

# AGENDA

## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING



Date: Monday 19 September 2016

Time: 6.30 p.m.

Venue: Town Hall, High Street,  
Maidstone

Membership:

Councillors Coulling (Parish Representative),  
Daley, English, Fissenden, Garland,  
McLoughlin (Chairman), Perry, Revell,  
Mrs Riden (Parish Representative) and  
Vizzard

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Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members

**Continued Over/:**

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**Issued on Friday 9 September 2016**

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](http://www.maidstone.gov.uk)

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

4.	Disclosures by Members and Officers	
5.	Disclosures of Lobbying	
6.	To consider whether any items should be taken in private because of the possible disclosure of exempt information	
7.	Minutes of the meeting held on 11 July 2016	1 - 10
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## **MAIDSTONE BOROUGH COUNCIL**

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

#### **MINUTES OF THE MEETING HELD ON 11 JULY 2016**

**Present:** Councillor McLoughlin (Chairman) and Councillors D Burton, Daley, English, Fissenden, Garland, Perry and Vizzard

**Also Present:** Councillors Mrs Blackmore and Cuming  
Darren Wells of Grant Thornton (External Auditor)

1. **APOLOGIES FOR ABSENCE**

It was noted that apologies for absence had been received from Councillors Butcher (Parish Representative), Mrs Riden (Parish Representative) and Revell.

2. **NOTIFICATION OF SUBSTITUTE MEMBERS**

It was noted that Councillor D Burton was substituting for Councillor Revell.

3. **NOTIFICATION OF VISITING MEMBERS**

Councillor Mrs Blackmore indicated her possible wish to speak on all items on the agenda.

Councillor Cuming attended the meeting as an observer.

4. **ELECTION OF CHAIRMAN**

**RESOLVED:** That Councillor McLoughlin be elected as Chairman of the Committee for the Municipal Year 2016/17.

5. **ELECTION OF VICE-CHAIRMAN**

**RESOLVED:** That Councillor English be elected as Vice-Chairman of the Committee for the Municipal Year 2016/17.

6. **DISCLOSURES BY MEMBERS AND OFFICERS**

There were no disclosures by Members or Officers.

7. **DISCLOSURES OF LOBBYING**

There were no disclosures of lobbying.

8. EXEMPT ITEMS

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

9. MINUTES OF THE MEETING HELD ON 21 MARCH 2016

**RESOLVED:** That the Minutes of the meeting held on 21 March 2016 be approved as a correct record and signed.

10. ANNUAL GOVERNANCE STATEMENT 2015/16 AND LOCAL CODE OF CORPORATE GOVERNANCE REVIEW

The Head of Policy and Communications presented the draft Annual Governance Statement 2015/16 and a refreshed version of the Local Code of Corporate Governance for review and approval by the Committee prior to submission to the Policy and Resources Committee for agreement and then sign-off by the Leader of the Council and the Chief Executive. It was noted that:

- The purpose of the Annual Governance Statement was to provide assurance on the Council's governance arrangements. The Statement included a review of the effectiveness of the arrangements in place for 2015/16, an update on the action taken to address governance issues in 2015/16 and an action plan for 2016/17.
- Action taken to address governance issues in 2015/16 included reviews by the Democracy Committee of the operation and effectiveness of the new Constitution adopted to support the introduction of a committee system of governance and of the process for electing the Mayor/appointing the Deputy Mayor.
- The action plan for 2016/17 included training and communication on information management; developing and implementing a residents' survey action plan; establishing risk appetite; and following up audit reviews with a weak assurance rating (Safeguarding, Business Continuity and Mote Park and Cobtree Manor Park cafés).
- The purpose of the Local Code of Corporate Governance was to set out the core principles of corporate governance and the arrangements in place to fulfil these responsibilities. The Code was adopted in 2003 and had been reviewed annually to ensure that it remained fit for purpose and up to date. Minor revisions had been made to the Code as part of the annual review.
- In 2016/17, the Annual Governance Statement and the Local Code of Corporate Governance would need to be significantly overhauled to reflect the new "Delivering Good Governance Framework" which was published by CIPFA/Solace in April 2016 and was intended to be used as best practice for developing and maintaining a locally adopted code of governance.

In response to questions by Members, the Officers explained/confirmed that:

- The purpose of the Performance Plan was to set out how the Council was performing against the Key Performance Indicators and strategic actions that directly contributed to its corporate priorities. Progress made against Key Performance Indicators and strategic actions was reported to the Policy and Resources Committee on a quarterly basis and would also be reported to the other Service Committees this year. Covalent was an in-house performance and risk management system which was used to produce performance monitoring reports. The Annual Governance Statement could be amended to include an explanation of the system.
- The contract for the new webcasting system had been awarded to Public-i. It was hoped that the system, which included new microphones and an optional facility to manage voting at Council/Committee meetings, would be installed very soon as the Town Hall would be used for the Local Plan examination in October/November. Use of the new voting system would have governance implications which would be considered initially by the Democracy Committee. The Officers were confident that Public-i being market leaders would have solutions to any equalities issues associated with use of the new webcasting system.
- Following a review, 'Reach the Summit', an internal performance management tool, was no longer in existence and a new system would be introduced later in the year that acknowledged and rewarded teams that had performed well. The review had shown that people did not like the competitive nature of 'Reach the Summit' and felt that their performance was being measured against targets that were out of their control or external to them. An update on the operation of the new system would be provided six months after it had come into effect. The annual awards ceremony for staff where staff/Members were encouraged to nominate individuals or teams, focused on the Council's six core values (STRIVE) in the delivery of services, was well established and budgeted for.
- A report would be submitted to the Policy and Resources Committee in September with options for conducting the annual consultation on the budget. Last year the consultation with the public was carried out as part of the Residents' Survey, but a roadshow with Committee Chairmen and Vice-Chairmen or an online consultation could be arranged to engage with local people.
- In terms of channel shift, there had been a significant drop in face to face contacts together with an increase in the use of online forms and contacts by phone. Whilst there was a questionnaire seeking feedback on the Council's website, the issue of whether there was a satisfaction survey in respect of online consultations/transactions would be followed up and the details circulated. A new search function was being trialled on the Council's website to direct people to the information required

and consideration was being given to the provision of interactive online support.

- The reference to the Communication and Engagement Strategy in the Local Code of Corporate Governance would be amended to show that the Strategy was in place and reviewed annually. A refreshed action plan based on the results of the Residents' Survey would be reported to the Policy and Resources Committee in September.

**RESOLVED:** That subject to the points raised in the discussion, the draft Annual Governance Statement 2015/16 and the refreshed Local Code of Corporate Governance be approved for submission to the Policy and Resources Committee for agreement and then sign-off by the Leader of the Council and the Chief Executive.

#### 11. ANNUAL INTERNAL AUDIT REPORT & OPINION 2015/16

The Head of Audit Partnership presented the Internal Audit Annual Report and Opinion 2015/16 to the Committee. In accordance with the Public Sector Internal Audit Standards, the report included:

- The annual opinion of the Head of Audit Partnership on the overall adequacy and effectiveness of the Council's framework of internal control, governance and risk management;
- A summary of the work undertaken by Mid-Kent Audit that supported the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards.

The Head of Audit Partnership advised the Committee that he was satisfied from audit work completed during 2015/16 that the Council could place assurance on the internal controls in place during the year. The audit work provided assurance that the Council's corporate governance framework complied in all material respects with guidance issued by CIPFA/Solace and that the risk management processes were effective.

The Head of Audit Partnership confirmed that he was satisfied that Mid-Kent Audit had upheld proper independence and conformance with Public Sector Internal Audit Standards. He had reached his conclusions independently and without any undue pressure from Officers or Members.

In response to questions by Members, the Officers explained that:

- It had been concluded from the audit work that there were weak controls in place surrounding business continuity across the Council as a whole. The overall plan was last updated in 2008 since which time the Council had changed premises. Whilst some Officers and services (including ICT) had plans in place, an overarching plan was required. A follow-up exercise was about to commence, and an update on the

implementation of the recommended actions arising from the review would be reported to the Committee in November 2016.

- It had been concluded from the audit work that there were weak controls in place for the management of cash and stock at Mote Park and Cobtree Manor Park cafés. Whilst there was no evidence of fraud, working practices needed to be brought up to standard across both sites. Machines would be installed the following week to enable card payments to be made at both cafés, and this would provide more certainty over controls.

The Committee congratulated the audit team on its achievements in terms of ongoing professional development.

**RESOLVED:**

1. That the Committee notes the Head of Audit Opinion for 2015/16 that it can place reliance on the overall adequacy of the Council's framework of internal control, governance and risk management.
2. That the Committee notes the work underlying the Opinion and the Head of Audit's view that the internal audit service has upheld proper independence and conformance with Public Sector Internal Audit Standards.

12. SPEAKING UP POLICY (WHISTLEBLOWING)

The Head of Audit Partnership presented a proposed new Policy to support people working for or with the Council who wished to speak up and raise concerns. It was noted that:

- In September 2015, the Committee had commissioned Mid-Kent Audit to undertake a review of the effectiveness of the Council's arrangements for raising concerns at work. At that time these arrangements were set out in a Whistleblowing Charter which had not been reviewed for some considerable time and, in particular, did not reflect changes in the Council's structure or developments in regulations and best practice around whistleblowing.
- The opportunity had been taken to expand the scope of the work to include comparative information from Ashford and Tunbridge Wells Borough Councils.
- The review had concluded that whilst arrangements were not fundamentally deficient, the opportunity should be taken to update and refresh the Whistleblowing Charter and to raise its profile among staff. The new Policy conformed to best practice guidance issued by CIPFA and Public Concern at Work, an independent charity that provided support and advice regarding whistleblowing. It also sought to resolve significant issues associated with the previous Charter by clearly establishing a route for reporting concerns, ownership of the Policy and

integration with other developing policy approaches such as Safeguarding.

- The new Policy had been produced in booklet form and would be featured at forthcoming training and development sessions.

During the discussion on the proposed new Policy, Members raised a number of issues as follows:

- There was a possible requirement for an Equality Impact Needs Assessment to be undertaken in respect of the new Policy (the Head of Audit Partnership indicated that he would give further consideration to this).
- The new Policy should be called the "Whistleblowing Policy" rather than the "Speaking Up Policy".
- There was a need to make people aware of the protection given to whistleblowers by the Public Interest Disclosure Act 1998 and to provide assurance that the Council values staff who raise their concerns, will give those concerns proper consideration and will protect confidentiality.
- There was a need to place greater emphasis in the document to the Council's commitment to protecting and supporting whistleblowers (by making specific reference in the introduction) and to clearly establish overall responsibility for whistleblowing at an Officer level.
- The sentence in section five of the new Policy stating that "It will never be appropriate to alert the media" should be deleted. However, staff should be strongly encouraged to seek advice before reporting externally, especially before contacting the media, and avoid divulging confidential or personal sensitive information.

In response to questions by Members, the Head of Audit Partnership explained that:

- The Public Interest Disclosure Act 1998 fundamentally related to protecting people from harassment, but in terms of anonymity, it was not possible to protect a person if their identity was not known. However, action could be taken to protect a person's identity by not disseminating information beyond the need to know.
- If a member of staff wished to blow the whistle about the actions of a person working for another organisation, they would have to use that organisation's whistleblowing policy.
- The new Policy had not been trialled in practice, but once in operation amendments could be made if necessary.

The Committee approved the principle of the new Whistleblowing Policy, but asked the Head of Audit Partnership to report back to the next



meeting of the Committee with a revised draft incorporating the points raised by Members during the discussion. Members also asked that all Members of the Council be given the opportunity to see and comment on the revised draft prior to it being reported to the Committee for approval.

**RESOLVED:**

1. That the principle of the new Whistleblowing Policy be approved, but the Head of Audit Partnership be requested to report back to the next meeting of the Committee with a revised draft incorporating the points raised by Members during the discussion.
2. That all Members of the Council be given the opportunity to see and comment on the revised draft prior to it being reported to the Committee for approval.
3. That in the meantime, the Head of Audit Partnership be requested to continue with existing commitments to raise the profile of whistleblowing among staff.
4. That appropriate periodic updates on matters raised through the Whistleblowing Policy once approved be included in the Committee's work programme.

Voting:        7 – For        1 – Against        0 – Abstentions

13. STATEMENT OF ACCOUNTS 2015/16

The Committee considered the draft un-audited Statement of Accounts which had been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and which had been signed off by the Director of Finance and Business Improvement as the Officer responsible prior to being submitted for external audit. It was noted that:

- The final audited Statement of Accounts would be submitted to the Committee for approval in September 2016.
- The Statements were preceded by a Narrative Report summarising the Council's performance over the financial year 2015/16 and highlighting the most significant elements of the financial statements.
- As part of the external audit process and to comply with International Auditing Standards, the External Auditor was required to make enquiries to establish how the Committee gained assurance over management processes and arrangements in place to prevent and detect fraud and to ensure compliance with laws and regulations. The enquiries had been addressed in the first instance to the Chairman of the Committee and the Committee was asked to endorse his proposed responses. Similar questions had been asked of management and a response had been provided.

In response to questions by Members, the Head of Finance and Resources said that in his opinion, the key issues facing the Council related to homelessness, projects aimed at reducing the cost to the Council of providing temporary accommodation, performance in relation to the commercialisation agenda, the deficit on the Collection Fund and the consultation just released on 100% retention of business rates to go with changes in responsibilities.

The Committee indicated that it was satisfied with the Chairman's proposed responses to the External Auditor's enquiries subject to it being made clear when referring to the Whistleblowing Policy that it is subject to further review.

**RESOLVED:**

1. That the draft un-audited Statement of Accounts for the year ending 31 March 2016, attached as Appendix I to the report of the Director of Finance and Business Improvement, be noted.
2. That subject to it being made clear when referring to the Whistleblowing Policy that it is subject to further review, the Chairman's proposed responses to the External Auditor's enquiries, attached as Appendix II to the report of the Director of Finance and Business Improvement, be endorsed.

14. TREASURY MANAGEMENT ANNUAL REVIEW 2015/16

John Owen, Finance Manager, presented a report setting out details of the activities of the Treasury Management function for the 2015/16 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It was noted that:

- Following a tendering exercise, Arlingclose had been selected as the Council's Treasury Advisors for a period of three years from 1 January 2016, replacing Capita Asset Services who had acted in that capacity for over fifteen years.
- During 2015/16, the Council's investment balances had ranged between £18m and £47m. The average investment balance for the year was £33.7m. Investment income for the year totalled £252k against a budget of £270k. The shortfall was due to the fact that interest rates had not increased in line with the original forecasts made by the Council's Treasury Advisors.
- All investments during 2015/16 had been short term due to interest rates not being sufficient to justify the risk of investing funds for longer periods. Property funds had been considered and discussed with Arlingclose, but it appeared that yields had peaked due to the property market slowing down. Funds would need to be invested for a minimum of 3 to 5 years in order to earn a modest return and the property market could fluctuate over that time. Having regard to the Council's

current Capital Programme, it was considered less of a risk to run down balances.

- The Council had not needed to borrow during 2015/16 except on two occasions for short term cash flow purposes. The total cost of the borrowing was £139.73.
- Following the EU referendum decision, rating agencies had downgraded the UK's sovereign credit rating and it was likely that the ratings of UK banks and building societies would follow suit. Arlingclose's advice was that the Council should run down its balances to avoid counterparty risks associated with lower rated institutions and to borrow as and when necessary with interest rates being very low.

In response to a question by a Member, the Director of Finance and Business Improvement confirmed that deposits with overseas banks were sterling deposits with no exchange rate risk.

**RESOLVED:**

1. That the review of the financial year 2015/16 which has been compiled in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities be noted.
2. That no amendments are necessary to the current treasury management procedures as a result of the review of activities in 2015/16.

15. **EXTERNAL AUDIT UPDATE JULY 2016**

The Committee considered the report of the External Auditor on the progress to date against the 2015/16 Audit Plan. The report also included a summary of emerging national issues and developments of relevance to the local government sector.

Mr Wells of Grant Thornton (External Auditor) advised the Committee that the audit was now in its second week, and nothing had arisen so far that he needed to draw to the attention of Members. In terms of the Value for Money conclusion, the scope of the work had changed and there was now one single criterion for auditors to evaluate which was "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The report set out details of the work the External Auditor intended to undertake to address this.

In response to a question regarding the significant risk associated with the Council's financial position going forward and the possibility of increasing income to offset diminishing grant funding from Central Government, Mr Wells explained that the External Auditor planned to look at the arrangements the Council had made to ensure that its future was financially sustainable. The External Auditor was aware of the Council's

commercialisation agenda and might well look at aspects of that (looking more broadly at expenditure, including the assumptions arrived at and predicted expenditure profiles over the next few years, and income projections as well).

**RESOLVED:** That the External Auditor's update report, attached as Appendix I to the report of the Director of Finance and Business Improvement, be noted.

16. EXTERNAL AUDIT FEE LETTER 2016/17

The Committee considered the report of the Director of Finance and Business Improvement setting out details of the proposed external audit fees for 2016/17. It was noted that the main audit fee for the financial statements audit and Value for Money conclusion had been set at £50,475. The indicative fee for grant claim certification (certification of the Housing Benefits subsidy claim) had been set at £11,418. The proposed fees represented no change from the 2015/16 fees.

**RESOLVED:** That the proposed audit fee of £61,893 for the 2016/17 audit work to be undertaken by Grant Thornton be noted.

17. COMMITTEE WORK PROGRAMME 2016/17

The Committee considered its work programme for 2016/17. It was noted that the Committee's Annual Report 2015/16 would be submitted to the next meeting.

During the discussion on the work programme it was suggested and agreed that the Chairman and Vice-Chairman should frame an item for inclusion on the agenda for a future meeting of the Committee to enable consideration to be given to the risks associated with the Council's commercialisation projects.

**RESOLVED:** That the Audit, Governance and Standards Committee work programme for 2016/17 be noted and that the Chairman and Vice-Chairman be requested to frame an item for inclusion on the agenda for a future meeting of the Committee to enable consideration to be given to the risks associated with the Council's commercialisation projects.

18. DURATION OF MEETING

6.30 p.m. to 8.40 p.m.

<b>Audit Governance &amp; Standards Committee</b>	<b>19 September 2016</b>
Is the final decision on the recommendations in this report to be made at this meeting?	<b>N/A</b>

## Complaints received under the Members Code of Conduct

<b>Final Decision-Maker</b>	Audit Governance & Standards Committee
<b>Lead Head of Service</b>	John Scarborough – Head of Legal Partnership
<b>Lead Officer and Report Author</b>	Donna Price – Team Leader Corporate Governance
<b>Classification</b>	Public
<b>Wards affected</b>	All

### This report makes the following recommendations to this Committee:

1. The Committee are asked to note the contents of the report

### This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

Promoting the Code of Conduct and dealing with complaints effectively and efficiently is essential in ensuring high standards of conduct amongst members are upheld as this is an integral part of the decision making processes and delivery of the council's priorities.

<b>Timetable</b>	
<b>Meeting</b>	<b>Date</b>
Audit Governance & Standards Committee	19 September 2016

# Complaints received under the Members Code of Conduct

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This is the third report by the Monitoring Officer updating the committee on complaints received under the Member's Code of Conduct. This report provides an update for the period 12 November 2015 to 31 August 2016.
  - 1.2 The committee are asked to note the contents of the report.
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## 2. INTRODUCTION AND BACKGROUND

- 2.1 It is a requirement under the Localism Act 2011 that all Councils adopt a Code of Conduct and that the Code adopted must be based upon the Nolan Principles of Conduct in Public Life. The current Members' Code of Conduct ("the Code") for Maidstone Borough Council is set out in the Constitution adopted in May 2015 (and is unchanged from the previous Code of Conduct).
- 2.2 The Localism Act 2011 requirement to adopt a Code of Conduct also applied to all the Parish Councils. Consequently, all the Parish Councils in the Maidstone area adopted their own Codes of Conduct with the majority adopting the Borough Council's Code of Conduct.
- 2.3 Under the Localism Act 2011 Maidstone Borough Council is responsible for dealing with any complaints made under the various Codes of Conduct throughout the Maidstone area.
- 2.4 At the Full Council meeting in May 2015 the Council adopted arrangements for dealing with all complaints received under the Code of Conduct. In addition it was resolved that oversight of Code of Conduct complaints would fall under the terms of reference of the Audit Standards and Governance Committee.
- 2.5 As part of the committee's oversight function it is agreed that the Monitoring Officer provide reports on complaints to the Audit Standards and Governance Committee. It should be noted that the Localism Act 2011 repealed the requirement to publish decision notices; therefore in providing the update to the committee the names of the complainant and the councillor complained about are both kept confidential in accordance with the Data Protection Act 1998.
- 2.6 Since the last report to this Committee on 23 November 2015 there have been ten new complaints against sixteen subject members.
- 2.7 Of the ten complaints received three related to borough councillors and seven related to parish councillors.
- 2.8 As of 31 August 2016 two complaints are at the initial assessment stage, two have been concluded with a finding that there was no breach of the

Code of Conduct, four were not progressed as three failed the local assessment criteria and one failed the legal jurisdiction test. The remaining two complaints had been referred to independent investigation, however, following the resignation of both subject members the investigations have ceased and the matters closed.

- 2.9 The new Constitution provides for a Hearings Sub-Committee to meet to consider any complaint which remains valid after investigation and consideration by the Monitoring Officer in consultation (as required) with the Independent Person. To date the Hearings Sub-Committee has not yet been required to meet.

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### **3. PREFERRED OPTION**

- 3.1 That the committee note the update on complaints received under the Member's Code of Conduct.

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### **4. CONSULTATION**

- 4.1 Members of the Audit Standards and Governance Committee and the independent person in accordance with the relevant complaints procedure will be consulted with on individual complaints as and when necessary.

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### **5. CROSS-CUTTING ISSUES AND IMPLICATIONS**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	High standards of conduct are essential amongst members in delivering the council's priorities and the Code of Conduct and complaints procedure supports this.	Team Leader Corporate Governance
<b>Risk Management</b>	An effective Code of Conduct and robust complaints procedure minimises the risk of member misconduct and is part of an effective system of governance.	Team Leader Corporate Governance
<b>Financial</b>	Should it be necessary to appoint external Independent Investigators the cost of this will be met by the Borough Council	Team Leader Corporate Governance
<b>Staffing</b>	The complaints procedure is dealt within the remit of the Monitoring Officer with input from the Legal Team as	Team Leader Corporate Governance

	required.	
<b>Legal</b>	The requirements of the Localism Act 2011 with regards to the Code of Conduct and complaints procedure are set out within the report. The reporting process ensures that the committee continues it's oversight of the Code of Conduct as required by the Constitution.	Team Leader Corporate Governance
<b>Equality Impact Needs Assessment</b>	Any potential to disadvantage or discriminate different groups within the community should be overcome within the adopted complaints procedures.	Policy and Information Manager
<b>Environmental/Sustainable Development</b>	N/A	
<b>Community Safety</b>	N/A	
<b>Human Rights Act</b>	All complaints are dealt with in the context of the Human Rights Act	Team Leader Corporate Governance
<b>Procurement</b>	N/A	
<b>Asset Management</b>	N/A	

## 6. REPORT APPENDICES

None

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## 7. BACKGROUND PAPERS

None



<b>Audit, Governance &amp; Standards</b>	<b>19 September 2016</b>
Is the final decision on the recommendations in this report to be made at this meeting?	<b>Yes</b>

## Audit, Governance & Standards Committee – Annual Report 2015/16

<b>Final Decision-Maker</b>	Audit, Governance & Standards Committee
<b>Lead Head of Service</b>	Rich Clarke – Head of Audit Partnership
<b>Lead Officer and Report Author</b>	Russell Heppleston – Deputy Head of Audit Partnership
<b>Classification</b>	Public
<b>Wards affected</b>	N/A

<p><b>This report makes the following recommendations to this Committee:</b></p> <ol style="list-style-type: none"> <li>1. That the Committee <b>agree</b> the Audit, Governance &amp; Standards Committee Annual Report for 2015/16</li> <li>2. That the Chairman of the Audit, Governance &amp; Standards Committee provides the report to a meeting of the full Council to demonstrate how the Committee has discharged its duties.</li> <li>3. That the Committee, subject to any comment or amendment, <b>agrees</b> the briefing session timetable proposed in Appendix A.</li> </ol>
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<p><b>This report relates to the following corporate priorities:</b></p> <ul style="list-style-type: none"> <li>• Keeping Maidstone Borough an attractive place for all</li> <li>• Securing a successful economy for Maidstone Borough</li> </ul> <p>The Audit, Governance &amp; Standards Committee must obtain assurance on the control environment of the Council. The internal control environment comprises the whole network of systems and controls established to manage the Council and meet its objectives. It includes financial and other controls, and arrangements for ensuring the Council achieves value for money from its activities.</p>
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<b>Timetable</b>	
<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	19 September 2016

### **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 The report outlines how the Audit, Governance & Standards Committee has effectively discharged its duties during 2015/16. The report provides assurance to the Council that important internal control, governance and risk management issues are being monitored and addressed by the Committee. The report seeks to provide additional assurance to support the Annual Governance Statement.
- 1.2 This report also proposes the timetable of Member briefings that will, over the course of the next year, complement the Committee as it seeks to fulfil its responsibilities through 2016/17.

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### **2. INTRODUCTION AND BACKGROUND**

- 2.1 The Audit, Governance & Standards Committee is required to monitor audit activity (internal and external), review and comment on the effectiveness of the Council's regulatory framework and review and approve the Council's annual statements of accounts and scrutinise associated strategy and policy. This reports sets out how this has been achieved during 2015/16.
- 2.2 This is the first year that the Committee is reporting its activity as the Audit, Governance & Standards Committee, since updating its Terms of Reference in 2014/15.
- 2.3 In September 2105 the Committee agreed a programme of development briefings to be delivered prior to each meeting, designed to complement and provide insight into the types of issues the Committee would be considering over the course of the year. This report provides a refresh to this programme and includes a suggested timetable for the Committee to agree.

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### **3. AVAILABLE OPTIONS**

- 3.1 The production and presentation of an annual report is required by the Committee's terms of reference. Therefore no other alternative options can be recommended.
- 3.2 The Committee has previously requested and agreed to receive regular updates and briefings on pertinent issues relevant to the

Committee's terms of reference. This report provides an updated programme and therefore proposes no alternative option.

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#### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 This report provides the Council with assurance that important governance, risk and standards issues are monitored and addressed.
- 4.2 Our recommendation is for the Committee to agree the Audit, Governance & Standards Committee Annual Report, subject to any comments and amendments as attached in Appendix A. In accordance with the Terms of Reference, that the Chairman of the Audit, Governance & Standards Committee then provides the report to a meeting of full Council setting out how the committee has discharged its duties.
- 4.3 The Audit, Governance and Standards Committee has previously requested and agreed a programme of updates and this report continues to support this request.

#### **5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 5.1 We provided this report to the Chairman of the Audit, Governance & Standards Committee for consultation prior to submission for this meeting.
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#### **6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 6.1 The report will be presented to Full Council in accordance with this Committee's Terms of Reference.
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#### **7. CROSS-CUTTING ISSUES AND IMPLICATIONS**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The report supports the good governance, internal control and risk management of Maidstone Borough Council and so contributes broadly to achievement of its corporate priorities.	Russell Heppleston  Deputy Head of Audit Partnership
<b>Risk Management</b>	The report introduces no risks that require separate description in the Council's risk registers, nor materially impacts any currently described.	
<b>Financial</b>	There are no additional costs or savings associated with this proposal.	

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Staffing</b>	There are no staffing implications associated with this proposal.	
<b>Legal</b>	There are no legal or statutory implications with this proposal.	
<b>Equality Impact Needs Assessment</b>	This report does not describe circumstances which require an Equality Impact Needs Assessment.	
<b>Environmental/ Sustainable Development</b>	There are no environmental or sustainable development implications for this report.	
<b>Community Safety</b>	There are no community safety implications for this report.	
<b>Human Rights Act</b>	There are no implications for the Council's responsibilities under the Human Rights Act in this report.	
<b>Procurement</b>	There are no procurement implications for this report.	
<b>Asset Management</b>	There are no asset management implications for this report.	

## **8. REPORT APPENDICES**

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

- Appendix A: Audit, Governance & Standards Annual Report 2015/16

## **9. BACKGROUND PAPERS**

- [Audit, Governance & Standards Committee Members Briefings](#) – reported to Committee in September 2015



# **Audit, Governance & Standards Committee**

## **Annual Report 2015/16**



## **Introduction by Chairman of Audit, Governance and Standards Committee**

*This report provides an overview of the Audit, Governance and Standards Committee's activity during the municipal year 2015/16.*

*I am pleased to report the continued good work of the Committee in providing an independent overview of the Council's governance. This role includes detailed consideration of the work of external and internal audit plus robust scrutiny and challenge of the Council's financial performance and, through our Ethical Standards role, the approach the Council takes in investigating complaints made about Members.*

*During 2015/16 the Committee met five times and was pleased to note, among the highlights, a further unqualified accounts and value for money opinion from our external auditors and a positive conclusion on the Council's control and governance from our internal auditors.*

*Notably, the Committee commissioned its first piece of work itself this year to investigate the effectiveness of the Whistleblowing arrangements for the Council. We worked with our internal auditors and a really pleased as a result of the review to have made a significant contribution to improving the arrangements.*

*Once again during 2015/16 the Committee is grateful for the contributions of its members and parish members, as well as to those officers who support its work.*



*Councillor Steve McLoughlin  
Audit, Governance & Standards Committee Chairman (2015/16)*

## Introduction

Maidstone Borough Council has always supported and understood the value and benefits of having an independent Audit Committee. In 2015 the Council established the Audit, Governance and Standards (AGS) Committee. Its functions incorporate those undertaken by the former Audit Committee as well as some of the functions previously the responsibility of the Standards Committee.

The AGS Committee is an essential check on the corporate governance framework, providing an independent and high-level overview of the internal control, governance and risk management for the Council.

The Committee monitors internal and external audit activity, reviews and comments on the effectiveness of the Council's regulatory framework and reviews and approves the Council's annual statements of accounts.

The Committee is independent from the Council's executive management and Service Committee functions and has clear reporting lines and rights of access to discharge its responsibilities in line with its Terms of Reference (Appendix I). This includes direct access to the Council's Appointed Auditor and Head of Audit Partnership without the presence of other officers where appropriate.

The Committee is not a substitute for the management function in relation to internal or external audit, risk management, governance, or any other review or assurance function. It is the Committee's role to examine these functions, and to offer views and recommendations on the way the management of these functions is conducted.

Effective audit committees can bring many benefits to local authorities and these benefits are described in CIPFA's Audit Committees - Practical Guidance for Local Authorities as:

- Increased public confidence in the objectivity and fairness of Council financial and other reporting.
- Reinforcing the importance and independence of internal and external audit and similar review processes.
- Providing additional assurance through the process of independent review and challenge.
- Increasing emphasis and awareness of internal control, governance and risk management.

## Statement of Purpose

The promotion and maintenance of high standards of Councillor and Officer conduct within the Council, adoption and reviewing the Council's Annual Governance Statement; independent assurance of the adequacy of the financial and risk management framework and the associated control environment, independent review of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting processing.

*Maidstone Borough  
Council Constitution*

## Membership

The Audit, Governance and Standards Committee comprised of 11 members: 9 Borough Councillors and 2 Parish Councillors.

Audit, Governance and Standards Committee Members 2015/16	
Borough Councillors	Parish Representatives
CLlr McLoughlin (Chairman) CLlr Mrs Gooch (Vice-Chairman) CLlr Butler CLlr Clark CLlr Garland CLlr Perry CLlr Daley CLlr Ross CLlr Vizzard	Parish CLlr Butcher Parish CLlr Mrs Riden

## Meetings & Attendance

The Audit, Governance and Standards Committee met five times in 2015/16:

- 20 July 2015
- 21 September 2015
- 23 November 2015
- 18 January 2016
- 21 March 2016

On all occasions the Committee was well attended and able to fulfil its duties.

The Audit, Governance & Standards Committee is supported by senior officers of the Council who are regularly present at meetings, including:

- Head of Finance & Resources (Section 151)
- Head of Audit Partnership & Deputy Head of Audit Partnership
- Head of Policy & Resources
- Head of Shared Revenues & Benefits
- Fraud Manager

In addition, the Council's External Auditors (Grant Thornton) attended each meeting of the Committee during 2015/16.

All of the Committee agenda papers and minutes are available on the Council's [website](#).



## Business

During the year the Audit, Governance & Standards Committee has commented, examined and reviewed the following:

<b>Audit Activity</b>
<ul style="list-style-type: none"><li>• Internal Audit Annual Report</li></ul>
<ul style="list-style-type: none"><li>• Internal Audit Interim Report</li></ul>
<ul style="list-style-type: none"><li>• Internal Audit Plan</li></ul>
<ul style="list-style-type: none"><li>• Internal Audit Charter</li></ul>
<ul style="list-style-type: none"><li>• Whistleblowing review</li></ul>
<b>External Audit (Grant Thornton)</b>
<ul style="list-style-type: none"><li>• Fee Letter</li></ul>
<ul style="list-style-type: none"><li>• Findings Report</li></ul>
<ul style="list-style-type: none"><li>• Audit Committee Update</li></ul>
<ul style="list-style-type: none"><li>• Annual Audit Letter</li></ul>
<ul style="list-style-type: none"><li>• Grant Claim Certification</li></ul>
<ul style="list-style-type: none"><li>• Audit Plan and Update</li></ul>
<b>Finance</b>
<ul style="list-style-type: none"><li>• Statement of Accounts</li></ul>
<ul style="list-style-type: none"><li>• Treasury Management Annual Review</li></ul>
<ul style="list-style-type: none"><li>• Treasury Management Half Yearly review</li></ul>
<ul style="list-style-type: none"><li>• Treasury Management Strategy</li></ul>
<b>Governance</b>
<ul style="list-style-type: none"><li>• Update on Complaints received under the Members' Code of Conduct</li></ul>
<ul style="list-style-type: none"><li>• Local Code of Corporate Governance</li></ul>
<ul style="list-style-type: none"><li>• Annual Governance Statement</li></ul>
<ul style="list-style-type: none"><li>• Annual Governance Statement – Action Plan Update</li></ul>
<ul style="list-style-type: none"><li>• Audit, Governance &amp; Standards – Member Briefings</li></ul>
<ul style="list-style-type: none"><li>• Benefit Fraud Annual Report</li></ul>
<ul style="list-style-type: none"><li>• Work Programme &amp; Audit Committee Annual Report</li></ul>

## Conclusion

The Audit, Governance & Standards Committee, in partnership with the Council's Internal and External Auditors, and with the support of Officers has provided robust and effective independent assurance to the Council on a wide range of risk, governance and internal control issues.

The Committee can demonstrate that it has appropriately and effectively fulfilled its duties during 2015/16.

## Sources of Assurance

In drawing a conclusion for the year, the Audit, Governance and Standards Committee gained assurance from the following sources:

### ***The work of Internal Audit***

The Head of Audit Partnership issued an unqualified Head of Audit Opinion in 2014/15 which concluded that the Council was operating an effective sound system of internal control, governance and risk management. Throughout the year the Committee has been kept up to date with delivery of the Internal Audit plan, implementation of audit recommendations, and has been kept aware of any emerging risks.

The Internal Audit plan for 16/17 included a breakdown of internal audit assurance for the coming year, and the Committee were given the opportunity to comment on the work of internal audit prior to endorsing the plan for delivery.

Adverse audit opinions and progress against the implementation of audit recommendations have been presented to the Committee and at request, have been provided with regular progress updates on the implementation of audit recommendations.

The Committee has continued to show its support to the Internal Audit team throughout the year, and has recognised the role, responsibility and authority of the service within the Audit Charter which was updated and agreed by the Committee in March 2016.

### ***Whistleblowing***

This year the Committee also commissioned a specific piece of work to review the Whistleblowing arrangements. Resulting from this work, the Council has updated its policy and it taking necessary steps to improve the arrangements.

### ***The work of External Audit (Grant Thornton)***

The external auditors report back to the Audit, Governance & Standards Committee providing regular updates on their programme of work. During the year, the External Auditors presented an unqualified value for money conclusion and an unqualified opinion on the financial statements.

The Committee has provided effective challenge to the External Auditors as appropriate and gained assurance from the reports and updates provided during the year.

### ***Finance & Governance Reports***

The Committee provided robust challenge prior to approving the financial reports of the Council in September 2015.

The Committee receives updates on the Councils Treasury Management activity and have provided robust challenge and comment to the overall Strategy and performance of investments.

The Committee specifically gains assurance from the Annual Governance Statement which is a statutory document that explains the processes and procedures in place to enable the council to carry out its functions effectively.

The statement is produced following a review of the council's governance arrangements and includes actions address any significant governance issues identified. The Committee reviewed and approved the 2014/15 Annual Governance Statement.

## Dealing with Complaints about Council Members

The Localism Act 2011 obliges Councils to have both a Code of Conduct and a procedure for dealing with allegations that a member has breached that Code of Conduct. The Act further provides that the District/Borough Council for the area is responsible for dealing with complaints against all the Parish and Town Councillors for its area as well as dealing with complaints against Borough Councillors. Full Council, at its meeting on 5 July 2012, resolved to adopt the 'Kent Procedures' for dealing with Member Complaints. The 'Kent Procedures' are so called because they were devised by the Kent Monitoring Officer Group and have been adopted by Kent County Council and most of the Kent Districts/Boroughs. The concept of proportionality runs through the procedures such that the level of resource and decision on each complaint should be proportionate to the seriousness of the complaint. This very much represents the guidance from Central Government which has stressed Councils should not adopt 'gold plated' arrangements.

Under the procedures, authority is delegated to the Monitoring Officer to make an initial assessment of the complaint (in consultation with the Independent Person appointed under the provisions of the Localism Act 2011) and, if appropriate, the Monitoring Officer will seek to resolve the complaint informally. If it is decided the complaint should be investigated, then following that investigation a Sub-Committee of the Audit, Governance and Standards Committee will determine the complaint.

The Localism Act 2011 sets out the role of the Independent Person in any procedures designed for investigating allegations that a member has breached the Code of Conduct. The Independent Person's views must be sought and taken into account prior to a decision being made following an investigation into a complaint. The Independent Person's views may also be sought at other times during the process. This Council's Independent Person, Ms Barbara Varney, was appointed by Full Council in July 2013 following an interview process.

During the year ending 31 March 2016, eight new Member complaints were received. Four of the complaints did not proceed because they did not satisfy either the legal jurisdiction test or the local assessment criteria set out in the Kent Procedures. The remaining four complaints resulted in findings of no breach of the respective Code of Conduct. Five of the complaints related to Borough Councillors. The remaining three complaints related to parish councillors.

## Member Development

In March 2014 the Committee agreed a programme of development briefings to be conducted prior to each Committee meeting. This programme was revised and updated in September 2015 and the Committee Members continued to show desire and support to want to continually develop their knowledge and skills.

The programme of available briefing sessions and suggested timings are attached below:

Briefing theme & potential specific topics	Suggested timing
<b>Reviewing an audit plan</b> <ul style="list-style-type: none"> <li>Member roles in relation to internal audit</li> <li>Ensuring effective internal audit</li> <li>Performance measures in audit</li> </ul>	<b>Delivered in January 2016</b>
<b>Reviewing the Annual Governance Statement</b> <ul style="list-style-type: none"> <li>The AGS within the Council's governance</li> <li>Specific topics within the AGS</li> <li>Comparative review of AGS across local gov</li> </ul>	Spring to align with AGS approval in June
<b>Countering Fraud</b> <ul style="list-style-type: none"> <li>Whistleblowing</li> <li>Investigative practice</li> <li>Fraud risks and the Councils response</li> <li>Governance policies</li> </ul>	<b>Delivered in March 2015</b>
<b>Risk Management</b> <ul style="list-style-type: none"> <li>Risk appetite</li> <li>Specific strategic and operational risks</li> <li>Risk management strategy</li> <li>Local government risk outlook</li> </ul>	<b>Delivered in January 2015</b>
<b>Role of internal and external audit</b> <ul style="list-style-type: none"> <li>Differences in internal/external audit role</li> <li>Assuring effective external audit</li> <li>External auditor appointment</li> </ul>	<b>Delivered in June 2015</b>
<b>Understanding local authority accounts</b> <ul style="list-style-type: none"> <li>General understanding of accounts</li> <li>Specific update/annual issues</li> <li>Comparative review of LG accounts</li> </ul>	Spring/Summer to align with September accounts
<b>Assurance across partnerships</b> <ul style="list-style-type: none"> <li>Governance challenges in partnership working</li> <li>Review on specific partnerships</li> </ul>	Flexible timing at any point in the year
<b>Commissioning, procurement and contracting</b> <ul style="list-style-type: none"> <li>Risks in commissioning</li> <li>Effective procurement processes</li> </ul>	Flexible timing at any point in the year
<b>Assurance on value for money</b> <ul style="list-style-type: none"> <li>How external audit assess VfM conclusion</li> <li>Measuring value for money in local government</li> <li>Data quality and performance measurement</li> </ul>	<b>Delivered in March 2016</b>
<b>Internal Audit Standards</b> <ul style="list-style-type: none"> <li>How standards are set and monitored</li> </ul>	Autumn to align with external assessment

Briefing theme & potential specific topics	Suggested timing
<ul style="list-style-type: none"> <li>Specific work on IA conformance</li> </ul>	
<b>Treasury Management</b> <ul style="list-style-type: none"> <li>Investment and borrowing options for local authorities</li> <li>Prudential Code</li> <li>Financial outlook for local authorities</li> </ul>	Winter to align with approval of treasury management policy
<b>Standards/Code of Conduct</b> <ul style="list-style-type: none"> <li>The Kent Code</li> <li>Hearing practices</li> <li>Case studies</li> </ul>	<b>Delivered in June 2015</b>

## Proposed Programme 2016/17

The table below sets out the proposed programme of updates and briefings to be delivered 2016/17:

Briefing theme & potential specific topics	Proposed timing
<b>Internal Audit Standards</b> <ul style="list-style-type: none"> <li>How standards are set and monitored</li> <li>Specific work on IA conformance</li> </ul>	19 September 2016
<b>Risk Management</b> <ul style="list-style-type: none"> <li>Risk appetite</li> <li>Specific strategic and operational risks</li> <li>Risk management strategy</li> <li>Local government risk outlook</li> </ul>	21 November 2016
<b>Treasury Management</b> <ul style="list-style-type: none"> <li>Investment and borrowing options for local authorities</li> <li>Prudential Code</li> <li>Financial outlook for local authorities</li> </ul>	16 January 2017
<b>Reviewing the Annual Governance Statement</b> <ul style="list-style-type: none"> <li>The AGS within the Council's governance</li> <li>Specific topics within the AGS</li> <li>Comparative review of AGS across local gov.</li> </ul>	20 March 2017

## Terms of Reference & Responsibilities

Audit Activity
<div style="display: flex; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; margin-right: 10px;">29</div> <div> <ul style="list-style-type: none"> <li>a) To consider the Head of Internal Audit Partnership's annual report and opinion, and a summary of Internal Audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.</li> <li>b) To consider reports dealing with the management and performance of Internal Audit Services, including consideration and endorsement of the Strategic Internal Audit Plan and any report on agreed recommendations not implemented within a reasonable timescale; and the Internal Audit Charter?</li> <li>c) To consider the External Auditor's Annual Audit Letter, relevant reports, and any other report or recommendation to those charged with governance; and ensure that the Council has satisfactorily addressed all issues raised. To comment on the scope and depth of external audit work and to ensure it gives value for money.</li> <li>d) To review and approve the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Policy and Resources Committee or Council.</li> <li>e) Consider and review the effectiveness of the Treasury Management Strategy, Investment Strategy, Medium Term Financial Strategy, Annual Report and Mid-Year review and make recommendations to the Policy and Resources Committee and Council. Recommend and monitor the effectiveness of the Council's Counter-Fraud and Corruption Strategy.</li> </ul> </div> </div>
Governance
<ul style="list-style-type: none"> <li>a) To maintain a financial overview of the operation of Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.</li> <li>b) In conjunction with Policy and Resources Committee to monitor the effective development and operation of risk management and corporate governance in the Council to ensure that strategically the risk management and corporate governance arrangements protect the Council.</li> <li>c) To monitor Council policies on 'Raising Concerns at Work' (Whistleblowing) and the 'Anti-fraud and corruption' strategy.</li> <li>d) To oversee the production of the authority's Annual Governance Statement and to agree its adoption.</li> <li>e) The Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice and high standards of ethics and probity. This Committee will receive the annual review of the Local Code of Corporate Governance and may make recommendations to Policy and Resources Committee for proposed amendments, as necessary.</li> <li>f) To consider whether safeguards are in place to secure the Council's compliance with its own and other published standards and controls.</li> </ul>

## Standards

- a) The promotion and maintenance of high standards of conduct within the Council.
- b) To advise the Council on the adoption or revision of its Codes of Conduct.
- c) To monitor and advise the Council about the operation of its Codes of Conduct in the light of best practice, and changes in the law, including in relation to gifts and hospitality and the declaration of interests.
- d) Assistance to Councillors, Parish Councillors and co-opted members of the authority to observe the Code of Conduct.
- e) To ensure that all Councillors have access to training in Governance, Audit and the Councillor Code of Conduct; that this training is actively promoted; and that Councillors are aware of the standards expected under the Councils Codes and Protocols.
- f) To deal with complaints that Councillors of the Borough Council and Parish Councils may have broken the Councillor Code of Conduct.
- g) Following a formal investigation and where the Monitoring Officer's investigation concludes that there has been a breach of the Code of Conduct a hearing into the matter will be undertaken. *See the procedure at 4.2 of the Constitution for dealing with complaints that a Councillor has breached the Code of Conduct.*
- h) Advice on the effectiveness of the above procedures and any proposed changes.
- i) Grant of dispensations to Councillors with disclosable pecuniary interests and other significant interests, in accordance with the provisions of the Localism Act 2011.



## Audit, Governance & Standards Committee

**19 September 2016**

Is the final decision on the recommendations in this report to be made at this meeting?

**Yes**

## Whistleblowing Policy

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

### This report makes the following recommendations to this Committee:

1. This Committee **approves** the Whistleblowing Policy.

### This report relates to the following corporate priorities:

- Keeping Maidstone Borough an attractive place for all -
- Securing a successful economy for Maidstone Borough –

The Policy relates to governance of the Council and so supports each priority.

### Timetable

<b>Meeting</b>	<b>Date</b>
Corporate Governance Group (officers)	26 April 2016
Wider Leadership Team (officers)	10 May 2016
Audit, Governance & Standards Committee	11 July 2016
Audit, Governance & Standards Committee	19 September 2016

# Whistleblowing Policy

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The attached policy (at appendix I) sets out a refreshed policy and approach for supporting staff who want to raise concerns at Maidstone BC. It conforms to best practice issued by CIPFA and Public Concern at Work.
- 1.2 The attached policy is adapted following initial presentation to Members at this Committee on 11 July 2016 and for subsequent discussions with officers and Members. We provide details on the changes within the report.

---

## 2. INTRODUCTION AND BACKGROUND

- 2.1 The original impetus to refresh the whistleblowing policy came from an audit review completed at the request of this Committee in late 2015 and reported in January 2016. Following changes to the internal audit Charter approved by this Committee in March 2016, internal audit took on responsibility for refreshing the policy and approach to support staff raising concerns.
- 2.2 The initial draft of this policy came to Members in July prompting an engaging and informed discussion that sought adaptations and improvements to the policy. These comments shared the clear aim of ensuring the Policy does everything possible in pursuit of an essential policy goal; ensuring staff have sufficient confidence their concerns will be listened to and dealt with appropriately in a way that offers them support and protection alongside delivering tangible improvement to the Council.
- 2.3 The table below summarises some of the main comments raised and how the Policy now shown at Appendix I is adapted in response (note that comments are as recorded in the minutes).

Comment	Response
Place greater emphasis in the document to the Council's commitment to protecting and supporting whistleblowers (by making specific reference in the introduction) and to clearly establish overall responsibility for whistleblowing at an Officer level.	The Policy now features a personal introduction from Alison Broom, the Chief Executive, asserting the Council's and her personal support for whistleblowers
Make people aware of the protection given to whistleblowers by the Public Interest Disclosure Act 1998 and to provide assurance that the Council values staff who raise their concerns, will give those concerns proper consideration and will protect confidentiality.	Direct reference to the legislation now on front page of the policy. Additional assurance on support provided within Chief Executive's introduction.

Comment	Response
The new Policy should be called the "Whistleblowing Policy" rather than the "Speaking Up Policy".	Revised title
There was a possible requirement for an Equality Impact Needs Assessment to be undertaken in respect of the new Policy (the Head of Audit Partnership indicated that he would give further consideration to this).	After further discussion with Policy, the Head of Audit Partnership is satisfied that an EIA is not required for the policy itself. However, we completely accept that individual issued raised as a consequence could have EIA implications and so propose making this a consideration of the regular reporting to Members requested in the recommendation accepted in July.
The sentence in section five of the new Policy stating that "It will never be appropriate to alert the media." should be deleted. However, staff should be strongly encouraged to seek advice before reporting externally, especially before contacting the media, and avoid divulging confidential or personal sensitive information.	Sentence deleted encouragement to consider confidential and personal information remains.

2.4 Aside from the above, we have also made minor consequential amendments and taken the opportunity to reconsider some layout and phrasing but these adaptations make no material change to content.

2.5 As a final note, a key theme of the July discussion was the need to ensure staff have confidence that their concerns will be taken seriously and their status and standing in the workplace not threatened as a result. While the revised policy does go further in asserting the Council's aspirations and intentions in that regard it is, ultimately, just words on a page which is all that it can be. The real proof for people, and what I suggest will do most to instil that confidence, will be evidence in practice. The aim is that this will come once the Policy is operating in practice, with the regular reporting to Members being just one forum to give people evidence of how the Council supports whistleblowers and deals effectively with their concerns.

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### 3. AVAILABLE OPTIONS

3.1 Although the Council has duties under the Public Interest Disclosure Act 1998, there is no specific requirement to have a Policy. So Members could decide not to have a Policy at all. However, it is acknowledged as best practice (including by the Value For Money criteria produced by the National Audit Officer, for example). Aside from external requirements, supporting people who wish to raise concerns is a mark of a well governed organisation and, done right, brings significant benefits in allowing an organisation to identify and respond to emerging problems before they become serious issues.

- 3.2 Currently, the Council has a Policy which could continue in force. However, as noted by the January 2016 report that Policy lags behind best practice in the sector and, potentially, limits the ability of staff to safely raise concerns.
- 

#### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 The attached Policy (Appendix I) meets the best practice standards of CIPFA and Public Concern At Work. It also resolves a significant issue of the previous Policy in clearly establishing a route for reporting, ownership of the Policy and integration with other developing policy approaches (such as Safeguarding) and is adapted for further Member comments.
- 4.2 We recommend Members approve the Policy so we can set about raising its profile within the Council and encourage staff with concerns to speak up.
- 

#### **5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 5.1 Section 2 of this report summarises and responds to previous Committee feedback. As suggested at that meeting, the Policy attached at Appendix I was circulated to all Members (not just this Committee) on 31 July inviting feedback and comments. Comments received were positive and did not suggest any further changes, and therefore Appendix I is as Members will have seen it previously on 31 July.
- 

#### **6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 6.1 If approved, the Policy will then become the centrepiece of a drive to raise awareness with the Council's Managers (who, according to research conducted in January 2016, will be the first port of call for staff 90% of the time). We will then consider further training and dissemination of the Policy as required.
- 6.2 We will report to Members of this Committee on matters raised through the Policy initially as part of our standard Mid Kent Audit reporting (November/December and June/July). However, we will keep this under review if the volume and nature of matters raised suggests alternative reporting cycles and means would be more beneficial in raising matters to the attention of Members.

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## 7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	The Policy has no impact on Corporate Priorities of itself. However, the nature of issues that are subsequently raised by staff may have impact, but these will be considered in subsequent outcome reports.	Rich Clarke, Head of Audit Partnership (and all below)
<b>Risk Management</b>	N/A	
<b>Financial</b>	N/A	
<b>Staffing</b>	N/A	
<b>Legal</b>	The Policy was considered by the Council's legal team on presentation at Corporate Governance Group and is amended for comments.	
<b>Equality Impact Needs Assessment</b>	See section 2	
<b>Environmental/Sustainable Development</b>	N/A	
<b>Community Safety</b>	No direct implications. The Policy specifically advises those with concerns on immediate matters of safety (including safety of children and vulnerable adults) to go to police or through the Council's safeguarding policy.	
<b>Human Rights Act</b>	N/A	
<b>Procurement</b>	N/A	
<b>Asset Management</b>	N/A	

## 8. REPORT APPENDICES

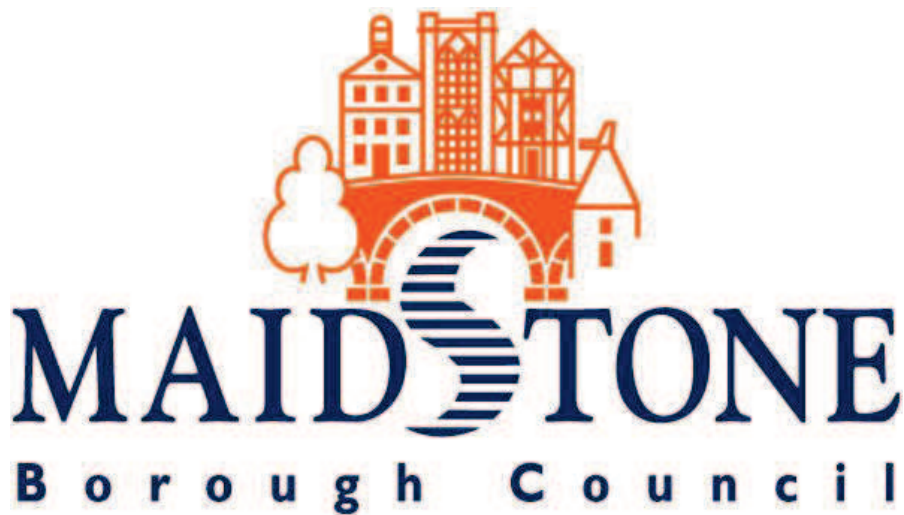
The following documents are to be published with this report and form part of the report:

- Appendix I: Whistleblowing Policy

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## 9. BACKGROUND PAPERS

None noted



# Whistleblowing Policy

A guide on how to speak up and raise concerns at Maidstone Borough Council and the Council's commitment to provide a range of processes and support to enable all staff to report issues promptly and in ways they are comfortable with. It particularly describes the protections given to whistleblowers by the Public Interest Disclosure Act 1998

Ratified Date	19 September 2016
Ratified By	Audit, Governance & Standards Committee
Next Review Date	September 2018
Accountable Service	Mid Kent Audit
Policy Author	Head of Audit Partnership

Mid Kent Audit

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# Chief Executive's Introduction

We set high standards for ourselves and the way in which we provide services to residents. We're also governed by various rules, regulations and laws.

Like all organisations, there is a risk that things may sometimes go wrong and that something illegal or unethical may be happening.

If you become aware of this, we need to know. Speaking up when you have a concern is essential. Your concerns will be taken seriously and in confidence.

You may feel worried about raising a concern and we understand this. But please don't be put off. We will look into what you say and offer you any support you may need.

We will not tolerate any harassment or victimisation of someone raising a concern, nor any attempt to bully you into not raising a concern. If this happens you should report it to me or any senior officer you feel comfortable with.

The policy aims to:

- Encourage staff, Members, contractors and partners to speak up on suspected wrongdoing as soon as possible in the knowledge their concerns will be taken seriously and investigated, including respecting confidentiality.
- Tell you how to raise concerns.
- Reassure you that you can raise genuine concerns without fear of reprisals even if you are mistaken.

Our people are our best asset and our best defence. By speaking up you can help us continue offering the best service we can to the people of Maidstone.

**Alison Broom**  
**Chief Executive**





# Who can raise concerns?

Anyone who works at and for all levels of the Council. This includes people working with the Council in partnership (including Mid Kent Services and external contractors), temporary and fixed-term employees, Members and volunteers. This group is collectively referred to as **staff** in this policy.

## What concerns can I raise?

You can raise a concern about any **risk, malpractice or wrongdoing** you think is harming the service we deliver. The Public Interest Disclosure Act 1998 sets out some examples (known as protected disclosures):

- Criminal activity (for example, theft or fraud)
- Miscarriages of justice (for example, wrongly cancelling a parking ticket)
- Dangers to health and safety (for example, faulty protective equipment)
- Damage to the environment (for example, wrongful waste disposal)
- Breaching legal requirements
- Covering up or concealing any of the above

A person who raises a genuine concern relating to any of the above is referred to as a *whistleblower* by the Act. If you have concerns you should raise them using this policy.

Don't wait for proof. We want you to raise the matter while it is still a concern. **If in doubt, speak up.** It doesn't matter if you turn out to be mistaken as long as you are genuinely troubled.

This policy is not for people with concerns about their employment that affect only them – please see our *grievance policy*.

If your concern relates to the safety or wellbeing of a child or vulnerable adult please see our *Safeguarding Policy*.

# Confidentiality and anonymity

We hope you feel comfortable raising a concern openly, but we also appreciate you may wish to raise the matter confidentially. This means that, although the person you are reporting to will know your identity we will not disclose it to anyone else unless required by law (for example, to the police). We will assume matters are being raised in confidence unless you tell us otherwise.

You can choose to raise your concern anonymously, without giving your name, but that may make it more difficult for us to investigate thoroughly, give you feedback on outcomes and give you advice and support.

We will investigate all matters raised, whether openly, confidentially or anonymously.

## Who should I raise concerns with?

In most cases, we hope you will be able to raise concerns in the first instance with your line manager, formally or informally. If for any reason you don't think it is appropriate to raise with your manager, or your manager has not addressed your concerns you can use any of the options set out below.

- The Head of Audit Partnership (or member of the Audit Team)
- The Chief Executive, or any Director
- The Council's anonymous reporting line

Contact details are at page 8 of this policy

This policy aims to provide an internal route for staff to raise concerns. However, we recognise it may sometimes be appropriate to raise the matter externally and we provide a range of contact details on page 8. We strongly encourage you to seek advice before reporting externally, especially before contacting the media, and avoid divulging confidential or personal sensitive information.

# What will we do?

We are committed to listening to our staff, learning lessons and improving our services. When we receive a concern raised through this policy, it will be recorded and you will receive an acknowledgement within 2 working days. We will also note the date the concern was received, whether you have requested confidentiality, a summary of the matters raised and dates where we have provided updates or feedback.

Where we have been unable to resolve the matter quickly via your line manager, we will carry out a suitable, proportionate and independent investigation led by trained staff which will reach a conclusion within a reasonable timescale (that we will notify you of). The investigation will be objective and produce a report focussing on identifying and remedying any issues, including lessons to prevent problems recurring.

We will treat you with respect and thank you for raising concerns. We will also keep you informed on progress (while respecting the confidentiality of others) which may require your further assistance.

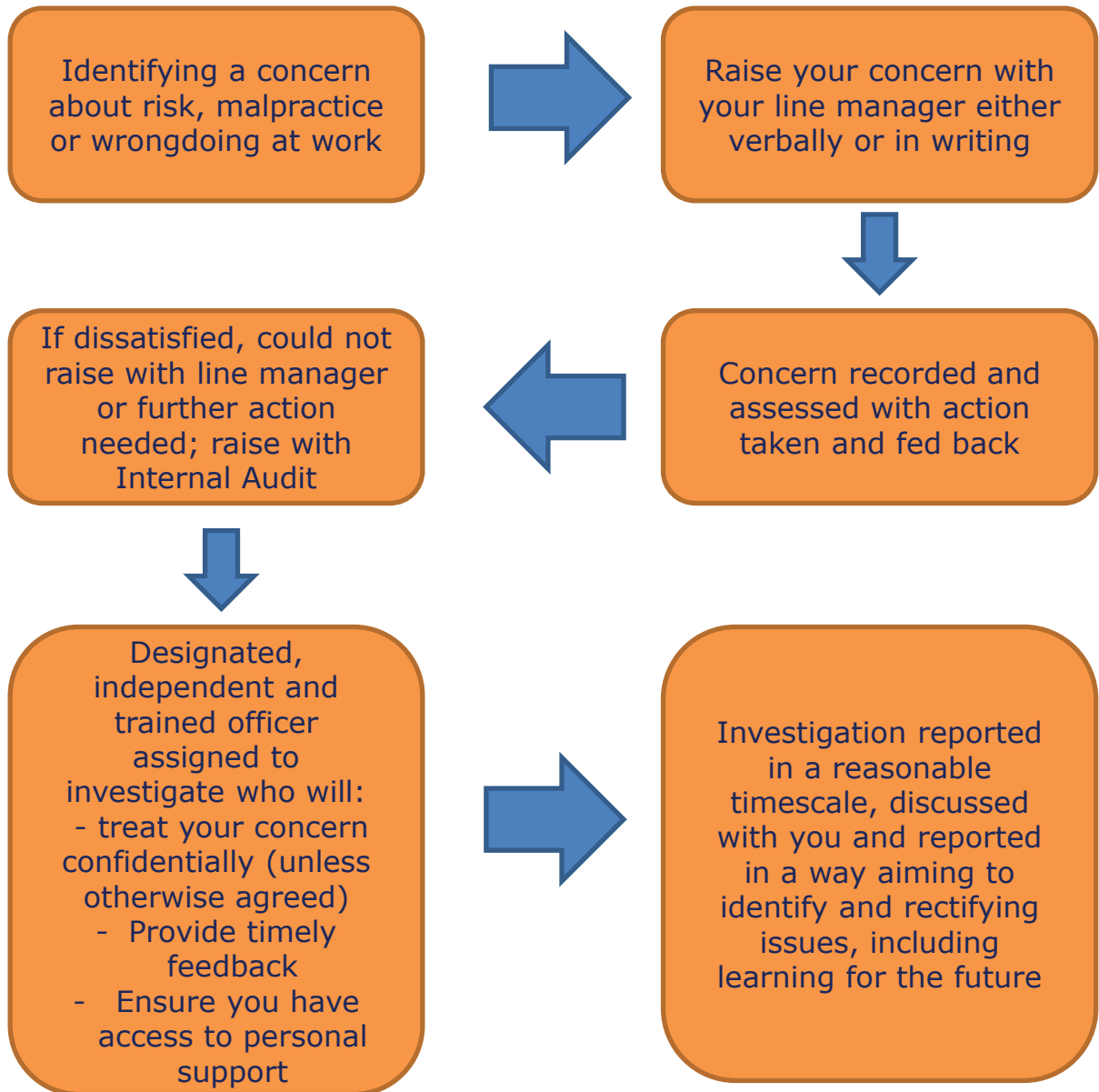
We understand that people raising honest concerns are sometimes worried about possible repercussions. Harassment and victimisation of people who raise concerns is not something we will tolerate. It is a breach of our values that may result in disciplinary action. If you are put under undue pressure to keep concerns to yourself or suffer detriment for speaking up you should report it within your own management structure (such as to your Director) or to any Senior Officer you wish, including the Chief Executive.

If we conclude that a member of staff has made false allegations raised in bad faith (for example, maliciously or with a view to personal gain) then they may be subject to disciplinary action. Also, speaking up does not guarantee immunity for any person who raises concerns about malpractice they have been involved in.

## If you are not satisfied

We cannot always guarantee you will receive the outcome you seek, but will try to deal with your concern fairly. You can help us to achieve that by using this policy. However, if you are unhappy with how your concern has been handled, please raise it with the Head of Audit Partnership or Chief Executive (contact details on page 8).

# Example process for staff raising and escalating a concern



# Contact Details

Organisation/Officer	Details
 <p><b>Rich Clarke</b> Head of Audit Partnership</p>	<p><a href="mailto:rich.clarke@midkent.gov.uk">rich.clarke@midkent.gov.uk</a> 07973 748 127</p>
 <p><b>Alison Broom</b> Chief Executive</p>	<p><a href="mailto:alisonbroom@maidstone.gov.uk">alisonbroom@maidstone.gov.uk</a> 01622 602 019 (x2019)</p>
	<p>01622 602 813 (x2813) or anonymous online reporting using <a href="https://www.surveymonkey.com/r/MBCspkup">https://www.surveymonkey.com/r/MBCspkup</a></p>
	<p>PCaW are an independent charity that support and advise on whistleblowing. Whistleblowing advice line: 020 7404 6609 Email: <a href="mailto:whistle@pcaw.org.uk">whistle@pcaw.org.uk</a></p>
	<p>Non-Emergency Reporting: 101 General enquiries: contact via <a href="http://kent.police.uk">kent.police.uk</a>  (note you cannot report crime via email)</p>
	<p>Contact via: <a href="http://www.maidstonecab.org.uk">www.maidstonecab.org.uk</a>  (Maidstone residents only, others contact local CAB)</p>
 <b>Grant Thornton</b>	<p>Grant Thornton are our external auditors  Darren Wells (Engagement Lead) <a href="mailto:Darren.j.wells@uk.gt.com">Darren.j.wells@uk.gt.com</a> 01293 554 120</p>

# Agenda Item 11

## Audit, Governance and Standards Committee

**19 September 2016**

Is the final decision on the recommendations in this report to be made at this meeting?

**Yes**

## Audited Statement of Accounts 2015/16

<b>Final Decision-Maker</b>	Audit, Governance and Standards Committee
<b>Lead Head of Service</b>	Mark Green, Director of Finance and Business Improvement
<b>Lead Officer and Report Author</b>	Ellie Dunnet, Chief Accountant
<b>Classification</b>	Public
<b>Wards affected</b>	N/A

### **This report makes the following recommendations to this Committee:**

1. To note the contents of the external auditor's Audit Findings Report, attached at **Appendix I**.
2. To approve the audited statement of accounts attached at **Appendix II**.
3. To approve the Letter of Representation attached at **Appendix III**.

### **This report relates to the following corporate priorities:**

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

The Statement of Accounts shows how the council has managed its resources over the previous financial year. Effective financial management is integral to ensuring that value for money is achieved in the delivery of the council's priorities.

### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	19 September 2016

# Audit, Governance and Standards Committee

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The council is required to have its Statement of Accounts approved by the Audit, Governance and Standards Committee by 30 September in accordance with the Accounts & Audit Regulations. The final amended version of the Statement proposed for approval at this meeting is attached at **Appendix II**.
  - 1.2 The work of the external auditor is now substantially complete, and the Audit Findings Report is attached at **Appendix I**. Representatives from Grant Thornton will be in attendance at the meeting to respond to questions relating to this report.
  - 1.3 The Committee is also asked to consider and approve the Letter of Representation attached at **Appendix III**.
- 

## 2. INTRODUCTION AND BACKGROUND

- 2.1 The un-audited Statement of Accounts was reviewed at the previous meeting of this committee on 11 July 2016. Although there was no statutory requirement for the committee to consider it at that point, it was considered useful for committee members have the opportunity to review the draft accounts submitted for audit in advance of being asked to formally approve the final version.
- 2.2 Councils are required to advertise the arrangements for the public inspection of the Statement of Accounts and the date for the commencement of the audit. The public are also informed when the audit of accounts is concluded and to have access to copies of the accounts and any auditor's certificate, opinion or report relating to them.
- 2.3 Auditing standards require the external auditor to report the findings of their work to those charged with governance, i.e. the Audit, Governance and Standards Committee. The Audit Findings Report attached at **Appendix I** to this report enables the committee to consider and formally approve the Statement of Accounts with the benefit of this information, and also allows the external auditor to take into account any comments from the committee prior to the issuing of the audit opinion.
- 2.4 This process involves:
  - a) The submission of the Audit Findings Report and the Letter of Representation to the Audit, Governance and Standards Committee; and
  - b) Taking into account any comments by the Committee, the issue of the audit opinion by the external auditor.

The above issues must be addressed by 30 September 2016.

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### **3. AVAILABLE OPTIONS**

- 3.1 The formal approval of the Statement of Accounts is a statutory requirement and therefore there are no alternative options.
- 

### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

#### **Audit Findings Report & Statement of Accounts**

- 4.1 Grant Thornton have been appointed as the Council's independent external auditors by the Audit Commission. Following the closure of the Audit Commission in March 2015, this contract is now being overseen by Public Sector Audit Appointments Limited.
- 4.2 Their Audit Findings Report is attached at **Appendix I**. Representatives from Grant Thornton will be in attendance at the meeting to present the report and answer any questions prior to the committee formally approving the Statement of Accounts.
- 4.3 Amendments arising from the audit have been summarised on page 16 of **Appendix I**. None of the amendments have affected the council's General Fund balance at 31st March 2016. A number of other minor changes have also been made to improve the presentation and clarity of the Statement of Accounts.
- 4.4 The report also includes a review of Value for Money, and concludes that in all significant respects the Council has put in place proper arrangements to secure value for money in its use of resources for the year ending 31st March 2016.
- 4.5 The external auditor intends to issue an unqualified opinion on the 2015/16 Statement of Accounts, and an unqualified Value for Money conclusion.

#### **Letter of Representation**

- 4.6 The Letter of Representation attached at **Appendix III** is written from the Council to the external auditor and will be signed by the Director of Finance and Business Improvement.
- 4.7 This is provided for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.
- 4.8 The letter confirms that the Council has fulfilled its responsibilities and provided the external auditor with access to all information of relevance to the financial statements audit including records, documentation and other matters.
- 4.9 The letter also confirms that the Council's financial statements should be



prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. The appropriateness of this statement is evidenced by the fact that all services have full revenue budget provision for 2016/17 onwards and the capital programme, asset management plan and medium term financial strategy for 2016/17 onwards consider only service efficiencies and growth in corporate or service objectives.

## **5. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 5.1 Once the Statement of Accounts has been formally approved it is a statutory requirement for it to be published by 30th September 2016.

## **6. CROSS-CUTTING ISSUES AND IMPLICATIONS**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	Production of the annual Statement of Accounts which is free from material or significant error is a key element of the annual external assessment process. It is therefore important that the statement of accounts meets this requirement.	Director of Finance & Business Improvement
<b>Risk Management</b>	The primary risks are that the Council fails to produce its accounts in accordance with the requirements of the Code of Practice or statutory timetable. A risk assessment has been undertaken in order to mitigate this risk.	Director of Finance & Business Improvement
<b>Financial</b>	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2016, and details the council's assets, liabilities and reserves at this date.	Director of Finance & Business Improvement
<b>Staffing</b>	Not applicable	
<b>Legal</b>	Not applicable	
<b>Equality Impact Needs Assessment</b>	Not applicable	
<b>Environmental/Sustainable</b>	Not applicable	

<b>Development</b>		
<b>Community Safety</b>	Not applicable	
<b>Human Rights Act</b>	Not applicable	
<b>Procurement</b>	Not applicable	
<b>Asset Management</b>	Not applicable	

## **7. REPORT APPENDICES**

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

- **Appendix I:** Audit Findings Report 2015/16
- **Appendix II:** Audited Statement of Accounts 2015/16
- **Appendix III:** Letter of Representation 2015/16

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## **8. BACKGROUND PAPERS**

None

# The Audit Findings Report for Maidstone Borough Council

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**Year ended 31 March 2016**

19<sup>th</sup> September 2016

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Audit, Governance and Standards Committee  
Maidstone Borough Council  
Maidstone House  
King St  
Maidstone  
ME15 6JQ

19<sup>th</sup> September 2016

Dear Members of the Audit, Governance and Standards Committee

**Audit Findings for Maidstone Borough Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of the Audit, Governance and Standards Committee (as those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with Management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Darren Wells  
Engagement Lead

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**Chartered Accountants**

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# Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Maidstone Borough Council ('the Council') financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 21<sup>st</sup> March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of our testing of the Council's Council Tax Support payments and queries on our Employee Remuneration testing;
- our final internal quality reviews;
- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of revised versions of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of signing the opinion;
- Whole of Government Accounts.

## Key audit and financial reporting issues

### Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net income of £8,555k; the audited financial statements showed the same net income. We have recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- The quality of the draft statements presented for audit was good. Only a few minor amendments have been identified from the audit work performed.
- We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with an agreed timetable. The Council has responded promptly to queries raised during the course of the audit.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

We have nothing to report in respect of any of these areas.

## Controls

### Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

## Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

## Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.



### **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Governance and Standards Committee which is due in March 2017.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance and Business Improvement.

### **Acknowledgement**

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

**Grant Thornton UK LLP**  
**September 2016**

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## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,794k (being 2% of prior year gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £89.7k. This remains the same as reported in our audit plan.

As <sup>5</sup>~~we~~ reported in our audit plan, we identified one item where we decided that separate materiality levels were appropriate, which was around cash due to its sensitive nature, and for which we set materiality for this area to £500k. This remains the same as reported in our audit plan.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
50	<p><b>1. The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Maidstone Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>As part of our audit work we have completed the following:</p> <ul style="list-style-type: none"> <li>• review of the Council's revenue recognition policies</li> <li>• testing of material revenue streams received by the Council during the year.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
	<p><b>2. Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have performed the following work:</p> <ul style="list-style-type: none"> <li>• review of accounting estimates, judgments and decisions made by management</li> <li>• testing of journal entries</li> <li>• review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We were not made aware of nor identified any unusual transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Employee remuneration</b>	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Identification and walkthrough of controls on the payroll system.</li> <li>• Reconcile employee remuneration per the payroll system to the general ledger.</li> <li>• Perform substantive testing of employee expenses.</li> <li>• Perform trend analysis of movements in total employee costs and follow up testing on unexpected movements.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Walkthrough of operating expenses system, updating our understanding.</li> <li>• Substantive testing of expenditure covering the whole of 2015-16</li> <li>• Test creditor payments, including accruals, for completeness, classification and occurrence</li> <li>• Review of control account reconciliations</li> <li>• Cut-off testing</li> <li>• Review of allocating/apportioning expenses.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

# Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"><li>Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li><li>We have reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out.</li><li>Undertaken procedures to confirm the reasonableness of the actuarial assumptions made.</li><li>Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li><li>We have also tested the data provided to the actuary.</li></ul>	Our audit work has not identified any significant issues in relation to the risk identified

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	The Council's revenue recognition policy is disclosed within Note 1b of the Accounts, within Accounting Policies, and covers each of the main areas of revenue received by the Council, including revenue received from the sale of goods, the provision of services along with how revenue is recognised for the non-exchange transactions such as Council Tax and Business Rates.	Following the work performed we are satisfied that the Council's revenue recognition policies are in line with the requirements of the CIPFA Code.  Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition.	 <b>Green</b>
<b>Judgements and estimates</b> 61	<ul style="list-style-type: none"> <li>Key estimates and judgements include: <ul style="list-style-type: none"> <li>Useful life of capital equipment</li> <li>Pension fund valuations and settlements</li> <li>Impairments</li> <li>PPE revaluations</li> <li>Depreciation</li> <li>Bad debt provisions</li> <li>Business rate appeals</li> </ul> </li> </ul>	<p>Your critical judgements and estimation uncertainties are disclosed within Notes 2 and 3 of the financial statements, and are in line with the requirements of the CIPFA Code.</p> <p>In particular, we have performed work on the Council's adoption of IFRS13 in respect of their PPE Valuations, and we are satisfied with how this has been applied within the Accounts. We have also reviewed your Business Rate Appeals provision and again we are satisfied with the approach taken in this area.</p>	 <b>Green</b>

## Assessment

● **Red** - Marginal accounting policy which could potentially attract attention from regulators disclosures sufficient

● **Amber** - Accounting policy appropriate but scope for improved disclosure

● **Green** - Accounting policy appropriate and

# Accounting policies, estimates and judgements continued


Accounting area	Summary of policy	Comments	Assessment
Going Concern	The Director of Finance and Business Improvement and s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed management's assessment and concur that the going concern basis is appropriate for the 2015/16 financial statements preparation.	<div>●</div> <div>Green</div>
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	<div>●</div> <div>Green</div>

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# Other communication requirements

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

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5. 	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We have obtained direct confirmations from all of the Council's Banks, Investment and Borrowing Counterparties for the balances included within the Accounts.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review identified a number of disclosures which required amendment or expansion, and Management agreed to amend all of the items identified.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas</li> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>Note that work is not required as the Council does not exceed the threshold</li> </ul>

# Misclassifications and disclosure changes

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

Adjustment type		Value £'000	Account balance	Impact on the financial statements
1	Disclosure	500	Note 12 – Property, Plant and Equipment – Additions and Note 28 – Private Finance Initiatives and Similar Contracts	We identified that the Council had incorrectly disclosed the notional cost of one of their lease arrangements within the detailed Property, Plant and Equipment note. The Council has subsequently updated this treatment within the revised accounts. The Council has also agreed to add some additional narrative to Note 28 to provide further information around this item.
2	Disclosure	409	Note 25 – Creditors	We identified that the Business Rate payers creditors balance at year end had been incorrectly grouped within the second table in the Note, which the Council has now agreed to split out as required.
3	Disclosure	275	Note 34 - Leases	We identified that the Council had incorrectly valued the future minimum lease payments due for the period 'later than 1 year' and 'not later than 5 years'. This been updated within the revised accounts.
4	Disclosure	328	Capital Adjustment Account	We identified through collaboration with finance that revaluation losses had been overcharged to revenue in prior years. This has been adjusted for in the revised accounts.
5	Disclosure	Several	Collection Fund Note 1 – Council Tax	The disclosure of the Council Tax Base as agreed by full Council ahead of the 2015-16 financial year in the draft statements of accounts was incorrect. This has been amended in the revised accounts.
6	Disclosure	N/A	Note 18 – Investment Properties	We identified that the Current disclosures for Investment Properties do not show the relevant fair value levels. The Council have agreed to include additional disclosure to by fair value level.

---

## Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in April 2016 and identified the following significant risks, which we communicated to you in our Audit, Governance and Standards Committee Progress and Update Report dated 11 July 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

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

## Significant qualitative aspects

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

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix A.

## Key findings

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

Significant risk	Work to address	Findings and conclusions
<b>Financial position</b> Whilst you are on course to meet your financial outturn for 2015-16, the longer term picture looks more challenging due to the Council's Revenue Support Grant Funding ending sooner than originally planned. As a result the Council needs to identify a considerable level of savings over the next five years as part of its Medium Term Financial Plan to reduce the level of reserves needed to achieve financial balance.	We performed the following work in this area: <ul style="list-style-type: none"> <li>• reviewed relevant Council and other committee papers;</li> <li>• reviewed the 2015-16 financial outturn against plan, and investigated any significant areas of over/underperformance and the reasons behind these.</li> <li>• reviewed the progress against the 2016-17 financial plan up to the completion of our audit; and</li> <li>• obtained an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years, including discussions with Management on progress to date</li> </ul>	<p>The key points from our work in this area are the following:</p> <ul style="list-style-type: none"> <li>• The Council delivered a £91k underspend against its General Fund Budget in 2015-16, despite having to set aside a balance of £1,770k to cover the deficit on the Collection Fund. The latter arose due to the level of appeals received during the year which had to be mitigated in a provision.</li> <li>• The Council set a balanced budget for 2016-17, which required identifying a total of £2,178k of savings from a range of areas across the Council. Of this total, £679k comes from additional income generation, and a further £559k will be realised via service reconfiguration, which shows a combined plan of both increasing income and reducing costs to deliver these savings. There remains a degree of risk associated with the £2,178k, but this has been clearly highlighted to members as part of the decision making process of setting the budget, and is being mitigated by the regular financial monitoring which takes place during the course of the financial year.</li> <li>• The Council has set an updated Medium Term Financial Plan, covering the period from 2017-18 to 2021-22. Members were presented with three scenarios with slightly different planning assumptions which produced a range of potential savings requirement over the medium term of £3,355k to £5,108k. The updated MTFP assumes £4,178k of savings over this five-year period, which will be a considerable challenge for the Council, despite its track record in recent years.</li> <li>• From our review we consider that the agreed MTFP is based on reasonable assumptions around the likely cost pressures and additional income sources to be incurred/identified during this period. The Council has begun work on the challenge of identifying the required savings, discussing with Members the potential areas, options and the associated savings which may be possible over the longer term to help fill the gap. Officers acknowledge this is work in progress and more is needed to finalise the options, quantify the saving opportunity and risk assess the likelihood of delivery.</li> <li>• Linked to both its short and long term plans, the Council is continuing to advance its Commercialisation agenda. The Council has set a target of delivering £1m of additional income over the Medium Term, of which it reports £460k has been delivered to date. The Council has set clear overarching principles to govern this area, which are being consistently applied by Members during their decision making processes to ensure these projects deliver the best possible outcomes for the Council and the wider economy.</li> </ul> <p>From our work it is clear that the Council has established appropriate governance arrangements to enable it to manage the financial challenge it faces.</p>

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	50,475	50,475
Grant certification	11,418	TBC
Total audit fees (excluding VAT)	61,893	TBC



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

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services - Risk and Opportunity Development Workshop	5,462

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters



# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

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# Appendix A: Audit opinion

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

## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF MAIDSTONE BOROUGH COUNCIL

We have audited the financial statements of Maidstone Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

### Respective responsibilities of the Director of Finance and Business Improvements and auditor

As explained more fully in the Statement of the Director of Finance and Business Improvements Responsibilities, the Director of Finance and Business Improvements is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Business improvements; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

## Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

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

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

## Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

### Respective responsibilities of the Authority and auditor

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

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

# Appendix A: Audit opinion (continued)

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

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Darren Wells  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Fleming Way  
Manor Royal  
Crawley  
RH10 9GT

xx September 2016



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**Statement of Accounts for the year ending  
31<sup>st</sup> March 2016**

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## **NARRATIVE REPORT**

### **Review of 2015/16 Financial Year**

#### **Statement of Accounts**

The Council's accounts for the year 2015/16 covering the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016 are set out on the following pages. They consist of:

1. The Primary Statements, consisting of the Movement in Reserves Statement, the Comprehensive Income & Expenditure Statement, the Balance Sheet and the Cash Flow Statement. The purpose of these statements is explained in more detail in the section following this report.
2. Notes to the Accounts – these provide more detailed analysis and information on significant balances and movements within the statements listed above.
3. The Collection Fund - shows the transactions of the Council in relation to Non Domestic Rates, Council Tax and residual Community Charge. It illustrates the way in which these have been distributed to Preceptors and the General Fund.

All the figures in the above sections have been rounded to the nearest £1,000.

This Statement has been produced in accordance with the requirements of the Code of Practice on Local Authority Accounting for 2015/16, which requires the Statement to comply with International Financial Reporting Standards (IFRS), as adapted for the public sector.

These accounts are preceded by the Explanation of the Purpose of the Primary Statements and the Statement of Responsibilities.

In line with the Accounts & Audit Regulations 2011, the Statement of Accounts is required to be signed off by the Responsible Financial Officer by 30<sup>th</sup> June, with the approval of the Audit, Governance & Standards Committee to be given by 30<sup>th</sup> September.

There were no significant changes to the accounting requirements for 2015/16.

The Council's financial year runs from 1<sup>st</sup> April to 31<sup>st</sup> March. A summary of the Balance Sheet as at 31<sup>st</sup> March 2016 is shown below:

2014/15 £000		2015/16 £000
56,326	Property, Plant & Equipment	57,882
10,384	Heritage Assets	10,384
15,962	Investment Properties	16,309
5,455	Other Long Term Assets	452
24,915	Money owed to the Council	31,138
(13,737)	Money owed by the Council	(15,074)
(72,038)	Long Term Liabilities	(65,715)
<b>27,267</b>	<b>Net Assets</b>	<b>35,376</b>
15,546	Usable Reserves	19,302
11,721	Unusable Reserves	16,074
<b>27,267</b>	<b>Total Reserves</b>	<b>35,376</b>

The major movements in the Balance Sheet can be summarised as follows:

- Other Long Term Assets have reduced due to there being no long term investments (those held for greater than one year) as at 31<sup>st</sup> March 2016.
- Those funds previously invested long term are now invested short term, which have increased in value as a consequence.
- The reduction in Long Term Liabilities includes a reduction of £8.8m in the pensions liability figure, and this is also reflected in the increase in Unusable Reserves.

### Comprehensive Income & Expenditure Statement

The Comprehensive Income & Expenditure Statement summarises the cost of all General Fund services provided by the Council. The table below summarises the original budget, revised budget and funding:

	Original Estimate £000	Revised Estimate £000	Actual £000	Variance to Revised £000
<b>Service Committee</b>				
Policy & Resources	6,541	9,508	8,750	(758)
Strategic Planning, Sustainability & Transportation	(507)	1,931	1,798	(133)
Communities, Housing & Environment	8,524	9,645	9,843	198
Heritage, Culture & Leisure	419	5,069	5,354	285
Movements in Balances & Appropriation Accounts **	5,156	(6,020)	(6,020)	(0)
<b>Net Service Spending</b>	<b>20,133</b>	<b>20,133</b>	<b>19,725</b>	<b>(408)</b>
Parish Precepts	1,394	1,394	1,394	0
<b>Net Expenditure</b>	<b>21,527</b>	<b>21,527</b>	<b>21,119</b>	<b>(408)</b>
<b>Funded by:</b>				
Council Tax	14,823	14,823	14,823	0
Revenue Support Grant	2,267	2,267	2,267	0
Retained Business Rates	4,135	4,135	4,135	0
Collection Fund Surplus	302	302	302	0
<b>Total Funding</b>	<b>21,527</b>	<b>21,527</b>	<b>21,527</b>	<b>0</b>

\*\* - This line contains a number of adjustments for non-cash movements which are required under statutory accounting standards. Movements relate to pension fund adjustments, amounts set aside for the collection fund deficit, reprofiling of the capital budget and other capital accounting adjustments.

The figures in this table will differ from those shown in note 10 (Amounts Reported for Resource Allocation Decisions) as that note only covers the net cost of services as shown in the Comprehensive Income & Expenditure Report, whereas the table above includes figures that are not included within the net cost of services.

The outturn for the year was an overall underspend of £0.4m which includes unspent service specific grants which have been carried forward into 2016/17, leaving a general underspend of £0.1m. Within the net increase on the general fund balance of £3.6m (as shown in the Movement in Reserves Statement), there is £3.2m which needs to be set aside to fund the deficit on the collection fund leaving £0.4m as shown above.

The totals shown within the table above contain a number of areas where there were significant variances against the budget during the year. The largest variances are detailed below:

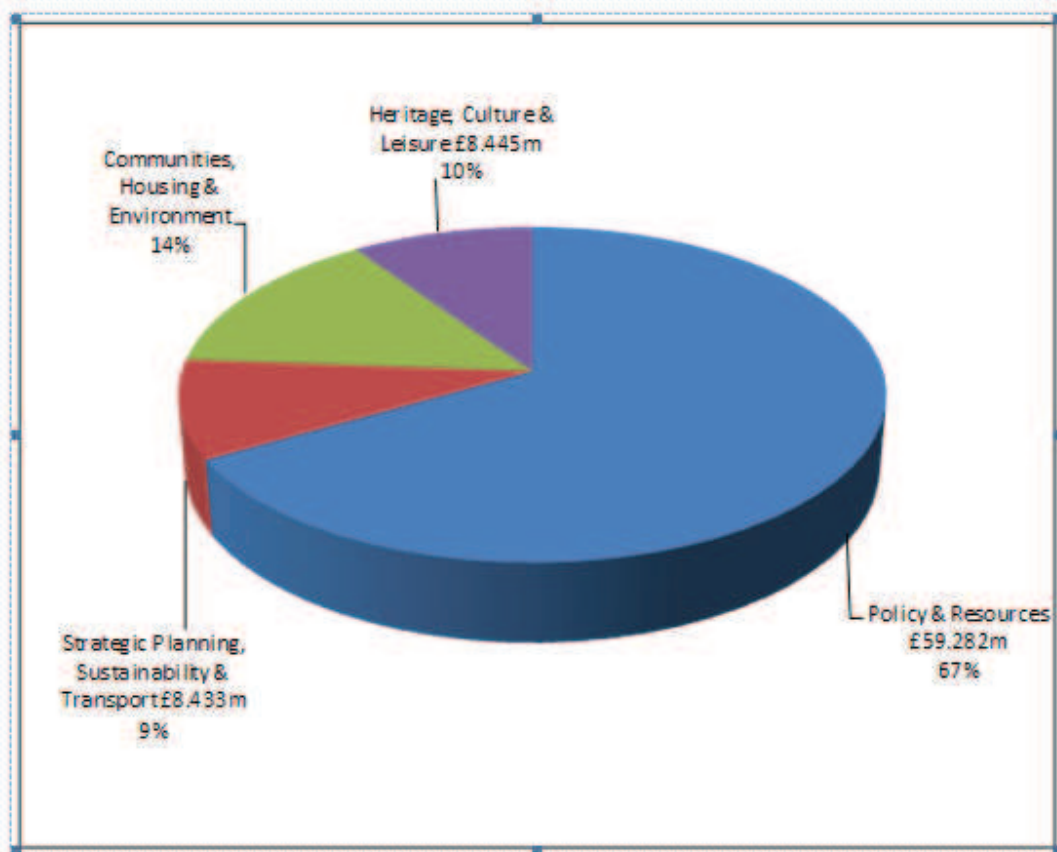
- Higher than budgeted income for garden bins, resulting in a favourable variance of £0.1m;
- Higher than budgeted income from on street and residents parking, however, it should be noted that part of this surplus is ring-fenced by statute so this does not represent a general underspend;

- An overspend against the temporary accommodation budget of £0.5m due to high demand for this service. Projects aimed at reducing the cost to the council of providing temporary accommodation are ongoing and have enabled the council to avoid additional costs of £0.284m during 2015/16;
- An overspend against the Mote Park budget of £0.1m, arising from unbudgeted costs for equipment and repairs, and lower than anticipated income due to car parking charges being brought in later than planned.

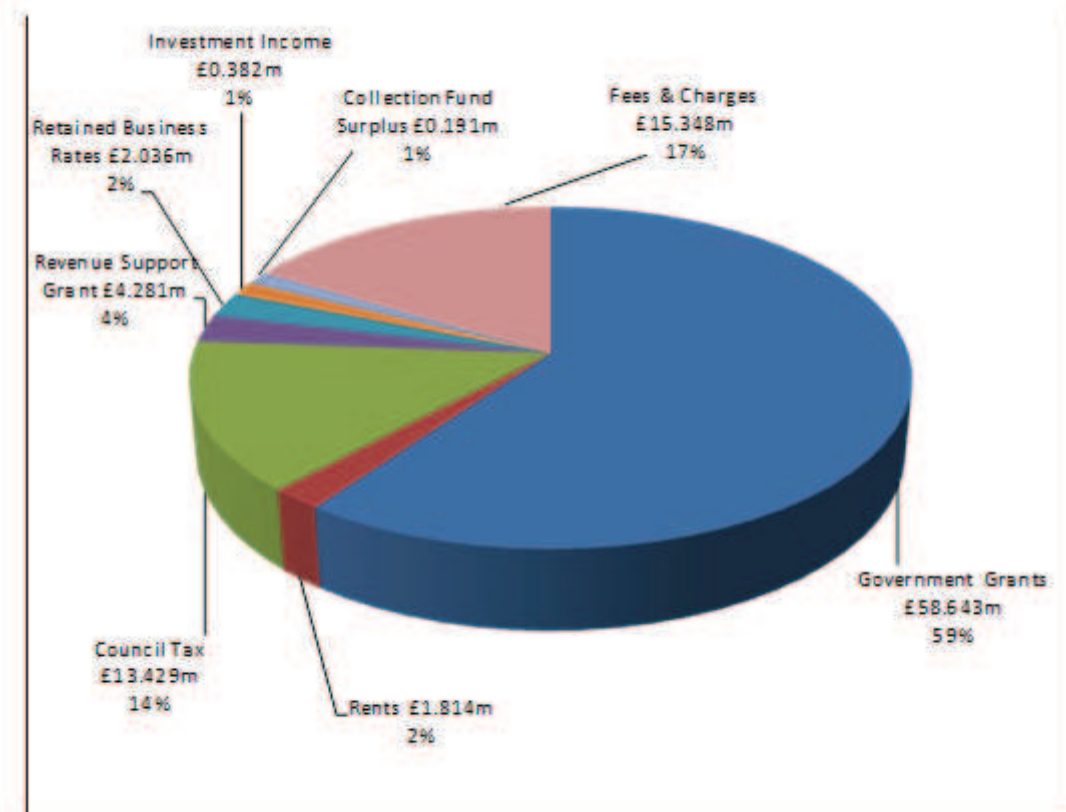
**Expenditure & Income** - The pie charts shown on the following page illustrate in broad terms where the Council's money comes from and the services that it provides.

20% of the Council's income came from the services it provided through rents, fees and charges and interest. The largest single source of income was Specific Government Grants, such as Rent Allowances and Housing Subsidy, which provide 59% of the total.

## Spending – Where it Went



## Income – Where it Came From



## Capital Expenditure & Income

The Council spent £4.536m on Capital Projects compared to an original estimate of £3.461m. As a result of unused resources carried forward to 2015/16 and other adjustments to the programme during the year the revised estimate was set at £5.040m. Significant elements of the capital spending were the acquisition of land and property in Union Street (£1.9m), housing grants (£0.8m) and the installation of solar panels on a number of Council properties (£0.4m).

A summary of capital expenditure is shown below:

<b>Committee</b>	<b>Original Estimate £000</b>	<b>Revised Estimate £000</b>	<b>Actual £000</b>	<b>Variance to Revised £000</b>
Communities, Housing & Environment	1,401	2,838	802	2,036
Heritage, Culture & Leisure	750	631	664	(33)
Policy & Resources	1,310	1,063	2,713	(1,650)
Strategic Planning, Sustainability & Transport	0	508	8	500
Externally Funded Schemes *	0	0	349	-
<b>Total</b>	<b>3,461</b>	<b>5,040</b>	<b>4,536</b>	<b>853</b>

\* These were schemes funded mainly through Section 106 contributions from developers.

The variance on Communities, Housing & Environment relates to unused funding for the purchase of property for dealing with temporary homelessness, which will be rolled forward into 2016/17. The variance on Policy & Resources relates to the purchase of land and property in Union Street. It was originally anticipated that the purchase would take place in 2016/17, but as it took place in 2015/16 the resources will be brought forward.

Capital expenditure was funded as follows:

	<b>£000</b>
Revenue Support	2,978
Disposal of Assets - Current & Previous Years	686
Other Grants & Contributions	872
<b>Total</b>	<b>4,536</b>

## Borrowing & Investments

The Council has adopted the requirements of the CIPFA Prudential Code for Capital Finance. This has given individual authorities responsibility for deciding their own level of affordable borrowing, based on the guidelines laid out in the Code. However, there was no long-term borrowing during 2015/16, as there were sufficient resources available to fund the programme.

Investments generated income of £0.252m in 2015/16. (The figure for 2014/15 was £0.209m). This is a reflection of the continuing low level of interest returns. The level of capital receipts has continued to fall as they are used to fund the capital programme, and the Council currently has no significant surplus assets for disposal.

## Collection Fund

The Council is a Billing Authority, meaning it is responsible for collecting and paying over Council Tax contributions on behalf of Kent County Council, Kent Police & Crime Commissioner, Kent and Medway Towns Fire Authority, and the Parish Councils within the Borough area. The Council operates a Collection Fund into which it pays all income collected from the Council Tax and National Non-Domestic Rates. The budgeted demands on the Fund at the start of 2015/16 totalling £89.333m were as follows:

Authority	£000
Maidstone Borough Council	14,823
Kent County Council	62,101
Kent Police & Crime Commissioner	8,384
Kent & Medway Towns Fire & Rescue Authority	4,025
<b>Total</b>	<b>89,333</b>

The Band D level of Council Tax in 2015/16 was £1,543.50, which breaks down as follows:

Authority	£.p
Maidstone Borough Council	235.71
Kent County Council	1,089.99
Kent Police & Crime Commissioner	147.15
Kent & Medway Towns Fire & Rescue Authority	70.65
<b>Total</b>	<b>1,543.50</b>

This level of Council Tax related to a property in Band D and by the application of statutory multipliers the corresponding amount was charged to all properties in Bands A-H.

During 2015/16 the council participated in a business rates pooling arrangement with Kent County Council, Kent Fire and Rescue Authority and nine other district councils in Kent. This has enabled the council to retain a greater proportion of the income generated through growth in its business rates baseline. For 2015/16, the Kent Business Rates pool has delivered a net benefit of £4.2m for the authorities in the pool which represents local retention of business rates growth that would otherwise have been payable to central government. The retained growth is shared between Kent County Council and the district councils in accordance with the terms of the pooling agreement.

## Pensions

Note 33 to the Balance Sheet refers to the Disclosure of Net Pension Assets and Liabilities. Under the requirements of IAS 19 (International Accounting Standard) on Retirement Benefits these figures are reflected in the Council's Balance Sheet and Comprehensive Income & Expenditure Statement. The latest actuarial valuation carried out on behalf of the Kent County Council Pension Fund shows a significant movement in the liability related to the pension scheme,

from £70.680m in 2014/15 to £64.641m in 2015/16. (These figures represent Maidstone's share of the liability)

### Other Comments

No post balance sheet events were identified during the preparation of the Statement.

### Performance Indicators

The Council has 29 key performance indicators (KPIs) which were agreed in the Strategic Plan 2015-20 for 2015/16, relating to eight strategic outcomes.

Performance indicators are judged in two ways; firstly on whether performance has improved, been sustained or declined, compared to the same period in the previous year. This is known as Direction. Where there is no previous data, no assessment of Direction can be made.

The second way is to look at whether an indicator has achieved the target set and is known as PI status. If an indicator has achieved or exceeded the annual target they are rated green. If the target has been missed but is within 10% of the target it will be rated amber and if the target has been missed by more than 10% it will be rated red.

Overall, 40% (6) of KPIs achieved the annual target set and for 40% of indicators performance improved. A summary of the results is shown in the table below.

<b>RAG Rating</b>	<b>Green</b>	<b>Amber</b>	<b>Red</b>	<b>N/A</b>	<b>Total</b>
KPIs	6	5	4	12	27
Strategic Actions	14	0	0	-	14
<b>Direction</b>	<b>Up</b>	<b>Across</b>	<b>Down</b>	<b>N/A</b>	<b>Total</b>
KPIs	9	-	11	7	27

Data was not collected for two of the indicators in 2015/16.

Further details are contained within the Annual Performance Plan for 2015/16, which can be viewed on the Council's website via the following link:

<http://www.maidstone.gov.uk/council/performance-and-stats/how-were-doing>

### Medium Term Financial Strategy

The medium term financial strategy and the strategic plan will undergo a full review during 2016-17 for the forthcoming five year period 2017-18 to 2021-22. As part of the finance settlement for 2016/17 the Government made an offer of a fixed, four year local government finance settlement. If the council decides to formally accept this offer, it must produce an efficiency plan that will outline how it will achieve its objectives within the available resources set out in the settlement. The risk in relation to accepting the settlement is that the Council



could not then expect a better position should the economy improve; the opportunity is that the Council will be certain of minimum future resources and be more effectively able to plan for the period to 2018/19. The strategic revenue projection currently anticipates that savings of £6.4m will need to be identified over the five year period to 2021/22. Transitional funding of £0.4m is being made available by the government to support the delivery of the savings.

### **Future Developments**

The on-going economic situation will continue to have a significant effect on the financial position of the Council in 2016/17. With continuing uncertainty over new capital receipts, existing receipts and funding from the New Homes Bonus will need to be used to fund the capital programme, which in turn will further reduce sums available to invest. Approval is in place for borrowing to continue to fund the capital programme going forward.

The Council will continue to explore ways of reducing its costs through efficiency savings, commercial initiatives, shared services and partnership working. There is a formal arrangement with Swale and Tunbridge Wells Borough Councils in the form of Mid Kent Services (MKS), and a number of partnership arrangements are now established covering Internal Audit, Licensing, Revenues & Benefits, ICT Services, Environmental Health, Human Resources & Payroll and Legal Services.

The Council has also developed a strategy for commercialisation with a view to exploring new ways of generating income from various sources. The first area that was developed was a commercial waste venture for local small and medium businesses and work is now being undertaken around cultural and leisure activities, specifically looking at opportunities within Mote Park.

In May 2015 the Council changed its governance arrangements to a committee system which replace the Cabinet model. The Service Committee analysis shown on page 5 and in note 10 reflects the new system.

### **Authorised for Publication**

This Statement was authorised for publication on 30<sup>th</sup> June 2016, the date it was signed by the Director of Finance & Business Improvement as presenting a true and fair view of the financial affairs of the Council for 2015/16.

## **EXPLANATION OF THE PURPOSE OF THE PRIMARY STATEMENTS**

### **Movement in Reserves Statement**

This shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income & Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

### **Comprehensive Income & Expenditure Statement**

This shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

### **Balance Sheet**

This shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

### **Cash Flow Statement**

This shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowers) to the Council.

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's Responsibilities

The Council is required to:

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

### The Director of Finance & Business Improvements' Responsibilities

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

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

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

The Director of Finance & Business Improvement has also:

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

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31<sup>st</sup> March 2016.

**Signed:**

Mark Green, Director of Finance & Business Improvement

**Date:** xx September 2016

## PRIMARY STATEMENTS

### MOVEMENT IN RESERVES STATEMENT For the years ended 31<sup>st</sup> March 2015 & 2016

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
<b>Balance at 31st March 2015</b>	15,293	154	99	15,546	11,721	27,267
<b>Movement in Reserves during 2015/16</b>						
Surplus or Deficit on the Provision of Services	(1,350)	0	0	(1,350)	0	(1,350)
Other Comprehensive Income and Expenditure	0	0	0	0	9,459	9,459
<b>Total Comprehensive Income and Expenditure</b>	<b>(1,350)</b>	<b>0</b>	<b>0</b>	<b>(1,350)</b>	<b>9,459</b>	<b>8,109</b>
Adjustments between Accounting and Funding Basis under Regulation (Note 5)	4,908	167	30	5,105	(5,105)	0
<b>Net Increase or (Decrease) before Transfers to Earmarked Reserves</b>	<b>4,908</b>	<b>167</b>	<b>30</b>	<b>5,105</b>	<b>(5,105)</b>	<b>0</b>
Transfers to/from Earmarked Reserves	0	0	0	0	0	0
<b>Increase or (Decrease) in Year</b>	<b>3,559</b>	<b>167</b>	<b>30</b>	<b>3,755</b>	<b>4,354</b>	<b>8,109</b>
<b>Balance at 31st March 2016</b>	<b>18,851</b>	<b>321</b>	<b>130</b>	<b>19,302</b>	<b>16,074</b>	<b>35,376</b>

	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
<b>Balance at 31st March 2014</b>	15,441	187	764	16,392	24,430	40,822
<b>Movement in Reserves during 2014/15</b>						
Surplus or Deficit on the Provision of Services	(1,824)	0	0	(1,824)	0	(1,824)
Other Comprehensive Income and Expenditure		0	0	0	(11,731)	(11,731)
<b>Total Comprehensive Income and Expenditure</b>	<b>(1,824)</b>	<b>0</b>	<b>0</b>	<b>(1,824)</b>	<b>(11,731)</b>	<b>(13,555)</b>
Adjustments between Accounting and Funding Basis under Regulation (Note 5)	1,676	(33)	(665)	978	(978)	0
<b>Increase or (Decrease) in Year</b>	<b>(148)</b>	<b>(33)</b>	<b>(665)</b>	<b>(846)</b>	<b>(12,709)</b>	<b>(13,555)</b>
<b>Balance at 31st March 2015</b>	<b>15,293</b>	<b>154</b>	<b>99</b>	<b>15,546</b>	<b>11,721</b>	<b>27,267</b>

# COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

For the years ended 31<sup>st</sup> March 2015 & 2016

2014/15				2015/16			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	
7,635	(4,322)	3,313	Central services to the public	7,591	(4,502)	3,089	
7,598	(2,425)	5,173	Cultural & Related Services	7,433	(2,302)	5,131	
9,674	(3,458)	6,216	Environment & Regulatory Services	9,758	(3,512)	6,246	
5,521	(2,663)	2,858	Planning Services	6,338	(2,753)	3,585	
4,504	(3,605)	899	Highways and transport services	2,938	(3,848)	(910)	
51,664	(48,177)	3,487	Other housing services	52,050	(48,909)	3,141	
2,194	(41)	2,153	Corporate and democratic core	1,915	(8)	1,907	
910		910	Non distributed costs	1,354	0	1,354	
<b>89,700</b>	<b>(64,691)</b>	<b>25,009</b>	<b>Cost Of Services</b>	<b>89,377</b>	<b>(65,834)</b>	<b>23,543</b>	
		276	Other Operating Expenditure (Note 7)			655	
		1,158	Financing and Investment Income and Expenditure (Note 8)			1,266	
		(24,619)	Taxation and Non-Specific Grant Income and Expenditure (Note 9)			(24,114)	
		<b>1,824</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>1,350</b>	
		(256)	Surplus or deficit on revaluation of non current assets			(662)	
		11,987	Remeasurement of the Net Defined Benefit Liability			(8,797)	
		<b>11,731</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(9,459)</b>	
		<b>13,555</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(8,109)</b>	

**BALANCE SHEET****As at 31<sup>st</sup> March 2015 & 2016**

<b>31st March 2015 £000</b>		<b>Notes</b>	<b>31st March 2016 £000</b>
56,326	Property, Plant & Equipment	<b>17</b>	57,882
15,962	Investment Property	<b>18</b>	16,309
10,384	Heritage Assets	<b>20</b>	10,384
416	Intangible Assets		428
5,011	Long Term Investments	<b>21</b>	0
28	Long Term Debtors		24
<b>88,127</b>	<b>Long Term Assets</b>		<b>85,027</b>
8,000	Short Term Investments	<b>21</b>	14,000
87	Inventories		53
8,564	Short Term Debtors	<b>23</b>	12,935
8,264	Cash & Cash Equivalents	<b>24</b>	4,150
<b>24,915</b>	<b>Current Assets</b>		<b>31,138</b>
10,039	Short Term Creditors	<b>25</b>	9,326
1,068	Provision for Business Rate Appeals	<b>26</b>	2,515
457	Deferred Liability	<b>28</b>	629
2,173	Capital Grants Receipts in Advance	<b>15</b>	2,604
<b>13,737</b>	<b>Current Liabilities</b>		<b>15,074</b>
181	Provisions		176
1,177	Deferred Liability	<b>28</b>	898
70,680	Other Long Term Liabilities	<b>33</b>	64,641
<b>72,038</b>	<b>Long Term Liabilities</b>		<b>65,715</b>
<b>27,267</b>	<b>Net Assets</b>		<b>35,376</b>
15,546	Usable Reserves		19,302
11,721	Unusable Reserves	<b>31</b>	16,074
<b>27,267</b>	<b>Total Reserves</b>		<b>35,376</b>

These financial statements replace the unaudited financial statements certified by the Director of Finance and Business Improvement on 30th June 2016.

Mark Green, Director of Finance and Business Improvement – xx September 2016

**CASHFLOW STATEMENT**

<b>2014/15 £000</b>		<b>Notes</b>	<b>2015/16 £000</b>
1,824	Net (surplus) or deficit on the provision of services		1,350
(3,117)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	<b>37</b>	(5,378)
2,417	Adjustments for items included in the net surplus or deficit on the provision of services that are investing & financing activities	<b>38</b>	6,751
1,124	<b>Net cash flows from Operating activities</b>		2,722
9,082	Investing Activities	<b>40</b>	(2,708)
(2,939)	Financing Activities	<b>41</b>	4,098
7,267	<b>Net increase or decrease in cash &amp; cash equivalents</b>		4,113
(15,530)	Cash & cash equivalents at the beginning of the reporting period		(8,263)
<b>(8,263)</b>	<b>Cash &amp; cash equivalents at the end of the reporting period</b>		<b>(4,150)</b>

## NOTES TO THE ACCOUNTS

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### 1 - ACCOUNTING POLICIES

#### a) GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31<sup>st</sup> March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts & Audit Regulations (England) 2015 which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the UK 2015/16 and the Service Reporting Code of Practice 2015/16, supported by International Financial Reporting Standards (IFRS).

The financial information contained in the accounts has the following qualitative characteristics, as laid out in the Code of Practice on Local Authority Accounting:

- Relevance;
- Materiality;
- Faithful Representation;
- Comparability;
- Verifiability;
- Timeliness; and
- Understandability

In addition, the following accounting concepts have been given precedence in the preparation of the accounts:

- Going concern
- Primacy of legislative requirements

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

#### b) ACCRUALS OF INCOME & EXPENDITURE

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the



transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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

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

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

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

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

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

### **c) CASH & CASH EQUIVALENTS**

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

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

### **d) EXCEPTIONAL ITEMS**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income & Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

### **e) PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES & ERRORS**

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

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

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

### **f) CHARGES TO REVENUE FOR NON-CURRENT ASSETS**

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

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

- Amortisation of intangible non-current assets attributable to the service

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

## **g) EMPLOYEE BENEFITS**

### **Benefits Payable During Employment**

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

### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income & Expenditure Statement when the Council is demonstrably committed to the termination of an officer or a group of officers or making an offer or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### **Post Employee Benefits**

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

- The liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be

made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projected earnings for current employees.

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension

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

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The next formal valuation is due on 31<sup>st</sup> March 2016. The outcome of the 2013 valuation took effect from 1<sup>st</sup> April 2014.

The adoption of the 2011 amendments to the International Accounting Standard (IAS) 19 Employee Benefits introduced new components of defined benefit cost to be included in the financial statements; i.e. net interest on the net defined benefit liability and re-measurements of the net defined benefit liability. The changes became effective for periods beginning on or after 1<sup>st</sup> January 2013 and were reflected in the 2013/14 financial statements.

### **Discretionary Benefits**

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

### **h) EVENTS AFTER THE BALANCE SHEET DATE**

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

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

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

### **i) FINANCIAL INSTRUMENTS**

#### **Financial Liabilities:**

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are

initially measured at fair value and are carried at their amortised cost. Interest is charged to the Financing and Investment Income & Expenditure line in the Comprehensive Income & Expenditure Statement.

### **Financial Assets:**

There are two types of financial asset which the Council holds. These are:

- Loans & Receivables – non derivative financial assets that have fixed or determinable payments but are not quoted on an open market.
- Available-for-sale assets – non derivative assets that are not classified as a) loans and receivables, b) held-to-maturity investments or c) financial assets at fair value through profit or loss.

### **Loans & Receivables:**

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

### **Available-for-sale assets:**

Available for sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at fair value through determining their value through an active market. The gain or loss arising from a change in the fair value of an available-for-sale financial asset shall be recognised in Other Comprehensive Income and Expenditure and taken to the Available-for-Sale Reserve.

## **j) GOVERNMENT GRANTS & CONTRIBUTIONS**

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income & Expenditure Statement until conditions attached to the grant or

contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or condition are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **k) HERITAGE ASSETS**

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

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

- Replacement Cost
- Purchase Cost
- Insurance Valuation

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

## **l) INVESTMENT PROPERTIES**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the highest and best use value of the asset from the market participant's perspective. Investment properties are not depreciated and



an annual valuation programme ensures that they are held at highest and best use value at the Balance Sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

### **m) LEASES**

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

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

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

### **n) OVERHEADS & SUPPORT SERVICES**

The costs of support services and overheads are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion with the benefits used, with the exception of:

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

These two cost categories are defined in the Service Expenditure Reporting Code of Practice 2015/16 and accounted for as separate headings in the Comprehensive Income & Expenditure Statement, as part of Net Expenditure on Continuing Services.



## **o) PROPERTY, PLANT & EQUIPMENT**

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

### **Recognition**

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

### **Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

### **Component Accounting**

Componentisation is applied for depreciation purposes on enhancement, acquisition expenditure incurred and revaluations carried out from 1st April 2010.

The policy adopted is as follows:

- Components of an asset will be separated where their value is significant in relation to the total value of the asset and where those components have different useful lives to the remainder of the asset for depreciation purposes.
- Where there is more than one significant component part of the same asset with the same useful life, such component parts will be group together for deprecation purposes.
- A component may be an individual item or similar items with similar useful lives grouped.
- Where a component is replaced or restored, the carrying amount of the old component will be derecognised and the new component added. Where the carrying value of the derecognised/replaced component is not known a best estimate will be determined by reference to the current cost.
- Only assets with a gross book value of £1.5 million and over will be considered for componentisation.
- Of those assets, for the purpose of determining a 'significant' component of an asset, components with a value of 25% in relation to the overall value of the asset or over £500,000 will be considered and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised.
- On componentisation any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

### **Impairment**

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

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

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

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

### **Depreciation**

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

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the useful life of the property as estimated by a suitably qualified officer. The useful lives range from 5 to 100 years.
- Vehicles, Plant, Furniture & Equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- Infrastructure - straight-line allocation over 20 years.

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

### **p) DEFERRED LIABILITIES**

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

### **q) PROVISIONS, CONTINGENT LIABILITIES & CONTINGENT ASSETS**

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income & Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent liabilities and assets are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## **r) RESERVES**

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

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

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

## **s) REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

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

## **t) VALUE ADDED TAX**

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

## **u) MINIMUM REVENUE PROVISION**

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

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

## **v) FAIR VALUE MEASUREMENT**

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

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

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- A comprehensive review of all property leases has been undertaken to determine whether they should be classified as an operating lease (which are off-Balance Sheet), or a finance lease (which is on-Balance Sheet). The result of this review was that the Council currently has no property leases which need to be classified as finance leases.
- The value of the Council's Property, Plant and Equipment is reviewed at year-end to ensure that it is materially correct. Formal valuations are undertaken for a proportion of the assets on an annual basis, and a review of the remainder of the portfolio is undertaken to determine whether or not there may have been any material changes.
- A further review of service contracts was also undertaken in accordance with the requirements of IFRIC 4 to determine whether any of the contractual arrangements contain the substance of a finance lease. It was determined that the park & ride contract was classified as containing finance leases for the vehicles involved in the delivery of the service, and these have now been included with Property, Plant & Equipment on the Balance Sheet.
- A review of the contract for waste collection has determined that the contractual arrangements do not meet the requirements of IFRIC 4.
- It has been determined that an arrangement between the Council and the managing contractor of the Leisure Centre is classified as a service concession arrangement. Under the terms of the arrangement the Council makes regular payments over a 15 year period to cover the costs of major refurbishment works which have been undertaken by the contractor.
- A review of the Council's property portfolio has been undertaken to determine which assets should be classified as Investment Properties. These are those assets held solely to generate rental income or which are held for capital appreciation. A number of assets were classified under this heading, which is shown on the face of the Balance Sheet.
- A review was undertaken to identify what assets the Council owns could potentially be classified as Heritage Assets. Once a list had been established it was determined which of these met the criteria to be classified as a Heritage Asset, and a further judgement was required to determine the appropriate basis for valuation, or whether details of the

asset should be disclosed in the note only.

- There is a high degree of uncertainty about future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication of the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

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

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

The items in the Council's Balance Sheet at 31<sup>st</sup> March 2016 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

#### **Property, Plant & Equipment**

Uncertainties:

Assets are depreciated over useful lives that are dependent upon assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets.

Effect if actual results differ from assumptions:

If the useful life of assets is reduced the annual depreciation charge increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.4m for every year that useful lives had to be reduced.

#### **Pensions Liability**

Uncertainties:

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Barnett Waddingham) is engaged to provide the Council with expert advice about the assumptions to be applied.

Effect if actual results differ from assumptions:



The effect on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2.567m. However, the assumptions interact in complex ways. A one year increase in the mortality age rating assumption would result in an increase to the pension liability of £4.752m.

### **Arrears**

Uncertainties:

At 31<sup>st</sup> March 2016 the Council had a balance of sundry debtors for £12.163m. A review of significant balances suggested that a provision of doubtful debts for £2.579m was appropriate. There is uncertainty as to whether or not such an allowance is sufficient.

Effect if actual results differ from assumptions:

If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £1.3m to set aside as an allowance.

### **Non-Domestic Rates Appeals**

Following the localisation of non-domestic rates which took effect from 1 April 2013, the Collection Fund became liable for potential losses arising from appeals against the rateable value of business premises. A provision of £6.287m has therefore been created to recognise current and backdated appeals. The council's share of the provision of £2.515m is reflected on the balance sheet. This is deemed to be appropriate as it is based on a detailed analysis of information provided by the VOA. If the proportion of successful appeals were to increase by 10%, an additional provision of £4.1m would be required overall, and the council's share of the provision would increase by £1.7m.

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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The 'Telling the Story' review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative will result in changes to the format of the accounts in 2016/17. The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.

Other minor changes due to Annual Improvement to IFRSs cycles, IFRS11 Joint arrangements, IAS 16 Property Plant, Equipment and IAS 38 Intangible Assets



and IAS 19 Employee Benefits are minor and are not expected to have a material effect on the Council's Statement of Accounts.

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 Statement of Accounts.

## **5 - ADJUSTMENTS BETWEEN ACCOUNTING BASIS & FUNDING BASIS UNDER REGULATIONS**

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

### **General Fund Balance**

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

### **Capital Receipts Reserve**

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

### **Capital Grants Unapplied**

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

General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	2014/15 Movement in Unusable Reserves £000		General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	2015/16 Movement in Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account</b>								
<b>Reversal of items debited or credited to the Comprehensive Income &amp; Expenditure Statement:</b>								
2,797			<b>2,797</b>	Charges for depreciation and impairment of non-current assets	3,324			<b>3,324</b>
1,963			<b>1,963</b>	Revaluation (gains)/losses on Property, Plant & Equipment	(408)			<b>(408)</b>
(737)			<b>(737)</b>	Movement in the market value of Investment Properties	(345)			<b>(345)</b>
231			<b>231</b>	Amortisation of intangible assets	195			<b>195</b>
(619)		(702)	<b>(1,321)</b>	Capital grants and contributions applied	(872)			<b>(872)</b>
1,619			<b>1,619</b>	Revenue expenditure funded from capital expenditure under statute	911			<b>911</b>
163			<b>163</b>	Write-off Non-enhancing Capital Expenditure	112			<b>112</b>
(1,126)			<b>(1,126)</b>	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(852)			<b>(852)</b>
<b>Insertion of items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>								
(640)			<b>(640)</b>	Statutory provision for the financing of capital investment	(607)			<b>(607)</b>
(2,923)			<b>(2,923)</b>	Capital expenditure charged against the General Fund balance	(2,978)			<b>(2,978)</b>
<b>Adjustments primarily involving the Capital Grants Unapplied Account</b>								
(37)		37	<b>0</b>	Capital grants & contributions unapplied credited to the Comprehensive Income & Expenditure Statement	(30)		30	<b>(0)</b>
<b>Adjustments primarily involving the Capital Receipts Reserve</b>								
1	1,123		<b>1,124</b>	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement		853		<b>853</b>
	(1,156)		<b>(1,156)</b>	Use of the Capital Receipts Reserve to finance new capital expenditure		(686)		<b>(686)</b>
<b>Adjustments primarily involving the Pensions Reserve</b>								
5,417			<b>5,417</b>	Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income & Expenditure Statement	6,146			<b>6,146</b>
(3,200)			<b>(3,200)</b>	Employer's pensions contributions and direct payments to pensioners payable in the year	(3,390)			<b>(3,390)</b>
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>								
(1,152)			<b>(1,152)</b>	Amount by which council tax and business rates income credited to the Comprehensive Income & Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	3,622			<b>3,622</b>
<b>Adjustments primarily involving the Financial Instruments Adjustment Account</b>								
(84)			<b>(84)</b>	Amount by which finance costs charged to the Comprehensive Income & Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	84			<b>84</b>
<b>Adjustments primarily involving the Accumulated Absences Account</b>								
3			<b>3</b>	Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(4)			<b>(4)</b>
<b>1,678</b>	<b>(33)</b>	<b>(665)</b>	<b>979</b>	<b>Total Adjustments</b>	<b>4,908</b>	<b>167</b>	<b>30</b>	<b>5,105</b>

**6 - MATERIAL ITEMS OF INCOME & EXPENSE**

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

**7 - OTHER OPERATING EXPENDITURE**

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

	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Parish Council precepts	1,288	1,394
Levies	106	109
Gains/losses on the disposal of non-current assets	(1,118)	(848)
	<b>277</b>	<b>655</b>

**8 - FINANCING AND INVESTMENT INCOME & EXPENDITURE**

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

	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Interest payable and similar charges	210	206
Net Interest on the Net Defined Benefit Liability	2,418	2,281
Interest receivable and similar income	(209)	(252)
Income & Expenditure in relation to investment properties and changes in their fair value	(1,261)	(969)
	<b>1,159</b>	<b>1,266</b>

**9 - TAXATION & NON-SPECIFIC GRANT INCOMES**

This note consolidates all the grants and contributions receivable, including those that cannot be identified to particular service expenditure. However, all capital grants and contributions are shown in this note, whether they are service specific or not.

<b>Credited to Taxation &amp; Non Specific Grant Income</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Council tax income	14,647	14,995
Revenue Support Grant	3,275	2,267
Income from Retained Business Rates	22,427	21,444
Tariff Payable	(19,125)	(19,492)
Levy Payable	(510)	(43)
Non-ringfenced Government Grants	3,905	4,943
<b>Total</b>	<b>24,621</b>	<b>24,114</b>
<b>Credited to Services</b>		
Housing Benefit Subsidy	46,871	47,404
Non-Domestic Rates - Cost of Collection	208	206
Council Tax Administration	175	188
New Legislation	250	162
Other Grants	564	182
<b>Total</b>	<b>48,069</b>	<b>48,142</b>

**10 - AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS**

The analysis of income and expenditure by service on the face of the Comprehensive Income & Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by Policy & Resources Committee on the basis of budget reports analysed across Service Committees.

The income and expenditure of the individual Service Committees recorded in budget reports is as follows:

<b>Service Committee Income &amp; Expenditure 2015/16</b>	<b>Policy &amp; Resources £000</b>	<b>Strategic Planning, Sustainability &amp; Transportation £000</b>	<b>Communities, Housing &amp; Environment £000</b>	<b>Heritage, Culture &amp; Leisure £000</b>	<b>Total £000</b>
Fees, charges & other service income	(3,588)	(6,630)	(2,831)	(3,091)	<b>(16,140)</b>
Government Grants	(48,031)	(5)	(106)	0	<b>(48,142)</b>
<b>Total income</b>	<b>(51,619)</b>	<b>(6,635)</b>	<b>(2,937)</b>	<b>(3,091)</b>	<b>(64,282)</b>
Employee expenses	9,327	3,694	5,067	1,479	<b>19,567</b>
Other service expenses	54,944	3,690	9,050	5,020	<b>72,704</b>
Support service recharges	(5,845)	1,050	(1,337)	1,686	<b>(4,446)</b>
<b>Total expenditure</b>	<b>58,426</b>	<b>8,434</b>	<b>12,780</b>	<b>8,185</b>	<b>87,825</b>
<b>Net Expenditure</b>	<b>6,807</b>	<b>1,799</b>	<b>9,843</b>	<b>5,094</b>	<b>23,543</b>

<b>Service Committee Income &amp; Expenditure 2014/15</b>	<b>Policy &amp; Resources £000</b>	<b>Strategic Planning, Sustainability &amp; Transportation £000</b>	<b>Communities, Housing &amp; Environment £000</b>	<b>Heritage, Culture &amp; Leisure £000</b>	<b>Total £000</b>
Fees, charges & other service income	(3,320)	(6,073)	(2,651)	(2,903)	<b>(14,947)</b>
Government Grants	(47,624)	(65)	(66)	0	<b>(47,755)</b>
<b>Total income</b>	<b>(50,945)</b>	<b>(6,138)</b>	<b>(2,717)</b>	<b>(2,903)</b>	<b>(62,702)</b>
Employee expenses	9,001	2,897	4,786	1,281	<b>17,965</b>
Other service expenses	54,465	3,658	8,937	4,942	<b>72,002</b>
Support service recharges	(5,845)	2,567	(896)	1,917	<b>(2,257)</b>
<b>Total expenditure</b>	<b>57,621</b>	<b>9,123</b>	<b>12,827</b>	<b>8,141</b>	<b>87,711</b>
<b>Net Expenditure</b>	<b>6,676</b>	<b>2,985</b>	<b>10,109</b>	<b>5,238</b>	<b>25,009</b>

### Reconciliation of Service Committee Income & Expenditure to Cost of Services in the Comprehensive Income & Expenditure Statement

This reconciliation shows how the figures in the analysis of Service Committee income and expenditure relate to the amounts included in the Comprehensive Income & Expenditure Statement.

	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Net Expenditure in Service Committee Analysis	25,009	23,543
Amounts reported below the line on the Net Cost of Services	0	0
<b>Cost of services in Comprehensive Income &amp; Expenditure Statement</b>	<b>25,009</b>	<b>23,543</b>

### **Reconciliation to Subjective Analysis**

This reconciliation shows how the figures in the analysis of portfolio holder income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income & Expenditure Statement.

There are no costs excluded from budget and outturn figures reported to Service Committees.

2015/16	Service Committee analysis £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(16,139)		(16,139)
Interest & investment income	0	(252)	(252)
Income from council tax	0	(14,995)	(14,995)
Government grants and contributions	(48,142)	(9,118)	(57,260)
<b>Total Income</b>	<b>(64,281)</b>	<b>(24,365)</b>	<b>(88,646)</b>
Employee expenses	19,565	2,282	21,847
Other service expenses	72,382	(969)	71,413
Support Service recharges	(4,124)		(4,124)
Interest Payments	0	206	206
Precepts & Levies	0	1,503	1,503
Gain or Loss on Disposal of Fixed Assets	0	(848)	(848)
<b>Total Expenditure</b>	<b>87,823</b>	<b>2,173</b>	<b>89,996</b>
<b>Surplus or deficit on the provision of services</b>	<b>23,542</b>	<b>(22,192)</b>	<b>1,350</b>

2014/15	Service Committee analysis £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(14,947)		(14,947)
Interest & investment income	0	(209)	(209)
Income from council tax	0	(14,155)	(14,155)
Government grants and contributions	(47,755)	(11,165)	(58,920)
<b>Total Income</b>	<b>(62,702)</b>	<b>(25,529)</b>	<b>(88,231)</b>
Employee expenses	17,964	2,417	20,381
Other service expenses	78,760	(559)	78,201
Support Service recharges	(9,014)		(9,014)
Depreciation, amortisation and impairment	0		0
Interest Payments	0		0
Precepts & Levies	0	210	210
Payments to Housing Capital Receipts Pool	0	1,395	1,395
Gain or Loss on Disposal of Fixed Assets	0	(1,118)	(1,118)
<b>Total Expenditure</b>	<b>87,710</b>	<b>2,345</b>	<b>90,055</b>
<b>Surplus or deficit on the provision of services</b>	<b>25,009</b>	<b>(23,184)</b>	<b>1,824</b>

## 11 - TRADING OPERATIONS

The Council has established 5 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of those units are as follows:

Operation	2014/15	2015/16		
	(Surplus)/ Deficit £000	Income £000	Expenditure £000	(Surplus)/ Deficit £000
Market	50	(324)	435	111
Parkwood Industrial Estate	(364)	(338)	22	(316)
Pay & Display Car Parking	(1,178)	(1,845)	565	(1,280)
On-Street Car Parking	(206)	(731)	550	(181)
Direct Services	66	(1,991)	2,003	12
<b>Net (Surplus)/Deficit</b>	<b>(1,632)</b>	<b>(5,229)</b>	<b>3,575</b>	<b>(1,654)</b>

## 12 - MEMBERS' ALLOWANCES

The amount of Members Allowances paid during 2015/16 totalled £340,867, (£384,382 in 2014/15).

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

<http://www.maidstone.gov.uk/council/councillors/councillor-allowances>



### 13 – OFFICERS REMUNERATION

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

<b>2015/16</b>	<b>Salary (including Fees &amp; Allowances) £000</b>	<b>Benefits in Kind (e.g. Car Allowance) £000</b>	<b>Total Remuneration excluding Pension Contributions £000</b>	<b>Pension Contributions £000</b>	<b>Total Remuneration including Pension Contributions £000</b>
Chief Executive	114	12	126	17	<b>143</b>
Head of Finance & Resources	74	8	82	10	<b>92</b>
Head of Policy & Communications	75	3	78	10	<b>88</b>
Director of Environment & Shared Services	63	2	65	8	<b>73</b>
Director of Regeneration & Communities	34	6	40	5	<b>45</b>

<b>2014/15</b>	<b>Salary (including Fees &amp; Allowances) £000</b>	<b>Benefits in Kind (e.g. Car Allowance) £000</b>	<b>Total Remuneration excluding Pension Contributions £000</b>	<b>Pension Contributions £000</b>	<b>Total Remuneration including Pension Contributions £000</b>
Chief Executive	112	3	115	15	<b>130</b>
Director of Environment & Shared Services	99	3	102	13	<b>115</b>
Director of Regeneration & Communities	98	3	101	13	<b>114</b>
Head of Planning & Development	68	7	75	10	<b>85</b>
Head of Policy & Communications	68	3	71	9	<b>80</b>

Senior Officers are defined as those who sit on the Corporate Leadership Team, and those who report directly to the Chief Executive and receive more than £50,000 remuneration for the year.

In addition to the above the Council made interim appointments to the post of Director of Regeneration & Place to replace the Director of Regeneration & Communities following her departure in August 2015. This post was filled by two individuals and payments totalling £87,950 were made.

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

Remuneration Band	2015/16 No.of employees	2014/15 No.of employees
£50,000 - £54,999	5	4
£55,000 - £59,999	5	1
£60,000 - £64,999	1	3
£65,000 - £69,999	0	4
£70,000 - £74,999	3	2
£75,000 - £79,999	3	1
£80,000 - £84,999	1	1
£85,000 - £89,999	0	0
£90,000 - £94,999	0	0

### Exit Packages

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

Exit Package Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15 £000	2015/16 £000
£0 - £20,000	0	0	8	16	8	16	81	88
£20,001 - £40,000	0	0	1	0	1	0	25	0
£40,001 - £60,000	0	0	0	1	0	1	0	46
£60,001 - £80,000	0	0	1	0	1	0	65	0
£80,001 - £100,000	0	0	0	1	0	1	0	98
£100,001 - £150,000	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>18</b>	<b>10</b>	<b>18</b>	<b>172</b>	<b>232</b>

### 14 - EXTERNAL AUDIT COSTS

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

	2014/15 £000	2015/16 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	67	51
Fees payable for the certification of grant claims and returns during the year	14	14
Non-audit Services	0	6
<b>Total</b>	<b>81</b>	<b>71</b>

## 15 – CAPITAL GRANTS RECEIPTS IN ADVANCE

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

	<b>31st March 2015 £000</b>	<b>31st March 2016 £000</b>
<b>Capital Grants Receipts in Advance</b>		
Section 106 Contributions	1,861	2,451
Other Contributions	312	234
<b>Total</b>	<b>2,173</b>	<b>2,685</b>

## 16 - RELATED PARTIES

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

### Central Government

Central government has effective control over the general operations of the Council- it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 10 on reporting for resources allocation decisions.

### Members and Senior Officers

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' Allowances paid in 2015/16 is shown in Note 12.

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

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

<b>Movements in 2015/16</b>	<b>Infrastructure Assets £000</b>	<b>Land &amp; Buildings £000</b>	<b>Plant, Machinery &amp; Equipment £000</b>	<b>Vehicles £000</b>	<b>IT &amp; Office Equipment £000</b>	<b>Community Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total Property, Plant &amp; Equipment £000</b>
<b>Cost or Valuations</b>								
At 1st April 2015	3,997	44,553	12,156	1,523	4,371	3,092	23	<b>69,715</b>
Additions	16	188	783	29	305	50	2,049	<b>3,420</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	209	0	0	0	0	0	<b>209</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	118	0	0	0	0	0	<b>118</b>
Transfers between categories	0	0	28	0	0	0	(28)	<b>0</b>
Other movements in cost or valuation	(5)	(74)	0	500	0	0	(12)	<b>409</b>
<b>At 31st March 2016</b>	<b>4,008</b>	<b>44,994</b>	<b>12,967</b>	<b>2,052</b>	<b>4,675</b>	<b>3,142</b>	<b>2,032</b>	<b>73,870</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1st April 2015	(2,636)	(2,343)	(4,908)	(1,166)	(2,335)	0	0	<b>(13,389)</b>
Depreciation charge	(202)	(1,736)	(799)	(268)	(319)	0	0	<b>(3,324)</b>
Depreciation written out to the Revaluation Reserve	0	788	0	0	0	0	0	<b>788</b>
Transfers between categories	0	0	(4)	0	4	0	0	<b>0</b>
Other movements in cost or valuation	12	(75)	0	0	0	0	0	<b>(63)</b>
<b>At 31st March 2016</b>	<b>(2,826)</b>	<b>(3,366)</b>	<b>(5,711)</b>	<b>(1,434)</b>	<b>(2,651)</b>	<b>0</b>	<b>0</b>	<b>(15,988)</b>
<b>Net Book Value</b>								
<b>At 31st March 2016</b>	<b>1,182</b>	<b>41,628</b>	<b>7,256</b>	<b>618</b>	<b>2,024</b>	<b>3,142</b>	<b>2,032</b>	<b>57,882</b>
At 31st March 2015	1,360	42,211	7,245	357	2,034	3,092	23	<b>56,326</b>

<b>Movements in 2014/15</b>	<b>Infrastructure Assets £000</b>	<b>Land &amp; Buildings £000</b>	<b>Plant, Machinery &amp; Equipment £000</b>	<b>Vehicles £000</b>	<b>IT &amp; Office Equipment £000</b>	<b>Community Assets £000</b>	<b>Assets Under Construction £000</b>	<b>Total Property, Plant &amp; Equipment £000</b>
<b>Cost or Valuations</b>								
At 1st April 2014	3,997	45,112	11,998	1,239	4,283	3,080	1,261	<b>70,970</b>
Additions	4	611	158	284	88	12	22	<b>1,179</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	(307)	0	0	0	0	0	<b>(307)</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(1,963)	0	0	0	0	0	<b>(1,963)</b>
Transfers between categories	0	1,250	0	0	0	0	(1,250)	<b>0</b>
Other movements in cost or valuation	(4)	(150)	0	0	0	0	(10)	<b>(164)</b>
<b>At 31st March 2015</b>	<b>3,997</b>	<b>44,553</b>	<b>12,156</b>	<b>1,523</b>	<b>4,371</b>	<b>3,092</b>	<b>23</b>	<b>69,715</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1st April 2014	(2,435)	(1,594)	(4,150)	(927)	(2,049)	0	0	<b>(11,155)</b>
Depreciation charge	(201)	(1,312)	(758)	(239)	(287)	0	0	<b>(2,797)</b>
Depreciation written out to the Revaluation Reserve	0	563	0	0	0	0	0	<b>563</b>
<b>At 31st March 2015</b>	<b>(2,636)</b>	<b>(2,343)</b>	<b>(4,910)</b>	<b>(1,166)</b>	<b>(2,336)</b>	<b>0</b>	<b>0</b>	<b>(13,389)</b>
<b>Net Book Value</b>								
<b>At 31st March 2015</b>	<b>1,360</b>	<b>42,211</b>	<b>7,245</b>	<b>357</b>	<b>2,034</b>	<b>3,092</b>	<b>23</b>	<b>56,326</b>
At 31st March 2014	1,562	43,519	7,850	310	2,234	3,080	1,261	<b>59,815</b>

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

<b>Analysis of Land &amp; Buildings Movements 2015/16</b>	<b>Car Parks</b>	<b>Cemetery &amp; Crematorium</b>	<b>Depots, Workshops &amp; Toolsheds</b>	<b>Halls</b>	<b>Housing</b>	<b>Land</b>	<b>Leisure Centres &amp; Pools</b>	<b>Markets</b>	<b>Museums &amp; Galleries</b>	<b>Parks &amp; Open Spaces</b>	<b>Public Conveniences</b>	<b>Theatres</b>	<b>Town Hall</b>	<b>Total Land &amp; Buildings</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuations</b>														
At 1st April 2015	6,568	1,570	1,729	2,864	1,461	196	8,070	1,050	13,586	543	1,705	4,078	1,133	<b>44,552</b>
Additions	104	23	49					14						<b>190</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve		(210)							375	40				<b>205</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services		78							40					<b>118</b>
Other movements in cost or valuation	(6)	(23)	(29)					(14)						<b>(72)</b>
At 31st March 2016	<b>6,666</b>	<b>1,438</b>	<b>1,749</b>	<b>2,864</b>	<b>1,462</b>	<b>197</b>	<b>8,070</b>	<b>1,050</b>	<b>14,001</b>	<b>583</b>	<b>1,705</b>	<b>4,078</b>	<b>1,133</b>	<b>44,994</b>
<b>Accumulated Depreciation &amp; Impairment</b>														
At 1st April 2015	54	(270)	(12)	(316)	(146)	0	(379)	(43)	(513)	(33)	(467)	(140)	(78)	<b>(2,342)</b>
Depreciation charge		(68)	(22)	(162)	(146)		(379)	(21)	(667)	(40)	(123)	(70)	(39)	<b>(1,736)</b>
Depreciation written out to the Revaluation Reserve		264							513	11				<b>788</b>
Other movements in cost or valuation	(44)	7				(39)								<b>(76)</b>
At 31st March 2016	<b>10</b>	<b>(68)</b>	<b>(34)</b>	<b>(477)</b>	<b>(292)</b>	<b>(39)</b>	<b>(758)</b>	<b>(64)</b>	<b>(667)</b>	<b>(62)</b>	<b>(590)</b>	<b>(210)</b>	<b>(117)</b>	<b>(3,366)</b>
<b>Net Book Value</b>														
<b>At 31st March 2016</b>	<b>6,676</b>	<b>1,370</b>	<b>1,714</b>	<b>2,387</b>	<b>1,170</b>	<b>158</b>	<b>7,312</b>	<b>986</b>	<b>13,334</b>	<b>521</b>	<b>1,115</b>	<b>3,869</b>	<b>1,015</b>	<b>41,628</b>
At 31st March 2015	6,622	1,300	1,717	2,548	0	196	7,691	1,007	13,073	510	1,238	3,938	1,055	<b>40,895</b>

<b>Analysis of Land &amp; Buildings Movements 2014/15</b>	<b>Car Parks</b>	<b>Cemetery &amp; Crematorium</b>	<b>Depots, Workshops &amp; Toolsheds</b>	<b>Halls</b>	<b>Housing</b>	<b>Land</b>	<b>Leisure Centres &amp; Pools</b>	<b>Markets</b>	<b>Museums &amp; Galleries</b>	<b>Parks &amp; Open Spaces</b>	<b>Public Conveniences</b>	<b>Theatres</b>	<b>Town Hall</b>	<b>Total Land &amp; Buildings</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuations</b>														
At 1st April 2014	9,915	1,572	1,729	2,864	0	83	6,854	1,050	13,586	543	1,705	4,078	1,133	<b>45,112</b>
Additions		34			463				87	8	3	2	14	<b>611</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(1,667)				31	113	1,216							<b>(307)</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,680)				(283)									<b>(1,963)</b>
Assets Reclassified					1,250									<b>1,250</b>
Other movements in cost or valuation		(36)							(87)	(8)	(3)	(2)	(14)	<b>(150)</b>
At 31st March 2015	<b>6,568</b>	<b>1,570</b>	<b>1,729</b>	<b>2,864</b>	<b>1,461</b>	<b>196</b>	<b>8,070</b>	<b>1,050</b>	<b>13,586</b>	<b>543</b>	<b>1,705</b>	<b>4,078</b>	<b>1,133</b>	<b>44,553</b>
<b>Accumulated Depreciation &amp; Impairment</b>														
At 1st April 2014	(181)	(181)	11	(152)	0	0	(339)	(22)	(257)	(32)	(342)	(70)	(39)	<b>(1,604)</b>
Depreciation charge		(89)	(23)	(164)	(146)		(379)	(21)	(257)	(1)	(123)	(70)	(39)	<b>(1,312)</b>
Depreciation written out to the Revaluation Reserve	225						339							<b>563</b>
Depreciation written out to the Surplus/Deficit on the Provision of Services														<b>0</b>
Other movements in cost or valuation	10													<b>10</b>
At 31st March 2015	<b>54</b>	<b>(270)</b>	<b>(12)</b>	<b>(316)</b>	<b>(146)</b>	<b>0</b>	<b>(379)</b>	<b>(43)</b>	<b>(513)</b>	<b>(33)</b>	<b>(465)</b>	<b>(140)</b>	<b>(78)</b>	<b>(2,343)</b>
<b>Net Book Value</b>														
<b>At 31st March 2015</b>	<b>6,622</b>	<b>1,300</b>	<b>1,717</b>	<b>2,548</b>	<b>1,315</b>	<b>196</b>	<b>7,691</b>	<b>1,007</b>	<b>13,073</b>	<b>510</b>	<b>1,240</b>	<b>3,938</b>	<b>1,055</b>	<b>42,210</b>
At 31st March 2014	9,734	1,391	1,740	2,712	0	83	6,515	1,028	13,330	511	1,363	4,008	1,094	<b>43,510</b>

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

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

### **Depreciation**

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Buildings – straight-line allocation over the useful life of the property as estimated by a suitably qualified officer.
- Vehicles, Plant, Furniture, IT & Office Equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- Infrastructure - straight-line allocation over 20 years.

### **Capital Commitments**

The Council were not contractually committed to any major capital projects as at 31<sup>st</sup> March 2016.

### **Revaluations**

The Council carries out a rolling programme that ensures that all Property, Plant & Equipment required to be measured at fair value is revalued at least every 5 years. All valuations were carried out externally by Harrison's Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of RICS. The latest revaluations were carried out as at 1<sup>st</sup> April 2015 in accordance with the requirements of the Code of Practice, and are considered to be materially accurate at the Balance Sheet date.

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



	Infrastructure Assets £000	Community Assets £000	Land & Buildings £000	Plant, Machinery & Equipment £000	Vehicles £000	IT & Office Equipment £000	Assets Under Construction £000	Total £000
Carried at historical cost	4,012	3,142	848	12,968	2,052	4,674	2,028	29,724
Valued at current value as at:								
31st March 2012			588					588
31st March 2013			769					769
31st March 2014			11,231					11,231
31st March 2015			15,978					15,978
31st March 2016			15,577					15,577
<b>Total Cost or Valuation</b>	<b>4,012</b>	<b>3,142</b>	<b>44,991</b>	<b>12,968</b>	<b>2,052</b>	<b>4,674</b>	<b>2,028</b>	<b>73,868</b>

## 18 - INVESTMENT PROPERTIES

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

	2014/15 £000	2015/16 £000
Balance at start of the year	12,727	15,962
<b>Additions:</b>		
Additions	2,498	2
Net gains/losses from fair value adjustments	737	345
<b>Balance at end of year</b>	<b>15,962</b>	<b>16,309</b>

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

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

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

**19 – HERITAGE ASSETS: 5 YEAR SUMMARY OF TRANSACTIONS**

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £001
Balance Brought Forward	10,279	10,279	10,334	10,363	10,384
Acquisitions		55	29	21	
Disposals					
<b>Balance Carried Forward</b>	<b>10,279</b>	<b>10,334</b>	<b>10,363</b>	<b>10,384</b>	<b>10,384</b>

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

Cost or Valuation	Museum Exhibits £000	War Memorials £000	Statues & Sculptures £000	Other Items £000	Total Assets £000
1st April 2015	9,090	471	515	308	10,384
Additions					0
<b>31st March 2016</b>	<b>9,090</b>	<b>471</b>	<b>515</b>	<b>308</b>	<b>10,384</b>
1st April 2014	9,090	450	515	308	10,363
Additions		21			21
<b>31st March 2015</b>	<b>9,090</b>	<b>471</b>	<b>515</b>	<b>308</b>	<b>10,384</b>

**Museum Exhibits**

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

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

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

**War Memorials**

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

## Statues and Sculptures

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

## Other Items

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

## Listed Buildings and Other Heritage Assets

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

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

## 21 - FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

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

	Long-term		Short-Term	
	31st March 2015 £000	31st March 2016 £000	31st March 2015 £000	31st March 2016 £000
<b>Investments</b>				
Loans & receivables	5,000	0	11,180	18,150
Available-for-sale financial assets	11	0	5,084	0
	5,011	0	16,264	18,150
<b>Debtors</b>				
Loans & receivables	28	24	7,539	8,525
<b>Creditors</b>				
Financial liabilities at amortised cost	0	0	3,210	6,370
<b>Other Long Term Liabilities</b>				
Finance Lease Liabilities at amortised cost	1,177	898	457	629

On the face of the Balance Sheet Loans & Receivables are split in Current Assets between Short Term Investments and Cash & Cash Equivalents.

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

## Income & Expense

	Long-Term		Short Term	
	31st March 2015 £000	31st March 2016 £000	31st March 2015 £000	31st March 2016 £000
<b>Income:</b>	0	0	0	0
Loans & Receivables	28	0	101	235
Available-for-sale Financial Assets	0	0	76	15
Other Interest	0	0	3	2
<b>Total</b>	<b>28</b>	<b>0</b>	<b>180</b>	<b>252</b>

## Fair Value of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Available for sale assets are measured at fair value which is determined through an active market. Where an instrument has a maturity of less than 12 months the fair value is taken to be the carrying amount. The Council has no loans or long-term creditors, and the fair value of trade and other receivables is taken to be the invoiced or billed amount.

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

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Head of Finance & Resources and the Specialist Finance Manager in Treasury, Insurance & VAT, under policies approved by the Council on 25 February 2015 in the Annual Treasury Management Strategy, which can be viewed on the Council's website – <http://www.maidstone.gov.uk>. A summary of the main points of the 2015/16 Treasury Management Strategy is also shown below.

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

## Treasury Management Strategy 2015/16

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

- Invest up to £3m of core cash for over 1 year if rates were to improve. Possibility of using property funds;

- Include overseas institutions within the Council's counterparty list who are on Council's advisor's, Capita, credit quality list and who's sovereignty rating is the same or better than the UK;
- All other investments short term (less than 1 year);
- A provision to borrow £6m if it becomes necessary to fund the capital programme.

## Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. There are limits based on credit ratings set on the amount and length of time deposits can be made with individual banks and financial institutions, and these are set out in the Annual Treasury Management Strategy. These ratings are supplied by the Council's Treasury Advisors Capita Asset Services/Arlingclose (from 1<sup>st</sup> January 2016). who look at ratings from all three credit rating agencies, Fitch, Moodys and Standard and Poors. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings.

Arlingclose examine the bail-in risk which determines the level of loss an institution would need to incur before the Council's investments would be affected.

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

As at 31<sup>st</sup> March 2016 investments were held with the following institutions:

	<b>31st March 2015 £000</b>	<b>31st March 2016 £000</b>
AAA rated Institutions	8,064	2,640
AA rated Institutions	42	3,042
A rated Institutions	11,000	11,000
BBB+ rated Institutions	0	2,000
Unrated Building Societies	2,000	0
UK Government	11	0
<b>Total</b>	<b>21,117</b>	<b>18,682</b>

## Liquidity Risk

Liquidity risk arises from the Council having insufficient resources to meet its on-going commitments. The Council has a comprehensive cash flow management

system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money market and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. A borrowing provision of £4m exists for short term cash flow purposes, and there is also an overdraft facility of £0.5m available with Lloyds Bank. However provision has also been made with the current Treasury Management Strategy to have an authorised debt limit of £10m (£6m for capital programme) to fund on-going schemes in the event of projected capital receipts not being realised. This was not needed during the year.

### **Refinancing and Maturity Risk**

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

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

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

### **Market Risk – Interest Rate Risk**

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

	<b>31st March 2015 £000</b>	<b>31st March 2016 £000</b>
Call Accounts/Money Market Funds	5,022	2,682
Receivables	11,000	16,000
Available-for-Sale Financial Assets	5,095	0
<b>Total</b>	<b>21,117</b>	<b>18,682</b>

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

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

### Foreign Exchange Risk

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

## 23 – DEBTORS

### Short Term Debtors

	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Central government bodies	568	2,038
Other local authorities	89	2,208
Other entities and individuals	11,220	12,163
<b>Total</b>	<b>11,877</b>	<b>16,409</b>

The movement in the balances for Central Government and other local authorities is a reflection of the introduction of the new Business Rates Pooling Arrangement.

## Provision for Bad Debts

### Short Term Debtors and Provision for Bad Debts Total

	2014/15 £000	2015/16 £000
Excess Charges Provision	424	445
Sundry Bad Debts Provision	2,889	3,029
<b>Total</b>	<b>3,313</b>	<b>3,474</b>

The figure on the balance sheet reflects Debtors less Provision for Bad Debts, which totals £13.385m

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

	2014/15 £000	2015/16 £000
Council Tax payers	782	826
Business Rate payers	1,429	1,300
Capital debtors	648	236
General debtors	7,104	8,290
Payments in Advance	608	777
Other miscellaneous amounts	649	734
<b>Total</b>	<b>11,220</b>	<b>12,163</b>

## 24 - CASH & CASH EQUIVALENTS

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

	2014/15 £000	2015/16 £000
Cash held by the Council	12	17
Bank current accounts	146	(549)
Short-term deposits	8,106	4,682
<b>Total</b>	<b>8,264</b>	<b>4,150</b>



**25 – CREDITORS****Short Term**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Central government bodies	2,812	941
Other local authorities	2,279	2,919
Other entities and individuals	4,948	5,466
<b>Total</b>	<b>10,039</b>	<b>9,326</b>

The movement in the balances for Central Government and other local authorities is a reflection of the introduction of the new Business Rates Pooling Arrangement.

Other entities and individuals are broken down as follows:

	<b>2014/15</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
General creditors	2,297	2,335
Capital creditors	132	179
Council tax payers	167	187
Business Rate payers	516	411
Receipts in advance	1,055	975
Deposits	727	1,164
Retentions	54	214
<b>Total</b>	<b>4,948</b>	<b>5,466</b>

**26 - PROVISIONS****Provision for Business Rates Appeals**

	<b>2014/15</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Business Rates Appeals - Current	326	584
Business Rates Appeals - Backdated	742	1,931
<b>Total</b>	<b>1,068</b>	<b>2,515</b>

A new system for the distribution of business rates was introduced from April 2013. The Council now is required to account for the effect of appeals which were previously borne by the national pool. The balance represents the Council's 40% share of the estimated current and backdated appeals.

## 27 - TRUST FUNDS

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

The assets and liabilities of the Trust as at 31<sup>st</sup> March 2016 are summarised in the following table. The figures for 2014/15 are the audited figures, which differ from those in the 2014/15 Statement of Accounts, as the audit took place after that was published.

	2014/15 £000	2015/16 £000
<b>Fixed Assets:</b>		
Cobtree Golf Course	1,050	972
Cobtree Manor Park Play Area	737	737
Cobtree Manor Park Café/Visitor Centre	1,012	225
Kent Life Attraction	725	725
Investments	1,212	1,134
	<b>4,736</b>	<b>3,793</b>
Current Assets	723	378
Current Liabilities	491	577
<b>Total assets less current liabilities</b>	<b>4,968</b>	<b>3,594</b>
<b>Total Charitable Funds</b>	<b>4,968</b>	<b>3,594</b>

Gross expenditure in 2015/16 totalled £926,445 (£563,485 in 2014/15). Gross income in 2015/16 totalled £791,865 (£702,904 in 2014/15).

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

## 28 - PRIVATE FINANCE INITIATIVES & SIMILAR CONTRACTS

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

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

written down annually by the amount of principal repaid. Interest paid on the loan is charged to the Comprehensive Income & Expenditure Statement.

The value of the works carried out to date (£4.073m) has been reflected in the non-current assets total, with a matching entry shown as a deferred liability (less repayments made in 2015/16) to reflect the balance due on the loan for the works done to date.

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

## Payments

	2014/15 £000	2015/16 £000
Balance outstanding at start of year	2,124	1,634
Adjustments	0	500
Repayment of principal	(490)	(607)
<b>Balance outstanding at end of year</b>	<b>1,634</b>	<b>1,527</b>

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

The £0.5m adjustment figure relates to the value of the buses in the Park & Ride contract, which for the purposes of the accounts is classified as an embedded lease.

## 29 – CAPITAL RECEIPTS RESERVE

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

	<b>31st March 2015 £000</b>	<b>31st March 2016 £000</b>
<b>Balance at 1st April</b>	<b>187</b>	<b>154</b>
Capital Receipts Received	1,122	857
Capital Receipts Applied	(1,155)	(686)
<b>Balance at 31st March</b>	<b>154</b>	<b>325</b>

### 30 – EARMARKED RESERVES

Within the General Fund balance of £18.764m at the end of the year the Council maintains a number of Earmarked Reserves for specific purposes as follows:

	<b>31st March 2015 £000</b>	<b>Contributions to/from Balances £000</b>	<b>31st March 2016 £000</b>
New Homes Bonus funding for Capital	9,812	1,591	11,403
Local Plan	353	101	455
Neighbourhood Planning	107	(43)	64
Trading Accounts	179	0	179
Business Rates Growth	336	(103)	233
<b>Total Earmarked Reserves</b>	<b>10,787</b>	<b>1,546</b>	<b>12,334</b>
Unallocated Balances	4,498	2,016	6,514
<b>Total General Fund Balance</b>	<b>15,285</b>	<b>3,562</b>	<b>18,848</b>

#### Description of Earmarked Reserves:

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

**Local Plan** – this is funding set aside to support the on-going production of the Local Plan document.

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

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

**Business Rates Growth** – these are locally retained rates from the Business Rates Pool that the Council participates in, which will be used to support economic development initiatives.

**31 - UNUSABLE RESERVES**

	<b>31st March 2015 £000</b>	<b>31st March 2016 £000</b>
Revaluation Reserve	25,547	26,223
Capital Adjustment Account	56,258	57,603
Deferred Capital Receipts Reserve	27	23
Pensions Reserve	(70,680)	(64,641)
Collection Fund Adjustment Account	667	(2,957)
Accumulated Absences Account	(181)	(177)
Financial Instruments Adjustment Account	83	0
<b>Total Unusable Reserves</b>	<b>11,721</b>	<b>16,074</b>

**a) Revaluation Reserve**

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

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

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

	<b>31st March 2015 £000</b>	<b>31st March 2016 £000</b>
<b>Balance at 1st April</b>	<b>25,326</b>	<b>25,547</b>
Upward revaluation of assets	2,103	1,052
Downward revaluation of assets	(1,847)	(389)
Disposals		36
Difference between fair value depreciation and historical cost depreciation	(36)	(23)
<b>Balance at 31st March</b>	<b>25,547</b>	<b>26,223</b>

**b) Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets

under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income & Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

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

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

Note 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	31st March 2015 £000	31st March 2016 £000
<b>Balance at 1st April</b>	<b>56,220</b>	<b>56,258</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
Charges for depreciation of non-current assets	(2,797)	(3,324)
Amortisation of intangible assets	(231)	(195)
Prior Year Adjustments		(70)
Revaluation Gains/Losses on Property, Plant & Equipment	(1,963)	446
Revenue expenditure funded from capital under statute	(1,619)	(911)
Write-off of non-enhancing capital expenditure	(163)	(112)
	<b>(6,775)</b>	<b>(4,166)</b>
Adjusting amounts written out of the Revaluation Reserve	36	23
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(6,737)</b>	<b>(4,143)</b>
Capital financing applied in the year:		
Sums set aside for Debt Repayment	638	607
Use of the Capital Receipts Reserve to finance new capital expenditure	1,156	686
Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	1,321	872
Application of grants to capital financing from the Capital Grants Unapplied Account		
Capital expenditure charged against the General Fund balance	2,923	2,978
	<b>6,038</b>	<b>5,143</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	737	345
<b>Balance at 31st March</b>	<b>56,258</b>	<b>57,603</b>

**c) Pensions Reserve**

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

	<b>2014/15</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Opening balance at 1 April	56,476	70,680
Remeasurements of the net defined liability	11,987	(8,797)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	5,417	6,148
Employer's pensions contributions	(3,200)	(3,390)
<b>Closing balance at 31 March</b>	<b>70,680</b>	<b>64,641</b>

**d) Collection Fund Adjustment Account**

	<b>31st March</b>	<b>31st March</b>
	<b>2015</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Balance at 1st April</b>	<b>(486)</b>	<b>666</b>
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income & Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements		
- Council Tax	108	(130)
- Non-domestic Rates	1,044	(3,493)
<b>Balance at 31st March</b>	<b>666</b>	<b>(2,957)</b>



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

### 32 - CAPITAL EXPENDITURE & CAPITAL FUNDING

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

	2014/15 £000	2015/16 £000
<b>Capital Investment</b>		
Property, Plant & Equipment	1,017	3,307
Heritage Assets	21	0
Investment Properties	2,499	1
Intangible Assets	103	206
Non-enhancing capital expenditure	163	112
Revenue Expenditure Funded from Capital Under Statute	1,597	911
	<b>5,400</b>	<b>4,536</b>
<b>Sources of Finance</b>		
Capital receipts	1,156	686
Government grants & other contributions	1,321	872
Direct Revenue Contributions	2,923	2,978
	<b>5,400</b>	<b>4,536</b>

### 33 - DEFINED BENEFIT PENSION SCHEMES

#### Participation in Pension Schemes

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

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

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

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

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

	2014/15 £000	2015/16 £000
<b>Comprehensive Income &amp; Expenditure Statement (CI&amp;ES)</b>		
Cost of Services:		
Service cost comprising:		
- Current service cost	2,858	3,593
- Past service costs including curtailments	141	274
- (Gain)/loss from settlements	0	0
Financing and Investment Income & Expenditure:		
- Net interest expense	2,418	2,281
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>5,417</b>	<b>6,148</b>
Other Post Employment Benefit Charged to the CI&ES		
Remeasurement of the net defined benefit liability comprising:		
- Return on plan assets (excluding the amount included in net interest expense)	5,298	(1,989)
- Actuarial gains and losses arising on changes in financial assumptions	(17,436)	10,767
- Actuarial gains and losses arising on changes in demographic assumptions	0	0
- Experience gains and losses on defined benefit obligation	151	19
- Other actuarial gains and losses	0	0
<b>Total Post Employment Benefit Charged to the CI&amp;ES</b>	<b>(6,570)</b>	<b>14,945</b>
Movement in Reserves Statement:		
- Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	5,417	6,148
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers' contributions payable to the scheme	(3,200)	(3,390)

### Curtailments

Curtailments have been calculated for employees who become entitled to unreduced early retirement benefits during the year. The capitalised cost of the additional benefits additional benefits relative to those reserved for under IAS19 is calculated at £274,000 (2014/15 £45,000).

## Settlements

There were no liabilities settled at a cost materially different to the accounting reserve as a result of members transferring to / from another employer over the year (2014/15 £nil).

## Pension Assets and Liabilities Recognised in the Balance Sheet

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

	2014/15 £000	2015/16 £000
Present value of funded obligation	155,811	149,896
Fair value of plan assets	87,531	87,447
Contributions by scheme participants	68,280	62,449
Present value of unfunded obligation	2,400	2,192
<b>Net liability arising from defined benefit obligation</b>	<b>70,680</b>	<b>64,641</b>

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

	2014/15 £000	2015/16 £000
Opening fair value of Scheme assets	79,694	87,531
Interest on assets	3,486	2,873
Return on assets less interest	5,358	(1,929)
Administration expenses	(60)	(60)
Contributions by employer including unfunded	3,200	3,390
Contributions paid by scheme participants	782	785
Estimated benefits paid plus unfunded net of transfers in	(4,929)	(5,143)
<b>Closing fair value of Scheme assets</b>	<b>87,531</b>	<b>87,447</b>

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

	<b>2014/15</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Opening balance at 1 April	136,170	158,211
Current Service cost	2,858	3,593
Interest cost	5,904	5,154
Remeasurement (gains) and losses		
- Change in financial assumptions	17,436	(10,767)
- Experience loss/(gain) on defined benefit	(151)	(19)
Past service costs, including curtailments	141	274
Estimated benefits paid net of transfers in	(4,733)	(4,961)
Contributions by Scheme participants	782	785
Unfunded pension payments	(196)	(182)
<b>Closing balance at 31 March</b>	<b>158,211</b>	<b>152,088</b>

**Local Government Pension Scheme Assets**

	<b>31st March 2015</b>		<b>31st March 2016</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Equities	59,819	68.3%	58,315	66.7%
Gilts	915	1.0%	775	0.9%
Other Bonds	9,736	11.1%	9,602	11.0%
Property	10,873	12.4%	12,703	14.5%
Cash	2,393	2.7%	2,252	2.6%
Target Return Portfolio	3,795	4.3%	3,800	4.3%
<b>Total</b>	<b>87,531</b>	<b>100.0%</b>	<b>87,447</b>	<b>100.0%</b>

**Basis for Estimating Assets and Liabilities**

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

The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the Kent County Council Pension Fund are based on the latest full valuation of the scheme as at 31<sup>st</sup> March 2013.

The principal assumptions used by the actuary have been:

	2014/15	2015/16
<b>Long-term expected rate of return of assets in the scheme</b>		
<b>Mortality Assumptions</b>		
Longevity at 65 for current pensioners		
- Men	22.8	22.9
- Women	25.2	25.3
Longevity at 65 for future pensioners		
- Men	25.1	25.2
- Women	27.6	27.7
<b>Financial Assumptions</b>		
RPI increases	3.2%	3.2%
CPI increases	2.4%	2.3%
Salary increases	4.2%	4.1%
Pension increases	2.4%	2.3%
Discount Rate	3.3%	3.6%

### Sensitivity Analysis

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

<b>Sensitivity Analysis</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Adjustment to discount rate	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	149,521	152,088	154,703
- Projected Service Cost	3,123	3,198	3,275
Adjustment to long-term salary increase	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	152,357	152,088	151,821
- Projected Service Cost	3,200	3,198	3,196
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	154,465	152,088	149,753
- Projected Service Cost	3,274	3,198	3,124
Adjustment to mortality age rating	+1 Year	None	-1 Year
- Present Value of Total Obligation	156,840	152,088	147,486
- Projected Service Cost	3,280	3,198	3,118

## Scheme History

	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Present value of assets in the Local Government Pension Scheme	69,969	78,152	79,694	87,531	87,447
Fair value of assets in the Local Government Pension Scheme	116,535	127,137	136,170	158,211	152,088
<b>Surplus/(Deficit) in the scheme</b>	<b>(46,566)</b>	<b>(48,985)</b>	<b>(56,476)</b>	<b>(70,680)</b>	<b>(64,641)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £64.641m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31st March 2017 are £3.119m.

## 34 – LEASES

### Finance Leases – Council as Lessee

The Council currently has a number of arrangements which it classifies as finance leases, covering the operation of the leisure centre, and vehicles used in the delivery of the park & ride contract.

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

	<b>31st March 2015 £000</b>	<b>31st March 2016 £000</b>
Not more than 1 year	457	944
Later than 1 year and not later than 5 years	2,026	2,734
Later than 5 years	2,527	1,473
	<b>5,010</b>	<b>5,151</b>

### 35 – CONTINGENT LIABILITIES

The Council has made a provision for NDR Appeals based upon its best estimates of the actual liability as at the year-end in known appeals. It is not possible to quantify appeals that have not yet been lodged with the Valuation Office so there is a risk to the Council that national and local appeals may have a future impact on the accounts.

### 36 – EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Director of Finance & Business Improvement on 30<sup>th</sup> June 2016. Events taking place after this date are not reflected in the financial statement or notes. Where events taking place before this date provided information about conditions existing at 31<sup>st</sup> March 2016 the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.



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

	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Depreciation	(2,797)	(3,324)
Revaluation Gains & Losses	(2,126)	446
Amortisation of Intangible Assets	(231)	(195)
Movement in Provisions	(305)	(2,336)
Movement in Creditors	1,608	72
Movement in Debtors	2,443	2,416
Movement in Inventories	(6)	(35)
Movement in Pension Liabilities	(2,440)	(2,758)
Other Non-Cash items	737	336
	<b>(3,117)</b>	<b>(5,378)</b>

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

	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Net adjustment from the sale of short and long term investments	(29)	5,000
Capital Grants credited to surplus or deficit on the provision of services	1,321	903
Proceeds from sale of Property, Plant & Equipment	1,125	848
	<b>2,417</b>	<b>6,751</b>

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

	<b>2014/15 £000</b>	<b>2015/16 £000</b>
Interest received	(209)	(252)
Interest paid	211	205
	<b>2</b>	<b>(47)</b>

#### 40 - CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2014/15 £000	2015/16 £000
Purchase of property, plant & equipment, investment property and intangible assets	3,780	3,870
Purchase of short-term and long-term investments	13,000	38,001
Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(1,276)	(1,263)
Proceeds from short-term and long-term investments	(5,000)	(42,012)
Other receipts for investing activities (Grants)	(1,422)	(1,304)
<b>Net cash flows from investing activities</b>	<b>9,082</b>	<b>(2,708)</b>

#### 41 - CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2014/15 £000	2015/16 £000
Other receipts from financing activities	0	(12)
Repayments of short & long-term borrowing	641	307
Other payments for financing activities	(3,580)	3,803
<b>Net cash flows from financing activities</b>	<b>(2,939)</b>	<b>4,098</b>

## COLLECTION FUND STATEMENT &amp; NOTES

2014/15		2015/16	
£000		£000	£000
INCOME			
87,563	Income From Council Tax		90,846
57,092	Income From Business Rates (Note 2)		58,608
79	Tranfers from General Fund		
144,735	Total Income		149,454
EXPENDITURE			
Precepts and Demands - Council Tax			
59,797	Kent County Council	63,371	
8,073	Kent Police & Crime Commissioner	8,555	
14,226	Maidstone Borough Council	15,126	
3,878	Kent Fire & Rescue Authority	4,108	91,160
Shares of Business Rates			
26,825	Central Government	31,171	
4,829	Kent County Council	5,611	
21,460	Maidstone Borough Council	24,937	
537	Kent Fire & Rescue Authority	623	62,342
305	Transitional Protection Payments - Business Rates		26
Impairment of Debts - Council Tax			
266	Write offs of uncollectable amounts	228	
284	Additional / (Reduced) Provision For Non Payment	238	466
Impairment of Debts/Appeals - Business Rates			
344	Write offs of uncollectable amounts	1,255	
374	Additional / (Reduced) Provision For Non Payment	(106)	
(2,697)	Losses on appeal	(1,055)	
2,490	Additional / (Reduced) Provision For Appeals	4,671	4,765
208	Cost of Collection Allowance - Business Rates		206
141,200	Total Expenditure		158,965
3,534	Surplus/(Deficit) For Year		(9,511)
(377)	Surplus/(Deficit) Brought Forward From Previous Years		3,157
2,544	Surplus/(Deficit) on Council Tax		1,764
613	Surplus/(Deficit) on Business Rates		(8,119)
3,157	Surplus/(Deficit) as at 31st March 2016		(6,355)

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

## Notes to the Collection Fund

### Note 1 – Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating, for this specific purpose, 1 April 1991 values. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, the Kent Police & Crime Commissioner Kent Fire & Rescue Authority and this Council for the forthcoming year and dividing this by the council tax base [the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts: 56,803.5 for 2015/16 (55,675.1 for 2014/15) (see table below.) This basic amount of council tax for a Band D property, £1,543.50 for 2015/16, (£1,513.36 for 2014/15) is multiplied by the proportion specified for the particular band to give an individual amount due. Parish Precepts are added to this basic amount.

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

Band	Number of Dwellings	Multiplier	Council Tax Base
Band A (incl disabled relief)	-6.80	5/9	-3.8
Band A	2,170.40	6/9	1,446.9
Band B	5,480.90	7/9	4,263.0
Band C	13,888.70	8/9	12,345.5
Band D	15,052.20	9/9	15,052.2
Band E	8,243.90	11/9	10,075.9
Band F	4,816.90	13/9	6,957.7
Band G	3,601.70	15/9	6,002.8
Band H	307.40	18/9	614.8
Other			219.3
			<b>56,974.3</b>

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

The Council collects from local businesses an amount equal to the rateable value of their property multiplied by a uniform rate set by the Government.

For 2015/16, the business rate multiplier was 49.3p (48.2p in 2014/15) and the small business multiplier was 48.0p (47.1p in 2014/15). The rateable value at 31st March 2016 was £142.241m (£142.632m at 31st March 2015).

### **Note 3 – Distribution of Business (Non-domestic) Rates**

The administration of business rates changed in 2013/14 following the introduction of a business rates retention scheme. The new system is intended to provide a link between business rates growth and the amount of money that councils have to spend on local services. Councils keep a proportion of the business rates revenue as well as growth on the revenue that is generated in their area. This is intended to provide a financial incentive for councils to promote economic growth but also increases the financial risk due to volatility and non-collection of rates.

For Maidstone Borough Council, the local share is 40% with the remainder distributed to central government (50%), Kent County Council (9%) and Kent Fire & Rescue Authority (1%).

When the scheme was introduced, Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive their baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top ups to those authorities who do not achieve their targeted baseline funding. In this respect Maidstone made a tariff payment to the government of £19.41m in 2015/16 (£19.13m 2014/15). In addition, safety net payments will be available if a council's business rates income falls by a certain amount. This safety net will be funded by a levy paid by those councils whose business rates revenue increases by a disproportionate amount compared to their needs.

For 2015/16, it was calculated that the Council would receive £22.45m in business rates (£22.18m 2014/15) but would make a tariff payment of £19.49m to the Government (£19.13m 2014/15). Where councils have greater needs than their business rates income, they will receive a top-up payment from the government. The total national sums of tariffs and top-up payments will equal each other. The levels of tariff and top-up payments remain fixed each year, but will increase in line with the Retail Price Index.

For 2015/16 Maidstone Borough Council participated in a pooled arrangement with Kent County Council, Kent Fire and Rescue Authority and nine other district councils in order to minimise the levy payment due to central government and thereby maximise retention of locally generated business rates.

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

The Code of Practice followed by Local Authorities in England stipulates that a Collection Fund Income and Expenditure account is included in the Council's accounts. The Collection Fund balance sheet meanwhile is incorporated into the Council's consolidated balance sheet.

The collection fund statement on page 74 shows the statutory transactions relating to this fund.

## **GLOSSARY OF TERMS**

### **ACCOUNTING POLICIES**

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

### **ACCOUNTS**

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

### **ASSETS HELD FOR SALE**

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

### **BALANCE SHEET**

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

### **BALANCES**

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

### **CAPITAL EXPENDITURE**

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

### **CAPITAL FINANCING**

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

## **CAPITAL RECEIPTS**

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

## **COLLECTION FUND**

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

## **CREDITORS**

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

## **DEBTORS**

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

## **DEPRECIATION**

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

## **GENERAL FUND**

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

## **HERITAGE ASSETS**

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

## **INTANGIBLE ASSETS**

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

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

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

## **INVESTMENT PROPERTIES**

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

## **PROPERTY, PLANT & EQUIPMENT**

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

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

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

## **REVENUE SUPPORT GRANT**

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

## **REVENUE ACCOUNT**

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

## **SUPPORT SERVICES**

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

## **USABLE CAPITAL RECEIPTS**

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

## **UNUSABLE RESERVES**

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

## **USABLE RESERVES**

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



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAIDSTONE BOROUGH COUNCIL**

We have audited the financial statements of Maidstone Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

### **Respective responsibilities of the Director of Finance and Business Improvement and auditor**

As explained more fully in the Statement of the Director of Finance and Business Improvement Responsibilities, the Director of Finance and Business Improvement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Business Improvement; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

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

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

### **Conclusion on the authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

#### **Respective responsibilities of the Authority and auditor**

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

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

#### **Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects Maidstone Borough Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Darren Wells

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Fleming Way  
Manor Royal  
Crawley  
RH10 9GT  
xx September 2016

# Appendix A

## Annual Governance Statement

2015/16

**1. SCOPE OF RESPONSIBILITY**

- 1.1 Maidstone Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Maidstone Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Council's section 151 Officer and the Monitoring Officer are key members of the Corporate Leadership Team, reviewing all decisions taken through Leadership Team, Committees and Full Council.
- 1.2 In discharging this overall responsibility, Maidstone Borough Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions which includes arrangements for the management of risk.
- 1.3 Where actions have been identified they are highlighted in speech bubbles at the appropriate point in the statement.
- 1.4 Maidstone Borough Council has approved and adopted a Local Code of Corporate Governance reviewed annually. The Code of Corporate Governance is consistent with the principles of the CIPFA/SOLACE framework "Delivering Good Governance in Local Government". A copy of the Code is on the website at [www.maidstone.gov.uk](http://www.maidstone.gov.uk) or can be obtained from the Council at Maidstone House, King Street, Maidstone, Kent ME15 6JQ. This statement explains how Maidstone Borough Council has complied with the code and also meets the requirements of regulation 3 of the Accounts and Audit (England) Regulations 2015.

## 2 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and the activities through which it is accountable to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Maidstone Borough Council's policies, aims and objectives. It evaluates the likelihood of those risks being realised and the impact should they be realised then provides a means of managing the risks efficiently, effectively and economically.
- 2.3 This governance framework has been in place at Maidstone Borough Council for the year ended 31 March 2016 and up to the date of approval of the Statement of Accounts.

### 3 THE GOVERNANCE FRAMEWORK

- 3.1 The monitoring of Corporate Governance has a high priority at the Council. The Head of Policy and Communications is responsible for Corporate Governance. A small working group made up of the Head of Finance and Resources, the Head of Legal services (Monitoring Officer) and the Head of Policy and Communications assisted by the Head of Audit Partnership reports biannually to the Corporate Leadership Team and the Audit, Governance and Standards Committee on governance matters.
- 3.2 The Governance Framework is based on the CIPFA/SOLACE six principles of effective governance
1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
  2. Members and officers working together to achieve a common purpose with clearly defined functions and roles
  3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
  4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
  5. Developing the capacity and capability of members and officers to be effective
  6. Engaging with local people and other stakeholders to ensure robust public accountability

## How we deliver good governance

Principle	Governance Mechanism (what we are doing)	Assurance
Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area	<ul style="list-style-type: none"> <li>The vision for Maidstone is set out in our Strategic Plan</li> <li>The <a href="#">Strategic Plan</a> contains our vision, mission and sets out our priorities and outcomes. Each outcome has an action plan, performance indicators and targets.</li> <li>The Annual Corporate Planning Cycle facilitates the effective planning of service delivery, including the identification of risks, and budget requirements</li> <li>Performance Management of delivering our priorities and services is achieved through operational performance indicators, key performance indicators and the <a href="#">Council's Performance Plan</a></li> <li>The Council's Values have been identified under the acronym STRIVE which stands for Service, Teamwork, Responsibility,</li> </ul>	<ul style="list-style-type: none"> <li>The Strategic Plan was developed following consultation with residents to determine the priorities for the borough.</li> <li>One Council Engagement Plan is in place to communicate our priorities internally</li> <li>Resident Survey undertaken every two years to understand priorities and issues for residents</li> <li>Monitoring against the key measures of success is reported six monthly to Policy and Resources Committee</li> <li>Key Performance Indicator outturns are subject to review by Leadership Team and the Service Committee</li> <li>Annual STRIVE staff awards based on our values</li> </ul>



Principle	Governance Mechanism (what we are doing)	Assurance
	<p>Integrity, Value and Equality.</p> <ul style="list-style-type: none"> <li>A project overview board exists and a project management toolkit is utilised to develop and monitor major projects.</li> </ul>	<ul style="list-style-type: none"> <li>The project board considers the major projects currently being undertaken by the Council at a strategic level and ensures resources are applied and actions taken to maintain control over all such projects</li> </ul>
Members and Officers working together to achieve a common purpose with clearly defined functions and roles	<ul style="list-style-type: none"> <li>The <a href="#">Council's Constitution</a> specifies the roles and responsibilities of Members and Officers and lays down financial and contract procedural rules for the efficient and effective discharge of the Council's business. The Constitution includes the roles and responsibilities of the Service Committees and Audit Governance and Standards Committee.</li> <li>A well established and effective Audit, Governance and Standards Committee</li> <li>Effective Audit function.</li> </ul>	<ul style="list-style-type: none"> <li>The constitution is kept under constant review by the Monitoring officer</li> <li>Half yearly reports are produced for Audit, Governance and Standards Committee which evaluate the overall internal control environment tested through the internal audit work</li> <li>Head of Audit Opinion is issued annually giving a views to the internal control, governance and risk management arrangements for the Council.</li> <li>The new Governance Arrangements were reviewed in 2015-16 by the Democracy Committee in early 2016, resulting in amendments to the constitution</li> </ul>

Principle	Governance Mechanism (what we are doing)	Assurance
	<ul style="list-style-type: none"> <li>The Council has appointed a Monitoring Officer to oversee its compliance with laws and statutory obligations.</li> <li>The Council has clearly defined roles and responsibilities for Members and Officers</li> <li><a href="#">Code of Corporate Governance</a> in place</li> </ul>	<ul style="list-style-type: none"> <li>The Council is a member of a well established and effective Internal Audit partnership that works to an approved annual audit plan. Audit Charter in place.</li> <li>Individual audit reports are produced for the relevant managers, with a copy to the Chief Executive and appropriate Director</li> <li>External Audit produce a number of reports which are reported to management and Members. Recommendations and comments are considered and, where necessary, action is taken to address any issues raised.</li> <li>Scheme of Delegation is in place as defined in the <a href="#">constitution</a></li> <li>The Local Code of Corporate Governance is reviewed and updated annually</li> </ul>
Promoting values for the authority and demonstrating the	<ul style="list-style-type: none"> <li>Good Corporate Governance is at the heart of everything the Council does, for staff this is incorporated into our six core values (STRIVE) in the delivery of services and in</li> </ul>	<ul style="list-style-type: none"> <li>Annual Award Ceremony for Staff focused on the Values</li> </ul>

Principle	Governance Mechanism (what we are doing)	Assurance
values of good governance through upholding high standards of conduct and behaviour	<p>particular the value: Integrity and High Standards of Corporate Governance. The Council has an annual award ceremony focussed on our values, where individuals and teams are given awards for demonstrating the values.</p> <ul style="list-style-type: none"> <li>• At the mid year and full year appraisal points all staff are asked how they demonstrate the values.</li> <li>• The Audit, Governance and Standards Committee has a responsibility to monitor and improve the arrangements for Corporate Governance within the Council.</li> <li>• The Council's Monitoring Officer is responsible for ensuring that the Council acts in accordance with the constitution.</li> <li>• The Council has adopted a local code of conduct for Members and Officers.</li> <li>• The Council meets the requirements of the Public Sector Equality Duty and has a <a href="#">Corporate Equality Policy</a></li> <li>• HR procedures and systems are in place for disciplinary and capability management</li> </ul>	<ul style="list-style-type: none"> <li>• The competency framework is aligned to the council's values</li> <li>• The Audit, Governance and Standards Committee provides an Annual Report to Council on how it has fulfilled its duties in accordance with its terms of reference.</li> <li>• The Monitoring Officer reports to Council and provides advice to Members and Officers.</li> <li>• The Section 151 officer and monitoring officer review all reports for decision via our committee report management system (moderngov).</li> <li>• Equality Impact Assessments are carried out to demonstrate equalities being taken into account in our decision making. In 2013 Audit reviewed our compliance with the Public Sector Equality Duty which was followed by a public sector equality duty self-assessment and a peer review in 2014-15.</li> </ul>

Principle	Governance Mechanism (what we are doing)	Assurance
Taking informed and transparent decisions which are subject to effective scrutiny and managing risk	<ul style="list-style-type: none"> <li>An agreed Risk Management Strategy is in place with identified corporate strategic risks and Management Action Plans.</li> <li>Risk management is a standard heading for consideration of all reports to Management Team and Members. A formal risk assessment is required for reports which require decisions on strategic issues or which seek approval for significant projects.</li> <li>Heads of Service are asked to identify risks as part of their annual review of service plans.</li> <li>The Council publishes details of all Council spending suppliers, senior officer salaries and details of all new contracts via its <a href="#">website</a>.</li> <li>Open meetings and webcasting</li> <li>Transparent and Evidence based decision making</li> <li>Effective governance of shared services through agreements and Shared Service Boards</li> </ul>	<ul style="list-style-type: none"> <li>The Council has comprehensive risk register which includes corporate, operational and project risks. Risk Register is subject to regular review. Risks to service delivery (operational risks) have been accepted as the responsibility of individual authorised officers and incorporated into Service Plans. Heads of Service are responsible for ensuring that their service managers retain an effective operational risk</li> <li>Risk assessments for service plans were completed with guidance from Audit in 2015-16.</li> <li>Meetings are webcast. Agenda papers and the access to information procedure rules are complied with. In 2015-16 we procured an improved webcasting system</li> <li>Reports include information on the options</li> </ul>

The Risk Appetite for the authority needs to be reviewed and agreed in 2016-17

Principle	Governance Mechanism (what we are doing)	Assurance
		<ul style="list-style-type: none"> <li>considered alternatives and reason for decision</li> <li>• Collaboration agreements for shared services and governance arrangements have been reviewed in 2015-16.</li> </ul>
Developing the capacity of Members and Officers to be effective	<ul style="list-style-type: none"> <li>• The Council has had an “Investors in People” (IiP) award for a number of years, which involves demonstrating that the Council has regular appraisals, service and training planning, training evaluation forms, recruitment and selection procedures and initiatives such as Work/Life Balance. The Council was re-accredited with IiP in 2013</li> <li>• We have a <a href="#">Member Development Policy</a></li> <li>• Annual Member development programme</li> <li>• New Member induction programme</li> <li>• Councillor Handbook</li> <li>• A well established staff appraisal process is in place and guidance and training is available for all staff and managers.</li> <li>• Developing Everyone Framework</li> <li>• Workforce Strategy – being updated</li> </ul>	<ul style="list-style-type: none"> <li>• The council was assessed as level Silver for IiP in 2013</li> <li>• The workforce strategy was refreshed in 2015-16</li> <li>• Regular Member seminars and workshops.</li> <li>• The Democracy Committee review the development programme and budget for Members annually</li> <li>• Appraisals are held at mid year and end of year points with all staff, they include a section to identify personal development needs</li> <li>• Service delivery by trained and experienced people.</li> </ul>

Principle	Governance Mechanism (what we are doing)	Assurance
Engaging with local people and other stakeholders to ensure robust public accountability	<ul style="list-style-type: none"> <li>Consultations are held on decisions affecting local people and local people are encouraged to be involved, for example the work on developing the Council's Local Plan</li> <li>Engagement with stakeholders through various groups such as the older person's forum, BME forum, Maidstone Disability Network and Museum Strategic Board</li> <li>Membership of the Chamber of Commerce and work through the Chamber, Federation of Small Businesses, One Maidstone, Maidstone Economic Board, Maidstone Tourism Association and Rural Business Forums to engage businesses, Town Centre Advisory Board, Safer Maidstone Partnership and Maidstone Destination Management Plan Groups</li> <li>Annual consultation with residents on our budget</li> <li>We carry out a survey of residents every other year</li> </ul>	<ul style="list-style-type: none"> <li>Consultation feedback for example from the budget and Local Plan development.</li> <li>Focus groups to inform policies and plans as they develop</li> <li>Resident Survey in 2015</li> <li>Focus groups to develop the Housing Strategy</li> <li>A new Communication and Engagement Strategy was agreed in 2015</li> <li><a href="#">Community Development Strategy</a></li> <li>Single point of contact for businesses in the Borough established through the Economic Development Team Business Visits and Business Terrace</li> <li>Website tested by residents to ensure it is user friendly</li> </ul> <div> <p>A refreshed communication and engagement plan will be developed with Councillors to respond to the results of the residents' survey</p> </div>

Principle	Governance Mechanism (what we are doing)	Assurance
	<ul style="list-style-type: none"> <li>We launched a new website in 2013</li> <li>Regular consultation with residents to inform our decision making</li> </ul>	<ul style="list-style-type: none"> <li>Staff and Councillor Workshops held on the results of the residents survey.</li> </ul>

## 4 REVIEW OF EFFECTIVENESS

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- 4.1 Regulation 6 of the Accounts & Audit Regulations 2015 says Maidstone Borough Council must each year review the effectiveness of its system of internal control. The Corporate Leadership Team leads the review, drawing on Internal Audit's work, views from other Senior Officers and comments from external auditors and other agencies and inspectorates.
- 4.2 The Council's internal audit service - Mid Kent Audit - works in a four-way shared service partnership with Ashford, Tunbridge Wells and Swale Borough Councils. It works in full conformance with Public Sector Internal Audit Standards. Mid Kent Audit works to an audit plan agreed each year by Members. The Audit Committee agreed the 2015/16 plan on 30 March 2015.
- 4.3 Mid Kent Audit presented the overall results of 2015/16 audit work to the Audit, Governance & Standards Committee on 11 July 2016. This internal audit annual report included the Head of Internal Audit Opinion.
- 4.4 Following the Regulations, the Opinion considered the Council's internal control, corporate governance and risk management. The Opinion reported that the Council can place reliance on the overall adequacy of its internal control, governance and risk management.
- 4.5 Mid Kent Audit uses a four level grading scale for assurance rating individual audit projects. In 2015/16 17 projects received a positive assurance rating ('Strong' or 'Sound') with 3 projects receiving an adverse rating ('Weak'). Mid Kent Audit did not assess any areas of the Council as 'Poor' and issued 3 further reports as advisory without assurance rating. Note that the audit plan includes a review of services Maidstone shares.
- 4.6 Mid Kent Audit complete follow up work considering progress towards implementing audit recommendations. During 2015/16 audit re-assessed 4 'Weak' rated projects as 'Sound' following officers acting on audit findings. However, this reassessment included none of the projects first issued in 2015/16 so at year end 3 reports remained at 'Weak' level:
- **Safeguarding:** The audit noted good progress of the Safeguarding working group but observed that the Council needs to make further improvements on training, policy and integration with recruitment.
  - **Business Continuity:** The audit reported that the Council had not progressed and completed previous efforts and so does not have a fully integrated and tested business continuity plan. While local arrangements exist in specific services, not having an overarching plan will limit an effective response to a business continuity incident.



- **Mote Park & Cobtree Café:** The audit made recommendations to improve cash handling, reconciliation and income management controls at the Council operated cafes in its parks.

- 4.7 Officers continue working to act on audit recommendations. Mid Kent Audit will monitor and report on progress throughout 2016/17.
- 4.8 The Council's financial management conforms with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (2010). Also, the Head of Audit Partnership role conforms to the principles set out in the CIPFA statement on the role of the Head of Internal Audit in Public Service Organisations (2010).
- 4.9 A number of areas were identified in the proceeding statement where action is required these have been included within our significant governance issues for 2016-17 action plan below.

## 5 SIGNIFICANT GOVERNANCE ISSUES

Action taken to address governance issues in 2015-16

Governance Issue	Action Update	By When	By Whom
Implementation of the Information Management Action Plan	<p>The Information Management Strategy has been to Leadership Team including an action plan and resources required.</p> <p>The Information Management Group met in November to consider and agree the communications plan for information and any matters relating to information security.</p> <p>Briefings on information management have been held with unit managers and a presentation on data protection and freedom of information has been given to the planning and environmental health teams.</p>	Actions completed as timetabled throughout 2015-16	Head of Policy and Communications
Embedding Corporate Governance and Ensuring Best Practice is identified	The Corporate Governance Working Group has met as scheduled	Quarterly meetings with updates to Audit, Governance and Standards Committee and CLT every six months.	Head of Policy and Communications
Communication and Engagement of the	Strategy and Annual Action Plan approved Engagement Plan in place for Employees.	Action plan covers 2015-16	Head of Policy and Communications

New Strategic Plan	<p>Action plan:</p> <p>Completed work includes the annual report and “you said we did” information in Borough Update</p> <p>A new social media policy has been produced and circulated to staff</p> <p>Information on the new committee system has been provided on our website and in Borough Update</p> <p>Budget and Strategic Plan consultation was undertaken as part of the resident survey</p> <p>One Council and Staff Engagement– team game on the priorities has been rolled out, briefing managers at Unit Managers including on tools such as Visual Management Boards – which include purpose and performance information for teams</p> <p>Once Council briefing held in June 2015 and January 2016 covering the council’s priorities and staff award ceremony based on the Council’s values.</p>		Learning and Development Manager
The residents survey identified that more work needed to be done	The Borough update included information to promote the new committee system of governance including public question time at	Action plan covers 2015-16	Head of Policy and Communications

on developing residents involvement in decision making as only 29% of respondents believe they can influence decision making in their area.	<p>meetings.</p> <p>Webcasting has been reviewed and a new system procured with the technology to improve resident engagement in meetings.</p> <p>Resident survey results showed an increase of 2% to 31%. This is still an area that requires improvement for us.</p>		
Updating the Strategic Risk Register	A new corporate risk framework was approved in 2016 with identified risks and mitigation measures	Actions taken throughout 2015-16	Head of Audit Partnership
Disaggregation of Planning Support Shared Service	Tunbridge Wells Borough Council (TWBC) took the decision to withdraw from the Mid Kent Planning Support partnership. A Planning Support Disaggregation Board was set up to manage this. Separate service effective from 4 July 2016	Updates will be given to Councillors via the relevant Service Committee.	Head of Policy and Communications
Audit Reviews with weak Assurance.	Action Plans and implementation dates have been put in place and agreed. Both the Data Protection and Emergency Planning Audits are now no longer rated as weak.	<p>Actions to be followed up as they fall due.</p> <p>To be reviewed as part of the six monthly review of the annual governance statement action plan</p>	<p>Head of Policy &amp; Communications</p> <p>Chief Executive</p>

New Committee System of Governance	A review of the effectiveness of the new system to identify what is working well and any improvements that need to be made was carried out by the Democracy Committee in early 2016.	March 2016	Democracy Committee
Appointment of Mayor	The Democracy Committee carried out a review of the process for appointing the Mayor.	February 2016	Democracy Committee supported by Democratic Services

## Actions for 2016-17 as identified in the current Annual Governance Statement

Governance Issue	Action	By When	By Whom
Training and Communication on Information Management	Online learning modules rolled out across the council Briefing at team meetings Communication Plan for Information Management Implemented	Plan covers 2016-17	Director of Finance and Business Improvement  Head of Policy and Communications
The residents survey identified that more work needed to be done on developing residents involvement in decision making and how informed residents feel about our services	An action plan will be developed and approved by Policy and Resources Committee, a workshop has been held and analysis of the results conducted  A further workshop is planned with Councillors and Communications Team in July	Workshop July  Report to Policy and Resources in September 2016	Head of Policy and Communications
Establishing Risk Appetite	Risk Appetite reviewed and agreed by Policy and Resources Committee	September 2016	Head of Audit Partnership
Audit Reviews with weak Assurance.	Action Plans and implementation dates have been put in place and agreed. Audit reviews with weak assurance in 2015-16: <ul style="list-style-type: none"> <li>• Safeguarding</li> <li>• Business Continuity</li> <li>• Mote Park and Cobtree Cafe</li> </ul>	Actions to be followed up as they fall due.  To be reviewed as part of the six monthly review of the annual governance statement action plan	Head of Housing and Community Partnerships  Director of Regeneration and Place

## 6 Certification

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvement that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Leader of the Council: \_\_\_\_\_

Date: \_\_\_\_\_

Chief Executive: \_\_\_\_\_

Date: \_\_\_\_\_

## Maidstone Borough Council

Alison Broom  
Chief Executive

Maidstone House  
King Street  
Maidstone  
ME15 6JQ  
t 01622 602000  
Minicom 01622 602224  
www.maidstone.gov.uk

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

19 September 2016

Dear Sirs

### **Maidstone Borough Council Financial Statements for the year ended 31 March 2016**

This representation letter is provided in connection with the audit of the financial statements of Maidstone Borough Council for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

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

#### **Financial Statements**

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ("the Code"); which give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.



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

## Information Provided

- xv. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

### **Annual Governance Statement**

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

### **Narrative Report**

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

### **Approval**

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on 19 September 2016.

Yours faithfully

Name .....

Name .....

Position .....

Position .....

Date .....

Date .....

Signed on behalf of the Council

Signed on behalf of the Council

## Audit, Governance and Standards Committee

**19 September 2016**

Is the final decision on the recommendations in this report to be made at this meeting?

**No**

## External Audit Procurement

<b>Final Decision-Maker</b>	Council
<b>Lead Director</b>	Director of Finance and Business Improvement
<b>Lead Officer and Report Author</b>	Director of Finance and Business Improvement
<b>Classification</b>	Public
<b>Wards affected</b>	All

### **This report makes the following recommendation to the final decision-maker:**

1. That the Audit, Governance and Standards Committee notes the latest information on external audit procurement.
2. That the Committee recommends to Council that it adopt the option of outsourced procurement as set out at paragraph 3.9.

### **This report relates to the following corporate priorities:**

- Keeping Maidstone Borough an attractive place for all
- Securing a successful economy for Maidstone Borough

### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	19 September 2016
Council	7 December 2016

# External Audit Procurement

## **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 This reports sets out the Council's alternatives for the appointment of external auditors.
  - 1.2 The Council's current contract with its external auditor is due to expire at the end of 2017/18, and the Council will need to appoint a new auditor before 31 December 2017. The new auditor will take on responsibility for examining the 2018/19 financial statements and will deliver their first opinion in July 2019.
  - 1.3 This reports sets out the options open to the Council for routes to obtain a new auditor.
  - 1.4 The final decision about which route to take is to be made by full Council.
- 

## **2. INTRODUCTION AND BACKGROUND**

- 2.1 From the creation of the original District Audit Service in 1844, originally as part of the Treasury, local authorities have always been allocated an external auditor. The role of the external auditor has varied over time but always retained a fundamental element of safeguarding public money by ensuring true and fair financial reporting. From 1983, local authorities had their external auditor selected on their behalf by the Audit Commission.
- 2.2 In 2010, the Secretary of State for Communities and Local Government in the newly formed Coalition Government set out the Government's intention to abolish the Audit Commission and move towards a position where local authorities were able to select their own external auditors.
- 2.3 This intention initially materialised in outsourcing the Audit Commission's in-house audit service to private providers in a competitive tender to the private sector. It was at this point - in 2012 - that most of Kent's external audit provision moved to Grant Thornton on a contract scheduled to expire with the 2016/7 financial statements audit but with a potential two year extension.
- 2.4 In the meantime, the Government made the necessary legislative changes to disband the Audit Commission and create the new external audit framework. This resulted in the Local Audit and Accountability Act 2014 (the Act) and various pieces of secondary legislation such as the Local Audit (Auditor Panel) Regulations 2014 and Local Audit (Appointing Persons) Regulations 2015 (the Regulations).
- 2.5 On 5 October 2015 the Government announced a decision to take one of the two year extensions written into the original 2012 contract. This fixed the date by which local authorities must have acted to appoint an auditor -

before 31 December 2017. The new auditor will take on responsibility for examining the 2018/19 financial statements and deliver their first opinion in July 2019.

- 2.6 The Act and the Regulations give every local authority a choice of three different routes to choosing its auditor. Note that the decision on which path to pursue must be made by full Council.

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### **3. AVAILABLE OPTIONS**

- 3.1 Before considering the procurement alternatives it should be noted that suppliers must have permission from the Financial Conduct Authority (FCA) to provide public audit services. Currently the following suppliers provide public audit services in local authorities:
- BDO LLP (Currently auditing 39 authorities)
  - Ernst & Young LLP (232 authorities)
  - Grant Thornton UK LLP (265 authorities, including Maidstone Borough Council)
  - KPMG LLP (218 authorities)
  - Mazars LLP (40 authorities)
- 3.2 More providers may seek permission as decisions move closer. However, it is unlikely that small local independent firms will be able to meet the FCA's demands, so limiting the Council's choice of auditor.

#### **Solo Procurement and Auditor Panels**

- 3.3 The Council could opt to take the decision alone on procuring a new auditor. To do this the Council would have to establish an *Auditor Panel* as set out in the 2014 Regulations. The Panel must be independently chaired and contain a majority of independent members. Under the Regulations 'independent' means someone who is not a councillor or officer of the authority or employed by a prospective auditor and has not been so for at least five years. The member must also not be a relative or close friend of any serving councillor or officer.
- 3.4 Should it choose this route, the *Auditor Panel* could be entirely separate from the Council's committee structure or a sub-committee within its existing governance (for example a sub-committee of the audit committee). However, it must meet the composition requirements of the Regulations, including a majority of independent members and an independent chair.
- 3.5 An *Auditor Panel* is an advisory body only. It recommends actions to full Council but the Council is not bound to follow its recommendation.

3.6 Beyond the appointment of an auditor, the *Auditor Panel* should remain as a standing committee, as it has other functions, including:

- Reviewing the Council's policy on obtaining non-audit services from the auditor,
- Maintaining an independent relationship to the auditor,
- Monitoring the quality and effectiveness of the auditor,
- Considering any investigation into the circumstances of an auditor's resignation from office or any proposal to remove, and
- Receiving any Public Interest Reports published by the auditor.

3.7 Further details on *Auditor Panels* are included in CIPFA's comprehensive guide produced with CLG and available for free download at <http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>.

Advantages/Benefits	Disadvantages/Risks
Maximum (though not complete) control over auditor procurement.	Costs of recruiting and maintaining an <i>Auditor Panel</i> .
Ability to shape auditor requirements to local circumstances	May struggle to recruit sufficient independent members.
	Unlikely to achieve economies of scale.

### Joint Procurement

3.8 The Act allows bodies to establish a joint *Auditor Panel*. Alternatively authorities can decide to ask the *Auditor Panel* of another authority to advise them (a joint procurement, but not a joint *Panel*). Joint panels need not be restricted by geography or sector (for instance, a joint panel with Police or Fire authorities could meet the requirements). However, the *Auditor Panel* will still require a majority of independent members.

Advantages/Benefits	Disadvantages/Risks
Spreads the cost of procurement	Some loss of local control of process
Potentially easier to recruit independent members	May encounter complexities if participants have differing procurement aims.

### Outsourced Procurement (the 'Sector Led Body')

3.9 A late addition to the Act as it progressed through Parliament, Section 17 allows the Secretary of State to authorise a *Specified Person* who would have the authority to make auditor appointment decisions on behalf of those authorities who opt-in to those arrangements. There is nothing in the Act or Regulations that limits the Secretary of State to authorise only

one *Specified Person*, nor any requirements that such *Persons* be public bodies or associations. The Secretary of State has not made any authorisation and so at this time no *Specified Person* exists. Authorities that choose to procure via a *Specified Person* do not need to create or maintain an *Auditor Panel*.

- 3.10 In this route, once full Council decides to opt-in, the *Specified Person* would negotiate contracts and make the appointment on behalf of councils. The *Specified Person* would also take on all of the existing tasks of an *Auditor Panel* on behalf of the opted-in councils.
- 3.11 Under the 2015 Regulations, the decision of full Council to opt-in (or not) following invitation by a *Specified Person* is final. The Council will not have the option of waiting to see what arrangements the Sector Led body is able to make with auditors, including prices, before deciding, nor can it leave the arrangement if it does not support the eventual appointment.
- 3.12 Public Sector Audit Appointments Ltd (PSAA) has issued a prospectus setting out its intention to seek designation as a *Specified Person*. This is attached as Appendix 1 to this report. PSAA is an independent, not-for-profit company limited by guarantee. It is established by the Local Government Association (LGA) and is therefore led by the local authority sector. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. PSAA is a not-for-profit company and it states that any surplus funds from running a local auditor appointment scheme would be returned to scheme members.
- 3.13 Given the sponsorship of the LGA, PSAA is a highly credible candidate to act as a *Specified Person*. Early indications are that many local authorities would opt in to a scheme run by PSAA. In a recent LGA survey more than 200 have expressed an interest in joining the scheme.
- 3.14 Further information is set out in a 'Frequently Asked Questions' document published by the PSAA and included as Appendix 2 to this report.
- 3.15 The benefits cited by the PSAA of joining their scheme include the following:
  - it will save time and resources for local authorities, as they will avoid the necessity to establish an auditor panel and the need to manage their own auditor procurement
  - assuming a high level of participation, PSAA will be able to attract the best audit suppliers and command highly competitive prices.

Advantages/Benefits	Disadvantages/Risks
Likely to deliver economies of	Loss of local control of process

scale.
No requirement to run procurement exercise or create <i>Auditor Panel</i>
Assured appointment from a nationally accredited panel of auditors
Surpluses from running scheme passed on to members

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#### 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 No decision is required now; we present this report for information. The final decision on which route to take must be one of Full Council. This includes a decision, following invitation, on whether or not to opt into any arrangements proposed by a sector-led body.
- 4.2 At this stage we seek the views and comments of the Committee to assist Officers in engaging with the LGA (and any other bodies) and providing any further support to members ahead of taking the decision.

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#### 5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Various earlier stages of this discussion (which dates back to the original decision to seek abolition of the Audit Commission in August 2010) have occurred at this Committee and elsewhere but this is the first paper dedicated to the topic. As the situation develops, in particular once the situation is clear on the offer presented by a sector-led body, we will bring further information for members' consideration.

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#### 6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The next step will be preparation of a report to full Council, incorporating the comments of the Audit, Governance and Standards Committee, setting out the available options and making a recommendation as to which one to adopt.

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#### 7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	Effective external audit procurement will help to ensure value for money and maintain good governance.	Director of Finance and Business Improvement
<b>Risk Management</b>	External audit	Head of Audit



	complements the Council's internal risk management processes	Partnership
<b>Financial</b>	The Council's external audit fee is currently £50,475. Effective procurement will help to ensure that the fee continues to provide value for money.	Director of Finance and Business Improvement
<b>Staffing</b>	None	
<b>Legal</b>	The Council will need to appoint a new auditor and have a suitable contract in place before 31 December 2017.	Team Leader – Contracts and Commissioning
<b>Equality Impact Needs Assessment</b>	No detrimental impact on the protected characteristics of individuals identified.	Equalities and Corporate Policy Officer
<b>Environmental/Sustainable Development</b>	None	
<b>Community Safety</b>	None	
<b>Human Rights Act</b>	None	
<b>Procurement</b>	Effective external audit procurement will help to ensure value for money.	Director of Finance and Business Improvement
<b>Asset Management</b>	None	

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## 8. BACKGROUND PAPERS

None.

## **APPENDIX 1**

### **PUBLIC SECTOR AUDIT APPOINTMENTS LTD (PSAA) PROSPECTUS**




## Developing the option of a national scheme for local auditor appointments

[www.psaa.co.uk](http://www.psaa.co.uk)

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**Public Sector**  
Audit Appointments



“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,  
Local Government Association

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It has been designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at **[generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)**

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

# Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.


The LGA supported PSAA's successful application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

# PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA has been selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.



“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,  
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,  
Police and Crime Commissioners  
Treasurers’ Society (PACCTS)



# The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

# PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

# PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,  
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,  
Fire Finance Network

# PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

# The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

# How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

**Please reply to: [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)**

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

## **BOARD MEMBERS**

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

## **CHIEF OFFICER**

Jon Hayes, former Audit Commission Associate Controller



“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of  
Finance and Resources,  
Staffordshire County Council

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## **APPENDIX 2**

### **PUBLIC SECTOR AUDIT APPOINTMENTS LTD (PSAA) FREQUENTLY ASKED QUESTIONS**

## Appointing person: Frequently asked questions

Question	Response
1. What is an appointing person?	<p>Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. Eligible bodies are principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London Borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities, joint authorities, combined authorities, national park authorities, conservation boards, PTEs, waste authorities, and the GLA and its functional bodies.</p> <p>The 'appointing person' is sometimes referred to as the sector-led body.</p> <p>PSAA is a company owned by the LGA's Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission.</p>
2. When will invitations to opt in be issued?	<p>The date by which principal authorities will need to opt into the appointing person arrangement is not yet finalised. The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities on appointments before the 31 December 2017 deadline. We anticipate that invitations to opt in will be issued before December 2016 at the latest.</p>

Question	Response
	<p>Authorities will have a minimum period of eight weeks to respond to the invitation.</p> <p>In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms. Our provisional timetable suggests that we will need to start preparing tender documentation early in 2017, so we will need to know by then which authorities want to be included.</p>
3. Who can accept the invitation to opt in?	In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full council (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.
4. Can we join after it has been set up or do we have to join at the beginning?	The Regulations require that once the invitations to opt in have been issued, there will be a minimum period of eight weeks for you to indicate acceptance of the invitation. One of the main benefits of a an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the economies of scale we are likely to achieve. This will not prevent authorities from joining the sector-led arrangements in later years, but they will need to make their own arrangements to appoint an auditor in the interim. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe.

Question	Response
5. Will membership be free for existing members of the LGA?	The option to join the appointing person scheme will be open to all principal local government authorities listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by opting into the PSAA offer, authorities will avoid the costs of their own procurement and the requirement to set up an auditor panel with independent members.
6. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?	We have not yet finalised the governance arrangements and we are considering the options, including how best to obtain stakeholder input. We are considering establishing a stakeholder engagement panel or advisory panel which can comment on our proposals. PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in comments and observations to PSAA by emailing <a href="mailto:generalenquiries@psaa.co.uk">generalenquiries@psaa.co.uk</a> and via the LGA and their Principal Advisors.
7. Will there be standard contract terms and conditions?	The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice. We are aware that authorities would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the stakeholder advisory panel (see Q6).
8. What will be the length of the contracts?	The optimal length of contract between PSAA and firms has not been decided. We would welcome views on what the sector

Question	Response
	considers the optimal length of audit contract. We anticipate that somewhere between three and five years would be appropriate.
9. In addition to the Code of Audit Practice requirements set out by the NAO, will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?	<p>Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit.</p> <p>Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015. Local authority companies will be able to appoint the same audit firm as PSAA appoints to undertake the principal body audit, should they so wish.</p>
10. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?	PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.
11. Will the price be fixed or will there be a range of prices?	The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to participating authorities after all costs have been met.
12. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?	PSAA will be able to make appointments to all principal local government bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.

Question	Response
	<p>In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as other authorities will need to be balanced with auditor independence considerations. As we have set out in our prospectus, auditors must be independent of the bodies they audit. PSAA will have an obligation under the provisions of the Local Audit and Accountability Act 2014 and in compliance with the Ethical Standards issued by the Financial Reporting Council to ensure that every auditor appointment it makes passes this test. We will need information from opted-in authorities on potential independence considerations and joint working arrangements, and will also need information on independence issues from the audit firms. Risks to auditor independence include, for example, an audit firm having previously been engaged to advise on a major procurement which could, of course, later be subject to audit.</p>
<p>13. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it possible to use this process as an option to procure the external auditor for the joint committee?</p>	<p>The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted to produce accounts voluntarily and obtain non-statutory assurance on them will need to make their own local arrangements.</p>
<p>14. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?</p>	<p>The number of firms eligible to undertake local public audit will be regulated through the Financial Reporting Council and the recognised Supervisory Bodies (RSBs). Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel. The seven firms appointed by PSAA and the Audit Commission generally</p>



Question	Response
	<p>maintain a dedicated public sector practice with staff trained and experienced in public sector work.</p> <p>One of the advantages of the appointing person option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean:</p> <ul style="list-style-type: none"> <li>• firms have a regional presence;</li> <li>• greater continuity of staff input; and</li> <li>• a better understanding the local political, economic and social environment.</li> </ul>
15. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?	<p>PSAA will organise the contracts so that there is a minimum number of firms appointed nationally. The minimum is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments that allow each firm a balanced portfolio of work subject to independence considerations.</p>
16. What will be the process to feed in opinions from customers of current auditors if there are issues?	<p>PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also undertake contract monitoring of the firms it appoints.</p>
17. What is the timetable for set up and key decisions?	<p>We expect the key points in the timetable to be broadly:</p>

Question	Response
	<ul style="list-style-type: none"> <li>• establish an overall strategy for procurement - by 31 October 2016;</li> <li>• achieve 'sign-up' of scheme members - by early January 2017;</li> <li>• invite tenders from audit firms - by 31 March 2017;</li> <li>• award contracts - by 30 June 2017;</li> <li>• consult on and make final auditor appointments - by 31 December 2017; and</li> <li>• consult on, propose audit fees and publish fees - by 31 March 2018.</li> </ul>
18. What are the terms of reference of the appointing person?	PSAA is wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it will be an appointing person rather than a transitional body.
19. Will the appointing person take on all audit panel roles and therefore mitigate the need for there to be one in each individual authority?	Opting into the appointing person scheme will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

Question	Response
<p>20. What will be the arrangements for overseeing the quality of audit work undertaken by the audit firms appointed by the appointing person?</p>	<p>PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.</p> <p>PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the NAO to help ensure that guidance to auditors is updated when necessary.</p>

**MAIDSTONE BOROUGH COUNCIL**

# **AUDIT, GOVERNANCE AND STANDARDS COMMITTEE**

**Work Programme**

**2016/17**

Date of Meeting	Title of Report	Contact Officer
11 July 2016	<b>Annual Governance Statement 2015/16 and Local Code of Corporate Governance</b>	Angela Woodhouse, Head of Policy and Communications
11 July 2016	<b>Annual Internal Audit Report and Opinion 2015/16</b>	Rich Clarke, Head of Audit Partnership
11 July 2016	<b>Speaking Up Policy (Whistleblowing)</b>	Rich Clarke, Head of Audit Partnership
11 July 2016	<b>Treasury Management Annual Review 2015/16</b>	John Owen, Finance Manager
11 July 2016	<b>External Audit Update July 2016</b>	Ellie Dunnet, Chief Accountant
11 July 2016	<b>External Audit Fee Letter 2016/17</b>	Ellie Dunnet, Chief Accountant
11 July 2016	<b>Statement of Accounts 2015/16</b>	Ellie Dunnet, Chief Accountant
19 September 2016	<b>Complaints Received Under the Members' Code of Conduct</b>	John Scarborough, Head of Legal Partnership
19 September 2016	<b>AGS Committee Annual Report 2015/16</b>	Rich Clarke, Head of Audit Partnership
19 September 2016	<b>Whistleblowing Policy</b>	Rich Clarke, Head of Audit Partnership
19 September 2016	<b>External Auditor's Audit Findings Report 2015/16 and Statement of Accounts 2015/16</b>	Ellie Dunnet, Chief Accountant
19 September 2016	<b>External Audit Procurement</b>	Mark Green, Director of Finance and Business Improvement
21 November 2016	<b>Annual Governance Statement Action Plan Update</b>	Angela Woodhouse, Head of Policy and Communications
21 November 2016	<b>Mid-Kent Audit Interim Internal Audit Report 2016/17</b>	Rich Clarke, Head of Audit Partnership

21 November 2016	<b>Treasury Management Half Yearly Review 2016/17</b>	John Owen, Finance Manager
21 November 2016	<b>External Auditor's Annual Audit Letter</b>	Ellie Dunnet, Chief Accountant
21 November 2016	<b>External Audit Update November 2016</b>	Ellie Dunnet, Chief Accountant
16 January 2017	<b>Treasury Management Strategy 2017/18</b>	John Owen, Finance Manager
16 January 2017	<b>Review of Risk Assessment of Budget Strategy 2017/18 Onwards</b>	Mark Green, Director of Finance and Business Improvement
16 January 2017 <b>To be included in Review of Risk Assessment of Budget Strategy 2017/18 Onwards</b>	<b>Savings Delivered to Date Through Shared Service Arrangements Compared to Targets and Update on Progress being Made on Review of Effectiveness of Shared Services.</b>	Mark Green, Director of Finance and Business Improvement
16 January 2017 <b>To be included in Review of Risk Assessment of Budget Strategy 2017/18 Onwards</b>	<b>Risks Associated with the Council's Commercialisation Projects</b>	Mark Green, Director of Finance and Business Improvement
16 January 2017	<b>Grant Claim Certification</b>	Acting Head of Revenues and Benefits
16 January 2017	<b>External Audit Update January 2017</b>	Ellie Dunnet, Chief Accountant
16 January 2017	<b>Complaints Received Under the Members' Code of Conduct</b>	John Scarborough, Head of Legal Partnership
20 March 2017	<b>Internal Audit Plan 2017/18</b>	Rich Clarke, Head of Audit Partnership
20 March 2017	<b>External Audit Update March 2017</b>	Ellie Dunnet, Chief Accountant
20 March 2017	<b>External Auditor's Audit Plan 2016/17</b>	Ellie Dunnet, Chief Accountant
TBA	<b>HR Assessment of Benefits of IIP Accreditation</b>	
TBA	<b>Periodic Updates on Matters Raised through the Whistleblowing Policy (once approved)</b>	Rich Clarke, Head of Audit Partnership