome of policy decisions to tackle the fiscal deficit by reducing public spending, and for local authority funding to offer incentives for growth.

Local authorities have tried to protect spending on social care services. Other service areas such as housing services and culture and leisure services have seen larger reductions. While local authorities have tried to make savings through efficiencies rather than by reducing services, there is some evidence of reduction in service levels.

According to the NAO, however, the Department does not monitor in a coordinated way the impact of funding reductions on services, and relies on other departments and inspectorates to alert it to individual service failures. In consequence, the Department risks becoming aware of serious problems with the financial sustainability of local authorities only after they have occurred.

The Department's processes for assessing the capacity of authorities to absorb further funding reductions are also not sufficiently robust.

Local government guidance financial reporting remains strong

Audit Commission report on financial reporting

The Audit Commission published its report, Auditing the Accounts 2013/14: Local government bodies, on 11th December.

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. This year the Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014, and the body published audited accounts promptly. Although, as only 21 principal bodies have managed to publish their audited accounts by 31 July since 2008/09, a move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.

grant-thornton.co.uk