

# AGENDA

## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING



Date: Monday 11 July 2016  
Time: 6.30 p.m.  
Venue: Town Hall, High Street,  
Maidstone

Membership:

Councillors Butcher (Parish Representative),  
Daley, English, Fissenden, Garland,  
McLoughlin, 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
4. Election of Chairman

**Continued Over/:**

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**Issued on Friday 1 July 2016**

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

5.	Election of Vice-Chairman	
6.	Disclosures by Members and Officers	
7.	Disclosures of Lobbying	
8.	To consider whether any items should be taken in private because of the possible disclosure of exempt information	
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## MAIDSTONE BOROUGH COUNCIL

### AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

#### MINUTES OF THE MEETING HELD ON 21 MARCH 2016

**Present:** Councillor McLoughlin (Chairman) and Councillors Butler, Daley, Mrs Gooch, Perry, Mrs Riden (Parish Representative), Ross and Vizzard

**Also Present:** Matt Dean and Darren Wells of Grant Thornton (External Auditor)

61. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Butcher (Parish Representative) and Clark.

62. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

63. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

64. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

65. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

66. EXEMPT ITEMS

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

67. MINUTES OF THE MEETING HELD ON 18 JANUARY 2016

**RESOLVED:** That the Minutes of the meeting held on 18 January 2016 be approved as a correct record and signed.

68. MATTERS ARISING FROM THE MINUTES OF THE MEETING HELD ON 18 JANUARY 2016

Minute 58 – Treasury Management Strategy 2016/17 (Operational Risk Assessment of the Budget)

In response to a question by a Member, the Head of Finance and Resources said that the operational risk assessment of the budget would be reported to the next meeting of the Committee to enable Members to take a view on the completeness of the assessment and the soundness of the planned mitigations.

69. INTERNAL AUDIT PLAN 2016/17

The Committee considered the report of the Head of Audit Partnership setting out the one-year Internal Audit Operational Plan for 2016/17 and updating the longer-term Plan up to 2018/19.

The report was presented by the Deputy Head of Audit Partnership who advised the Committee that:

- The basis of the Plan had changed in 2015/16 from a project to a days-led approach which had enabled a much greater responsiveness and flexibility in how the audit service was delivered. At Maidstone in 2015/16, this enabled the Internal Audit team to provide support in the development of the Council's risk management approach.
- The restructuring of the Audit Partnership during 2015/16 meant that the team could deliver more productive days at no additional cost. The total audit allocation for the Council in 2016/17 was 500 days, an increase of 30 days from the 2015/16 level.
- The Public Sector Internal Audit Standards required the Head of Audit Partnership to explicitly draw the attention of Members to his assessment of whether the level of resources available was sufficient to fulfil responsibilities to deliver the Plan.
- Having regard to the increase in the general risk environment in which the Council continued to operate, the Council's commercialisation agenda and willingness to take on or support more ambitious projects to assist in the delivery of its priorities, and the introduction of a new Corporate Leadership team, it was the Head of Audit Partnership's assessment that the level of resources available was sufficient in both quantity and capability to fulfil responsibilities.
- There were a number of amendments to the Plan as circulated including:

Addition of an operational review of the adequacy of the contract monitoring arrangements at the Hazlitt Theatre (15 days);

Reducing the number of days allocated for a review of the effectiveness of measures to monitor and enforce compliance with HR policies from 10 to 8; and

Reducing the number of days allocated for a review of compliance with policy on awarding discretionary housing payments from 15 to 10.

- These amendments would give rise to the total audit allocation for Maidstone of 500 days.
- In 2017/18 a full risk assessment would be undertaken for the remainder of the Plan, and it was anticipated that the audit days allocated would be reallocated according to the assessment outcomes to ensure that resources were prioritised effectively.

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

- The revised version of the Plan would be circulated to all Members of the Committee and re-published online.
- The increase in the number of Plan days allocated to risk management support from 20 days to 40 days reflected the expansion of the audit role in this area of service delivery which was recognised in the revised Internal Audit Charter.
- The increase in the number of Plan days allocated to counter fraud support from 20 days to 40 days reflected the time spent by the Internal Audit team in this area in 2015/16, particularly in terms of the National Fraud Initiative, and there was much more of an expectation that the team would take on a validation role. The increase also reflected the significant changes taking place within the Council's counter fraud arrangements and the availability of skills and expertise within the Internal Audit team to support that.
- The Annual Internal Audit report would include detail on how the Audit Plan days had been used over the year.
- In terms of compiling the Audit Plan and liaison with the External Auditor, there was a protocol in place setting out how Internal and External Audit communicated and worked together. In the past the Internal Audit team undertook work that the External Auditor placed reliance on, but this was less so now as the scopes and remits of Internal and External Audit were different.
- The unallocated contingency of zero for 2017/18 was indicative at this stage. The Internal Audit team provided assurance, consultancy services and advice. The aim was to include an unallocated contingency of 10% within the Plan to provide the flexibility to react to consultancy and advisory requests. A full risk assessment for the Plan would be undertaken in 2017/18 and contingency provision would be made at that stage.

**RESOLVED:**

1. That the Internal Audit Operational Plan for 2016/17, attached as Appendix I to the report of the Head of Audit Partnership, be endorsed.
2. That the longer term Plan up to 2018/19, attached as Appendix II to the report of the Head of Audit Partnership, and which will be subject to annual review and refresh, be noted.
3. That the view of the Head of Audit Partnership that the level of resources available is sufficient to deliver the Head of Audit Opinion for 2016/17 be noted.

70. INTERNAL AUDIT CHARTER 2016/17

The Committee considered the report of the Head of Audit Partnership setting out the revised Internal Audit Charter 2016/17.

The Deputy Head of Audit Partnership presented the report and it was noted that:

- The 2015/16 Charter was approved by the then Audit Committee in March 2015, and was scheduled to be reviewed and, if necessary, updated each year.
- In addition to typographical corrections and standardisation of terminology, more substantive amendments sought to build on supplemental guidance issued by the Institute of Internal Auditors acknowledging that Internal Audit services might often possess the skills, knowledge and expertise to successfully take up broader roles within an organisation, often referred to as "second line of defence" roles.
- At present Internal Audit did not occupy any roles that comprised "second line of defence" functions, but the revised Internal Audit Charter addressed the safeguards that would operate if the Audit Partnership were to play a more prominent role in risk management and counter fraud, including ownership of relevant corporate policies such as Whistleblowing.
- The Head of Audit Partnership was satisfied that the Partnership currently operated with the required independence and freedom from interference and that it would continue to do so, subject to the described standards, in the event of it being asked to take on further responsibilities.

In response to questions, the Committee was informed that:

- With regard to significant requests for advice, defined as those which required the purchase of additional resources or amendments to the agreed Audit Plan, the Head of Audit Partnership would consult with

the Chairman and Members of the Audit, Governance and Standards Committee before accepting the engagement to ensure that they were satisfied that it represented an effective use of resources compared to other projects. This was on the basis that it might not always be possible to wait until the next scheduled meeting of the Committee.

- The purpose of the external assessment referred to in paragraph 43 of the revised Charter was to provide independent assurance that the Partnership was operating in accordance with the Public Sector Internal Audit Standards. The most recent assessment was completed by the Institute of Internal Auditors in 2014 with the results reported to the then Audit Committee.

**RESOLVED:**

1. That the Internal Audit Charter 2016/17, attached as Appendix II to the report of the Head of Audit Partnership, be approved.
2. That the Audit Partnership's view that the Partnership is operating with sufficient independence and freedom from managerial interference to fulfil its responsibilities in line with Public Sector Internal Audit Standards, and will continue to do so, be noted.

71. AUDIT COMMITTEE UPDATE - MARCH 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 that might be relevant to the Committee together with a number of challenge questions in respect of these emerging issues.

In response to questions, it was explained that:

- With regard to changes in accounting for the Highways Network Asset from 2016/17, CIPFA expected that the transport infrastructure assets held by district councils/non-highways authorities would be scoped out of the new requirements as assets were unlikely to form a single interconnected network. However, district councils would need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets were not part of an interconnected network and were, therefore, outside of the scope of the requirements.
- This year local authorities would need to estimate a provision for unlogged National Non-Domestic Rate appeals, but as any unlogged appeals as at 31 March 2016 would only be backdated to 1 April 2015 this might not be material, and there was already contingency provision for existing appeals.

**RESOLVED:** That the External Auditor's update report, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

## 72. EXTERNAL AUDITOR'S AUDIT PLAN 2015/16

The Committee considered the External Auditor's Audit Plan for 2015/16. It was noted that:

- The Plan covered the External Auditor's understanding of the environment the Council was operating in, the challenges and opportunities the Council was facing, the concept of materiality and how the audit would be undertaken against that concept, the significant and other risks identified and the work which would be undertaken to mitigate those risks, the External Auditor's responsibility to reach a Value for Money conclusion and the basis on which that would be reached, the need to undertake a risk assessment and then confirm the significant risks that the External Auditor would respond to (and the Audit Plan would be updated to reflect this in due course) and the results of interim audit work.
- The anticipated audit fee was £64,385 which covered the audit of the financial statements and the grant certification work.

In response to questions, the Head of Finance and Resources/representatives of the External Auditor explained that:

- It was understood that discussions regarding the devolution agenda in Kent were taking place at the Kent Leaders' Group supported by the Chief Executives.
- The External Auditor (Grant Thornton) would be undertaking testing of key controls in relation to the valuation of the Pension Fund net liability through the County Council. There was an agreement in place that the auditors of the district councils in Kent could rely on that work and doing it once on behalf of all involved was the most effective way of undertaking the exercise. The actuary employed by the County Council was an expert and Grant Thornton employed their own expert in that field to undertake an assessment to evaluate once only the professionalism, scope, reasonableness and assumptions made by the actuary. It was a requirement of the International Standards on Auditing that this work be undertaken each year.
- The External Auditor was not required to investigate the Pension Fund, but undertook the work to provide assurance that the valuation of the Pension Fund net liability was appropriate and that the actuary's assumptions and approach were reasonable and in line with industry practice. That was why they engaged their own expert in that field to do the work. There was no suggestion of past errors or issues in the Pension Fund/scheme operated in Kent. The External Auditor did not look at the policy on investments.
- The level of materiality used in planning and performing the audit was about 2% of the gross revenue expenditure of the Council. The concept of materiality to provide a level of assurance was well established and 2% was the standard maximum used for local



government clients. The application of the concept of materiality allowed the External Auditor to focus on key areas. As well as focusing audit effort, it also influenced the way in which the findings were reported to the Council. If the External Auditor did identify some errors in the financial statements that were cumulatively or individually above the materiality level set out in the Audit Plan, and the Council decided not to amend the statements for those errors, the External Auditor would have to qualify the accounts.

The Head of Finance and Resources then provided a brief overview of the Chancellor's business rates proposals, and said that a report on the implications for the Medium Term Financial Strategy would be submitted to the Policy and Resources Committee in due course.

**RESOLVED:** That the External Auditor's Audit Plan 2015/16, attached as Appendix A to the report of the Head of Finance and Resources, be noted.

Note: During the discussion on this item, Councillor Daley stated that he was the Vice-Chairman of the County Council's Superannuation Fund Committee.

73. DURATION OF MEETING

6.30 p.m. to 7.35 p.m.

# Agenda Item 10

## **Audit Governance and Standards Committee**

**11 July 2016**

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

**No**

## **Annual Governance Statement 2015-16 and Local Code of Corporate Governance Review**

<b>Final Decision-Maker</b>	Policy and Resources Committee
<b>Lead Director</b>	Chief Executive
<b>Lead Officer and Report Author</b>	Angela Woodhouse, Head of Policy and Communications
<b>Classification</b>	Public
<b>Wards affected</b>	

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

1. To review and approve the Annual Governance Statement 2015-16 and Local Code of Corporate Governance prior to consideration by the Policy and Resources Committee and signing by the Leader and Chief Executive.

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

- Keeping Maidstone Borough an attractive place for all – Effective corporate governance arrangements ensure the council's priorities are understood and delivered
- Securing a successful economy for Maidstone Borough - Effective corporate governance arrangements ensure the council's priorities are understood and delivered

### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	11/7/16
Policy and Resources Committee	27/7/16

# Annual Governance Statement 2015-16 and Local Code of Corporate Governance Review

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 Audit Governance and Standards Committee is asked to consider and approve the Annual Governance Statement and Local Code of Conduct.
  - 1.2 Attached at **Appendix A** is the Annual Governance Statement for 2015-16. The purpose of the Annual Governance Statement is to provide assurance on the council's governance arrangements.
  - 1.3 The Local Code of Corporate Governance was adopted in 2003, since then the code has been reviewed annually to ensure it remains fit for purpose and up to date. The refreshed code is attached at **Appendix B**.
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## 2. INTRODUCTION AND BACKGROUND

- 2.1 Each year we carry out a review of our Governance arrangements to ensure compliance with the Local Code of Corporate Governance. The purpose of the review will be to provide assurance that governance arrangements are adequate and operating effectively or to identify action which is planned to ensure effective governance in the future. The outcome of the review takes the form of an Annual Governance Statement prepared on behalf of the Leader at the Council and Chief Executive.
- 2.2 The code sets out the core principles of corporate governance and measures of compliance the statement how we are meeting these principles. Minor revisions have been made to the code as part of the annual review.
- 2.3 The council produces an Annual Governance Statement (AGS) to accompany the statement of accounts. The Audit Governance and Standards Committee is asked to consider this statement prior to submission to Policy and Resources and signing by the Leader and Chief Executive. The statement looks back at the governance arrangements for 2015-16 and identifies areas for action for 2016-17.
- 2.4 In 2016-17 the Annual Governance Statement and Code of Corporate Governance will need to be changed to reflect the new 'Delivering Good Governance Framework' introduced by CIPFA/Solace in 2016. The format of the AGS has been maintained with a full overhaul next year when the new framework will be applied. It will also be appropriate to review the local code of corporate governance fully at the same time.
- 2.5 Last year action saw the embedding of the new committee system and a review of its effectiveness by the Democracy Committee in early 2016.

Action was also taken in relation to improving information and risk management. A new whistle blowing charter has been produced for approval by the Audit, Governance and Standards Committee.

- 2.6 An emerging governance issue for 2016-17 for the council is devolution. A briefing has been held for all Councillors on the emerging themes and tentative steps that have been taken so far. We will keep this under review.

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### **3. AVAILABLE OPTIONS**

- 3.1 The Audit Governance and Standards Committee can review the Local Code of Conduct and Annual Governance statement and identify changes as appropriate for consideration by the Policy and Resources Committee.

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

- 4.1 It is recommended that the Committee review and agree the code and statement prior to submission to the Policy and Resources Committee suggesting amendments as appropriate
- 4.2 The AGS attached at Appendix A looks back at the governance arrangements in place for 2015-16 and assesses the effectiveness of those arrangements.

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

- 5.1 The Corporate Leadership Team reviewed the statement and code. The next stage will be consultation with Audit, Governance and Standards Committee.

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

- 6.1 The AGS and Local Code of Corporate Governance will be considered by Policy and Resources prior to sign-off by the Leader and Chief Executive. Once approved the code and annual governance statement will be made available on our website and shared with our external auditors.
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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>	Effective corporate governance arrangements ensure the council's priorities are understood and delivered	Head of Policy and Communications
<b>Risk Management</b>	The AGS considers and gives assurance on the Council's approach to risk management	Head of Policy and Communications
<b>Financial</b>	This report has no direct financial implications. The AGS is a requirement of statutory regulations and provides assurance about the Council's governance arrangements.	Section 151 Officer
<b>Staffing</b>	No implications	Head of Policy and Communications
<b>Legal</b>	The AGS assesses the council's governance arrangements which are essential in ensuring robust and lawful decision-making and therefore minimising the risk of legal challenge	Legal Team
<b>Equality Impact Needs Assessment</b>	Good governance ensures the council is adhering to the public sector equality duty.	Policy & Information Manager
<b>Environmental/Sustainable Development</b>	N/A	Head of Policy and Communications
<b>Community Safety</b>	N/A	Head of Policy and Communications
<b>Human Rights Act</b>	N/A	Head of Policy and Communications
<b>Procurement</b>	N/A	Head of Policy and Communications

<b>Asset Management</b>	N/A	Head of Policy and Communications
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## **8. REPORT APPENDICES**

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

- Appendix A: Annual Governance Statement 2015-16
  - Appendix B: Local Code of Corporate Governance 2016
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## **9. BACKGROUND PAPERS**

# Annual Governance Statement

13

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
<p>Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area</p>	<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>
<p>Members and Officers working together to achieve a common purpose with clearly defined functions and roles</p>	<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> </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>• An annual review of audit work and the effectiveness of the audit process is produced for Audit, Governance and Standards Committee</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>• Effective Audit function.</li>   <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</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	<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
<p>demonstrating the values of good governance through upholding high standards of conduct and behaviour</p>	<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</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 its effectiveness.</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
	capability management	
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 to 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</li> </ul>	<ul style="list-style-type: none"> <li>• The Strategic 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 are logged on covalent</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 considered alternatives and reason for decision</li> <li>• Collaboration agreements for shared services</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
	agreements and Shared Service Boards	and governance arrangements have been reviewed in 2015-16.
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
<p>Engaging with local people and other stakeholders to ensure robust public accountability</p>	<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> <li>• Staff and Councillor Workshops held on the</li> </ul> <div data-bbox="1467 1161 2004 1369" style="border: 2px solid orange; border-radius: 15px; padding: 10px; margin-top: 20px;"> <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 data-bbox="600 384 1077 411">• We launched a new website in 2013</li><li data-bbox="600 528 1339 587">• Regular consultation with residents to inform our decision making</li></ul>	results of the residents survey.

## 4 REVIEW OF EFFECTIVENESS

- 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
<p>Implementation of the Information Management Action Plan</p> <p>27</p>	<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>	<p>Actions completed as timetabled throughout 2015-16</p>	<p>Head of Policy and Communications</p>
<p>Embedding Corporate Governance and Ensuring Best Practice is identified</p>	<p>The Corporate Governance Working Group has met as scheduled</p>	<p>Quarterly meetings with updates to Audit, Governance and Standards Committee and CLT every six months.</p>	<p>Head of Policy and Communications</p>
<p>Communication and Engagement of the New Strategic Plan</p>	<p>Strategy and Annual Action Plan approved Engagement Plan in place for Employees.</p>	<p>Action plan covers 2015-16</p>	<p>Head of Policy and Communications</p>

	<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>		<p>Learning and Development Manager</p>
<p>The residents survey identified that more</p>	<p>The Borough update included information to promote the new committee system of</p>	<p>Action plan covers 2015-16</p>	<p>Head of Policy and Communications</p>

<p>work needed to be done on developing residents involvement in decision making as only 29% of respondents believe they can influence decision making in their area.</p>	<p>governance including public question time at 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>		
<p>Updating the Strategic Risk Register</p>	<p>A framework has now been approved and risks now need to be identified and managed.</p> <p>Audit attendance at service management meetings and project boards across the Council to develop service/project risk registers.</p> <p>Based on the strategic plan, risk workshop with senior officers and Members looking to refresh and update the 'strategic' risks.</p> <p>First comprehensive risk register compiled by audit.</p> <p>First summary risk register review by Corporate Leadership Team.</p> <p>First summary risk register review by Policy and Resources.</p>	<p>June 2015</p> <p>July-October 2015</p> <p>December 2015</p> <p>December 2015</p> <p>January 2016</p>	<p>Head of Audit Partnership</p>

	<p>Risks refreshed as part of revised service planning process.</p> <p>Audit, Governance and Standards Committee review of effectiveness of the risk management process.</p>	<p>Spring 2016</p> <p>Spring/Summer 2016</p>	
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 61	Online learning modules rolled out across the council Briefing at team meetings Communication Plan for Information Management Implemented	Plan covers 2016-17	Director of 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> </ul>	Actions to be followed up as they fall due.  To be reviewed as part of the six monthly review of	Head of Housing and Community Partnerships  Director of Regeneration and Place

- Mote Park and Cobtree Cafe

the annual governance statement action plan

## 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**  
**LOCAL CODE OF CORPORATE GOVERNANCE**  
**JULY 2016**

**1. What is Corporate Governance**

- 1.1 Corporate Governance is the system of processes, procedures and measures we use to manage ourselves and how we engage with and are accountable to our residents. Maidstone Borough Council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 1.2 The Council acknowledges the work undertaken by CIPFA/SOLACE on establishing a framework for corporate governance in local government. This work includes the 2007 guidance contained in the publication Delivering Good Governance in Local Government and the subsequent 2012 update to the framework and guidance.

**2. Core Principles of Corporate Governance**

- 2.1 The Council endorses the core principles and the supporting principles as set out in the CIPFA/SOLACE publication on Delivering Good Governance in Local Government, published in 2007 and intend to use these principles to monitor and control Corporate Governance in Maidstone Borough Council to ensure that the Authority is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 2.2 The core principles are as follows:-
- 1) Focusing on the purpose of the authority and on outcomes for the community in 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 core 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.

**3. Maidstone Borough Council's Position**

3.1 Attached at Appendix 1 is a schedule showing the detailed arrangements within Maidstone Borough Council for delivering the core principles.

**4. Monitoring and Review**

4.1 Each year we will carry out a review of our Governance arrangements to ensure compliance with this Code and the delivery of Good Governance within the local Government Framework. The purpose of the review will be to provide assurance that governance arrangements are adequate and operating effectively or to identify action which is planned to ensure effective governance in the future.

4.2 The outcome of the review will take the form of an Annual Governance Statement prepared on behalf of the Leader at the Council and Chief Executive.

.....  
Chief Executive

Date.....

.....  
Leader

Date.....

## LOCAL CODE OF CORPORATE GOVERNANCE

### SCHEDULE 1

#### PRINCIPLE 1. FOCUSING ON THE PURPOSE OF THE AUTHORITY AND ON OUTCOMES FOR THE COMMUNITY AND CREATING AND IMPLEMENTING A VISION FOR THE LOCAL AREA

Supporting Principles	The Code should reflect the requirement for local authorities to:	MBC Arrangements and Evidence
Exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcome for citizens and service users	Develop and promote the authority's purpose and vision	<ul style="list-style-type: none"> <li>Sustainable Community Strategy adopted following consultation with the public</li> <li>Strategic Plan agreed and reviewed annually in parallel with Budget Strategy</li> <li>Communication &amp; Engagement Strategy agreed and an Action Plan will be put in place for 2016-17</li> <li>Service Plans based on cascade from Strategic Plan</li> <li>Engagement Plan in place for staff, team talks and one council sessions on the council's vision and priorities.</li> <li>Corporate updates from the leadership team at Staff Forum events</li> </ul>
	Review on a regular basis the authority's vision for the local area and its impact on the authority's governance arrangements	<ul style="list-style-type: none"> <li>Annual Corporate Governance Statement produced</li> <li>Annual review of Local Code of Corporate Governance</li> </ul>
	Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all parties	<ul style="list-style-type: none"> <li>Refreshed governance arrangements, Policy and Resources Committee 4 July 2016</li> </ul>
	Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance	<ul style="list-style-type: none"> <li>Annual report approved by Policy and Resources and published on website</li> </ul>

<b>PRINCIPLE 1. FOCUSING ON THE PURPOSE OF THE AUTHORITY AND ON OUTCOMES FOR THE COMMUNITY AND CREATING AND IMPLEMENTING A VISION FOR THE LOCAL AREA</b>		
Supporting Principles	The Code should reflect the requirement for local authorities to:	MBC Arrangements and Evidence
<p>Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning</p> <p>36</p>	Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available	<ul style="list-style-type: none"> <li>• Strategic Plan and Budget Strategy include Performance and resource requirements</li> <li>• Medium Term Financial Strategy plans resource requirements and affordability</li> <li>• Efficiency Plan in place</li> <li>• Effective performance management system in place</li> <li>• Annual performance report is produced and published on the website</li> </ul>
	Put in place effective arrangements to identify and deal with failure in service delivery	<ul style="list-style-type: none"> <li>• A clear Complaints procedure and policy is in place</li> <li>• There are reports on complaints trends, service improvements and performance</li> <li>• Annual programme of internal audit activity</li> <li>• Six monthly report on complaints to Policy and Resources</li> <li>• Effective performance management process in place with reports quarterly to Leadership Team and Policy and Resources</li> </ul>
Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money	Decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions.	<ul style="list-style-type: none"> <li>• Performance is measured through Key Performance indicators aligned to the council's strategic priorities these are reported on a quarterly basis to Corporate Leadership Team and policy and Resources</li> <li>• All decisions include commentary on financial implications and are reviewed by the 151 officer and/or finance team.</li> <li>• Value for money is set as a corporate value and included as a category on appraisals and the annual awards.</li> </ul>

**PRINCIPLE 2. MEMBERS AND OFFICERS WORKING TOGETHER TO ACHIEVE A COMMON PURPOSE WITH CLEARLY DEFINED FUNCTIONS AND ROLES**

Supporting Principles	The Code should reflect the requirement for local authorities to:	MBC Arrangements and Evidence
Ensuring effective leadership throughout the authority and being clear about councillor roles and responsibilities.	Set out a clear statement of the respective roles and responsibilities of the committees and the authority's approach towards putting this into practice.	<ul style="list-style-type: none"> <li>• Constitution sets out roles and responsibilities including a scheme of delegation</li> <li>• Protocol on relationships between Members and Officers in place</li> <li>• All decisions recorded and distributed</li> </ul>
	Set out a clear statement of the respective roles and responsibilities of other committee members, members generally and senior officers.	<ul style="list-style-type: none"> <li>• Constitution</li> <li>• Conditions of employment</li> </ul>
Ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard.	Determine a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority, taking account of relevant legislation, and ensure that it is monitored and updated when required.	<ul style="list-style-type: none"> <li>• Constitution and scheme of delegation</li> <li>• Regular review and amendment to Constitution to reflect changes</li> </ul>
	Make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management	<ul style="list-style-type: none"> <li>• Performance management system</li> <li>• Chief Executive is Head of Paid Service with written conditions of employment and job description</li> <li>• Scheme of delegation included in Constitution</li> <li>• Regular Performance Appraisal by Members</li> </ul>
	Develop protocols to ensure that the leader and chief executive (or equivalents) negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained.	<ul style="list-style-type: none"> <li>• Regular meetings between Leader, Deputy Leader and Chief Executive</li> <li>• Strategic Plan developed with Councillors and Leadership team</li> </ul>
	Make a senior officer (the S151 officer)	<ul style="list-style-type: none"> <li>• The Director of Corporate Finance and Business Improvement is</li> </ul>

	<p>responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.</p>	<p>the Section 151 Officer</p> <ul style="list-style-type: none"> <li>• Member of Corporate Leadership Team</li> <li>• Responsibilities set out in Constitution/Financial Procedure Rules</li> <li>• Budget Strategy and other Finance reports presented by the Director</li> <li>• Job Description and conditions of employment in place</li> </ul>
	<p>Make a senior officer (usually the monitoring officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with</p>	<ul style="list-style-type: none"> <li>• The Head of Legal Services is the Monitoring Officer</li> <li>• Job description and conditions of employment in place</li> <li>• Responsibilities set out in Constitution</li> <li>• Member of Corporate Leadership Team</li> </ul>
<p>Ensuring relationships between the authority, its partners and the public are clear so that each knows what to expect of the other.</p>	<p>Develop protocols to ensure effective communication between members and officers in their respective roles</p>	<ul style="list-style-type: none"> <li>• Protocol in place for Member/Officer relationship, revised as part of the new constitution in 2015.</li> </ul>
	<p>Set out the terms and conditions for remuneration of members and officers and an effective structure for managing the process, including an effective remuneration panel (if applicable)</p>	<ul style="list-style-type: none"> <li>• Independent Remuneration Panel in place for Members</li> <li>• Procedures in place for agreeing pay and conditions for staff</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure that effective mechanisms exist to monitor service delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Reports quarterly on business units performance to wider leadership team</li> <li>• Key Performance Indicator's performance reported to Wider Leadership Team and Policy and Resources</li> </ul>
	<ul style="list-style-type: none"> <li>• Ensure that the organisation's vision, Strategic Plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated</li> </ul>	<ul style="list-style-type: none"> <li>• Communication and Engagement Plan in place</li> <li>• Strategic Plans and Budget Strategy developed with public consultation</li> <li>• Performance reported to public through Annual Report</li> </ul>
	<ul style="list-style-type: none"> <li>• When working in partnership ensure that members are clear about their</li> </ul>	<ul style="list-style-type: none"> <li>• Partnerships agreed by Members</li> <li>• Partnerships include clear statements of principles and objectives</li> </ul>



	<p>roles and responsibilities both individually and collectively in relation to the partnership and to the authority</p>	<ul style="list-style-type: none"> <li>• Partnership information on website</li> </ul>
	<ul style="list-style-type: none"> <li>• When working in partnership: <ul style="list-style-type: none"> <li>- Ensure that there is clarity about the legal status of the partnership</li> <li>- Ensure that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Financial requirements of Partnerships set out in Financial Regulations in Constitution</li> <li>• Shared services partnerships are subject to a legal agreement</li> </ul>

**PRINCIPLE 3. PROMOTING VALUES FOR THE AUTHORITY AND DEMONSTRATING THE VALUES OF GOOD GOVERNANCE THROUGH UPHOLDING HIGH STANDARDS OF CONDUCT AND BEHAVIOUR**

Supporting Principles	The Code should reflect the requirement for local authorities to:	MBC Arrangements and evidence
Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance	Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect	<ul style="list-style-type: none"> <li>• Effective Audit, Governance and Standards Committee</li> <li>• Annual Governance Statement approved by Policy and Resources and signed by the Leader and Chief Executive</li> </ul>
	Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols	<ul style="list-style-type: none"> <li>• Member/officer protocols</li> <li>• Code of Conduct for Members</li> <li>• Performance appraisal processes in place</li> <li>• Staff Code of Conduct</li> <li>• Whistleblowing and Anti-Fraud and Corruption Policies in place</li> <li>• Audit Committee review governance policies</li> <li>• Member/Officer protocol agreed</li> <li>• Complaints procedures in place</li> </ul>
	Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.	<ul style="list-style-type: none"> <li>• Financial regulations</li> <li>• Constitution sets out requirements</li> <li>• Codes of Conduct in place</li> <li>• Financial Regulations in place and reviewed</li> </ul>
Ensuring that organisational values are put into practice and are effective.	Develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations and communicate these with members, staff, the community and partners	<ul style="list-style-type: none"> <li>• Codes of Conduct in place</li> <li>• Core values STRIVE (Service, Teamwork, Responsibility, Integrity, Value and Equality) agreed and embedded</li> <li>• STRIVE forms the basis for the competency framework for officers</li> </ul>
	Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice	<ul style="list-style-type: none"> <li>• Codes of Conduct in place</li> </ul>
	Develop and maintain an effective	<ul style="list-style-type: none"> <li>• Standards role has been taken on by the Audit, Governance</li> </ul>

	standards committee	and Standards Committee with training and support <ul style="list-style-type: none"> <li>• Regular reports to Council</li> </ul>
	Use the organisation’s shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority	<ul style="list-style-type: none"> <li>• Reports to Policy and Resources Committee and Corporate Leadership Team include a range of implications including impact on Key Priorities</li> <li>• STRIVE forms the basis for the competency framework for officers</li> </ul>
	In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners’ behaviour both individually and collectively	<ul style="list-style-type: none"> <li>• Partnership protocol agreed</li> </ul>

<b>PRINCIPLE 4. TAKING INFORMED AND TRANSPARENT DECISIONS WHICH ARE SUBJECT TO EFFECTIVE SCRUTINY AND MANAGING RISK</b>		
Supporting principles	The Code should reflect the requirement for local authorities to:	MBC Arrangements and Evidence
42 Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny.	Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible	<ul style="list-style-type: none"> <li>The statutory requirement for Crime and Disorder Overview and Scrutiny is fulfilled by the Communities, Housing and Environment Service Committee.</li> </ul>
	Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	<ul style="list-style-type: none"> <li>Decision-making protocols record of decisions and supporting materials</li> <li>Constitution sets out delegation for decision making</li> <li>Agreed report format to ensure all relevant details included</li> <li>Agreed policy for recording decisions, including time for decision referral</li> <li>Procedure for urgent decisions including reporting to Council in place</li> </ul>
	Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice	<ul style="list-style-type: none"> <li>Codes of Conduct in place</li> <li>Whistleblowing policy in place</li> <li>Declarations of Interest in place</li> <li>Related Party Transactions Declarations in place</li> </ul>
	Develop and maintain an effective audit committee (or equivalent) which is independent of the service committees and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee	<ul style="list-style-type: none"> <li>Audit, Governance and Standards Committee in place with terms of reference and composition in line with CIPFA recommendations</li> <li>Regular training provided,</li> <li>Skills and competencies matrix prepared</li> <li>Annual review of effectiveness of Audit, Governance and Standards Committee</li> <li>Annual Audit Committee report to full Council</li> <li>Mid Kent Internal Audit partnership in place, which regularly reports to the Committee and provides support to the Committee – including training</li> </ul>

	Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints	<ul style="list-style-type: none"> <li>Complaints procedures and reporting arrangements in place. Procedure set out in website</li> </ul>
Having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs.	Ensure that those making decisions whether for the authority or the partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications	<ul style="list-style-type: none"> <li>Members induction scheme implemented annually</li> <li>Members professional development programme agreed annually</li> <li>Periodic Member Briefing Sessions on current issues</li> <li>Member’s professional development policy in place</li> </ul>
	Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately	<ul style="list-style-type: none"> <li>Report format includes need to consider legal and financial implications</li> <li>The process of report approval requires agreement of finance and legal professionals where relevant</li> </ul>
Ensuring that an effective risk management system is in place. 43	Ensure that risk management is embedded into the culture of the authority, with Members and Managers at all levels recognising that risk management is part of their jobs	<ul style="list-style-type: none"> <li>Strategic Risk Strategy and Register regularly reviewed and reported to Policy and Resources and Audit, Governance and Standards Committee.</li> <li>Risk Management is included in standard report format</li> <li>Training provided to Members and managers</li> </ul>
	Ensure that arrangements are in place for whistle-blowing to which staff and all those contracting with the Authority have access	<ul style="list-style-type: none"> <li>Whistleblowing charter in place. Charter is promoted to staff and contractors.</li> </ul>
Using their legal powers to the full benefit of the citizens and communities in their area.	Actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine but also strive to utilise powers to the full benefit of their communities	<ul style="list-style-type: none"> <li>Constitution includes legal powers</li> <li>Report format covers legal implications</li> <li>New legislation is monitored by Monitoring Officer and Corporate Leadership Team</li> </ul>
	Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law	<ul style="list-style-type: none"> <li>Monitoring Officer in post and member of Corporate Leadership Team</li> <li>Legal implications part of standard report format</li> </ul>

	Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice – into their procedures and decision-making processes	<ul style="list-style-type: none"><li>• Monitoring Officer in post and member of Corporate Leadership Team</li><li>• Legal implications part of standard report format</li></ul>
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**PRINCIPLE 5: DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS TO BE EFFECTIVE**

Supporting Principles	The Code should reflect the requirement for local authorities to:	MBC Arrangements and evidence
4.5 Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles.	Provide induction programmes tailored to individual needs and opportunities for members and officer to update their knowledge on a regular basis	<ul style="list-style-type: none"> <li>• Induction programme for new Members</li> <li>• Annual Professional Development Plan for Members</li> <li>• Briefing Sessions for Members</li> <li>• Learning and Development Programme in place for Officers</li> </ul>
	Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority	<ul style="list-style-type: none"> <li>• Job description/personal specifications membership of Corporate Senior Leadership team</li> <li>• Annual performance appraisal</li> </ul>
4.5 Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group.	Assess the skills required by Members and officers and make a commitment to develop those skills to enable roles to be carried out effectively	<ul style="list-style-type: none"> <li>• Training Plans for Members and Officers</li> <li>• Investors in People accreditation (assessed as Silver in 2013)</li> <li>• Annual Central training budget</li> <li>• Training Plans in place</li> <li>• Officer review through Personal Appraisals Process.</li> <li>• Extensive officer Training Plan cascading from PAP process</li> </ul>
	Develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed	<ul style="list-style-type: none"> <li>• Training and development plan reflect requirements of a modern councillor including:</li> <li>• Training Plans in place</li> <li>• Member development policy in place.</li> <li>• Regular training for Councillors</li> </ul>
	Ensure that effective arrangements are in place for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan which might, for example, aim to address any training or development needs.	<ul style="list-style-type: none"> <li>• Performance management system</li> <li>• Delivery of Key Performance Indicators regularly reported</li> <li>• Member development policy in place</li> </ul>

Encouraging new talent for membership of the authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal.	Ensure that effective arrangements designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the Authority	<ul style="list-style-type: none"> <li>• Communication and Engagement plan in place</li> </ul>
	Ensure that career structures are in place for members and officers to encourage participation and development	<ul style="list-style-type: none"> <li>• Succession planning policy in place</li> <li>• Service structure in place</li> <li>• Workforce Strategy</li> </ul>



**PRINCIPLE 6. ENGAGING WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS TO ENSURE ROBUST PUBLIC ACCOUNTABILITY**

Supporting Principles	The Code should reflect the requirement for local authorities to:	MBC Arrangements and Evidence
<ul style="list-style-type: none"> <li>Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.</li> </ul>	<p>Make clear to themselves, all staff and the community to whom they are accountable and for what</p>	<ul style="list-style-type: none"> <li>Community strategy in place</li> <li>Annual Report</li> <li>Strong consultation processes.</li> </ul>
	<p>Consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required</p>	<ul style="list-style-type: none"> <li>Communication and Engagement Strategy in place and reviewed.</li> <li>Complaints procedure and reporting arrangements in place</li> </ul>
<p>Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning.</p>	<p>Ensure that clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements to ensure that they operate effectively</p>	<ul style="list-style-type: none"> <li>Community Strategy in place and reviewed</li> <li>Communication and Engagement Plan in place</li> <li>Consultation on issues such as Budget options</li> </ul>
	<p>Hold meetings in public unless there are good reasons for confidentiality</p>	<ul style="list-style-type: none"> <li>Policy of holding meetings in public</li> <li>All public meetings are webcast</li> </ul>
	<p>Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands</p>	<ul style="list-style-type: none"> <li>Communication and Engagement Strategy in place and reviewed</li> </ul>

	Establish a clear policy on the types of issues they will meaningfully consult on or engage with the public and service users about including a feedback mechanism for those consultees to demonstrate what has changed as a result	<ul style="list-style-type: none"> <li>• Communication and Engagement Strategy in place and reviewed</li> </ul>
	On an annual basis, publish a performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period	<ul style="list-style-type: none"> <li>• Annual Performance Plan produced</li> <li>• Annual financial statements agreed by Council</li> <li>• All available on website</li> </ul>
	Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so	<ul style="list-style-type: none"> <li>• Local Code of Corporate Governance adopted and reviewed annually</li> <li>• Constitution</li> </ul>
Making best use of human resources by taking an active and planned approach to meet responsibility to staff.	Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making	<ul style="list-style-type: none"> <li>• Constitution</li> <li>• Workforce Strategy agreed</li> <li>• Staff Forum and Unit Manager's Group in place</li> <li>• Employment Panel in place</li> </ul>

<b>Audit, Governance &amp; Standards Committee</b>	<b>11 July 2016</b>
Is the final decision on the recommendations in this report to be made at this meeting?	<b>Yes</b>

## Annual Internal Audit Report & Opinion 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>	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. The Committee **notes** the Head of Audit Opinion for 2015/16 that it can place reliance on the overall adequacy of the Council’s internal control, governance and risk management.
  
2. The Committee **notes** the work underlying the Opinion and the Head of Audit’s view the service has upheld proper independence and conformance with Public Sector Internal Audit Standards.

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

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

The report relates to the Council’s governance and so relates to each priority.

<b>Timetable</b>	
<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	11 July 2016

# Annual Internal Audit Report & Opinion 2015/16

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report meets the Head of Internal Audit reporting need as directed by the Public Sector Internal Audit Standards (PSIAS). The report includes the Head of Audit Partnership's Opinion on the overall adequacy of the organisation's governance, risk management and control. The Council can use this Opinion within its Annual Governance Statement for 2015/16.
- 1.2 PSIAS, in particular Standard 2450 (Overall Opinion) direct the annual report to incorporate:
- The annual audit opinion,
  - A summary of the work completed that supports the opinion, and
  - A statement on conformance with PSIAS.
- 1.3 Audit work completed during 2015/16 satisfies the Head of Audit Partnership the Council can place assurance on controls in place during the year. Also audit work provides assurance the Council's corporate governance complies in all material respects with guidance issued by CIPFA/SOLACE. Finally, audit work provides assurance the Council's risk management is effective. We ask the Audit, Governance & Standards Committee to note these opinions.
- 1.4 Please see the appendix for the full Annual Report for 2015/16. This includes a summary of all work conducted to support the opinion and confirms the independence and effectiveness of the internal audit service.

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## 2. INTRODUCTION AND BACKGROUND

- 2.1 Internal audit is a compulsory service under Regulation 5 of the Accounts and Audit Regulations 2015. The principal objective of internal audit is to:
- "... undertake [audit work] to evaluate the effectiveness of [...] risk management, control and governance processes, taking into account public sector internal auditing standards and guidance".*
- 2.2 This Committee's Terms of Reference say it must:
- "[provide] independent assurance of the adequacy of the financial and risk management framework and the associated control environment"*
- 2.3 The Council's audit service runs as a four-way partnership with Ashford, Swale and Tunbridge Wells Borough Councils. The Audit Charter and Annual Plan agreed by the Audit Committee in March 2015 detail the service's scope aims. This Committee also received an interim update on progress so far in November 2015.

- 2.4 We have completed the work set out in the plan subject to adjustments, as described and following PSIAS. Work outstanding has made enough progress to satisfy the Head of Audit Partnership its conclusions will not materially affect the Opinion. We will report verbally the final conclusions of any work finished ahead of the meeting and include within the first interim update of 2016/17.
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### **3. AVAILABLE OPTIONS**

- 3.1 PSIAS mandates reporting to the Board (defined in our Audit Charter as this Committee). We recommend no alternative course of action.
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### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 The Head of Audit Partnership offers the Opinion for Members to note. The report also confirms the independence and conformance of Mid Kent Audit, again for Members to note.
- 

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

- 5.1 We agree all findings and recommendations identified within reviews with our audit sponsor (usually the Head of Service). We also agree with management action plans to fulfil recommendations. We have discussed the report's key findings with Senior Management across the year and to the Council's policy team to help with preparing the Annual Governance Statement. We have adapted the attached report for comments received.
- 

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

- 6.1 The Opinion will inform the Council's Annual Governance Statement. We also communicate the opinion and results of underlying work to the Council's External Auditors who use it following their own International Standards on Auditing (UK & Ireland).
- 

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

<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	This report is presented for noting only and has no cross cutting implications.	Rich Clarke

<b>Risk Management</b>	[further rows left blank, see row above]	
<b>Financial</b>		
<b>Staffing</b>		
<b>Legal</b>		
<b>Equality Impact Needs Assessment</b>		
<b>Environmental/Sustainable Development</b>		
<b>Community Safety</b>		
<b>Human Rights Act</b>		
<b>Procurement</b>		
<b>Asset Management</b>		

## **8. REPORT APPENDICES**

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

- Appendix I: Annual Internal Audit Report and Opinion 2015/16 – Maidstone Borough Council

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## **9. BACKGROUND PAPERS**

The report includes summaries of internal audit reports. We are happy to provide full reports to Members on request.

**MID KENT AUDIT**

# **Annual Internal Audit Report and Opinion**

**2015/16**

**Maidstone Borough  
Council**



## Introduction

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

2. Statutory authority for Internal Audit is within the Accounts and Audit Regulations 2015, which require at Regulation 5 that:

*"[the Council] must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".*

3. The currently operating standards are the [Public Sector Internal Audit Standards](#) published by HM Government for effect from April 2013 across the UK public sector.

4. In addition, all internal audit services in whatever sector must also abide by the Code of Ethics and International Professional Practices Framework. .

5. The Head of Audit Partnership must provide an annual opinion on the overall adequacy and effectiveness of the Council's framework of control, governance and risk. This considers:

- Internal Controls: Including financial and non-financial controls.
- Corporate governance: Including effectiveness of measures to counter fraud, and
- Risk Management: Principally, effectiveness of the risk management framework.

## Independence

6. Mid Kent Audit is a shared service partnership involving Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils working to a collaboration agreement refreshed in July 2014. As a service, we report to the Mid Kent Services Director and the MKIP Board.

7. Within Maidstone BC, the Head of Audit Partnership has direct and unrestricted access to the Chief Executive, senior management and Members, including the Chairman of the Audit, Governance & Standards Committee. This right of access is contained within and reinforced by the Audit Charter agreed by management and Audit Committee in March 2015.

8. On no occasion have Senior Officers or Members sought to inappropriately restrict the scope of audit work or change any report prepared by or for the Head of Audit Partnership.

9. We are satisfied that Internal Audit is organisationally independent and fully meets the necessary standards for independence and objectivity.



## Head of Audit Partnership Annual Opinion

10. I provide this opinion statement for Maidstone Borough Council (the Council) to inform its Annual Governance Statement which is published alongside the Statement of Accounts for the year ended 31 March 2016.

### Scope of responsibility

11. The Council is responsible for ensuring its activities are conducted in accordance with the law and proper practices and that its resources are safeguarded and properly accounted for and used economically, efficiently and effectively. The 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.
12. In discharging this responsibility the Council must also ensure it operates a sound system of internal control which allows for effective exercise of the Council's functions and arrangements for risk management.

### The purpose of the system of internal control

13. The system of internal control is designed to manage risk to an acceptable level rather than eliminate entirely the risk of failing to achieve objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and manage them efficiently, effectively and economically.
14. The Public Sector Internal Audit Standards (the 'Standards') state that the control environment includes the following elements:
  - Integrity and ethical values.
  - Management's philosophy and operating style.
  - Organisational structure.
  - Assignment of authority and responsibility.
  - Human resource policies and practices.
  - Competence of personnel.
15. In examining the control environment, I have had regard to these elements and how they support the Council's framework of governance, risk management and internal control.

## **Basis of assurance**

16. Mid Kent Audit has conducted its work both in accordance with the Standards and good practice as represented in our internal quality assurance system, which include operating to an agreed audit manual with adequate supervision and review.
17. My opinion is limited to the work carried out by Mid Kent Audit during the year on the effectiveness of the management of those risks identified within the Council's assurance framework that are covered within the audit programme or associated sources of assurance. Where risks are identified within the Council's assurance framework that do not fall within the scope of audit's coverage or associated sources of assurance I am satisfied that an assurance framework is in place that provides reasonable assurance that these risks are being managed effectively.
18. Our work for the year to 31 March 2016 and up to the date of this opinion was completed in line with the operational plan approved by the Audit Committee in March 2015.

## **Internal Control**

19. From the internal control work undertaken in relation to 2015/16 it is my opinion that I can provide assurance that the system of internal control that has been in place at the Council for the year ended 31 March 2016 accords with proper practice. This assurance extends to both financial and non-financial systems of the Council insofar as they have been subject to audit review or associated sources of assurance.

## **Corporate Governance**

20. In my opinion the corporate governance framework operating at the Council for the year ended 31 March 2016 complies in all significant respects with the guidance on corporate governance issued by the Chartered Institute of Public Finance Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) in 2006 and updated in 2012.

## **Risk Management**

21. I am satisfied that the risk management processes operating at the Council for the year ended 31 March 2016 are effective and provide reasonable assurance to officers and Members.
22. I have based these opinions on the work outlined in the detail of this report.

## Internal Control

23. The system of internal control is the process for assuring achievement of the Council's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies. It incorporates both financial and non-financial systems.
24. We obtain audit evidence to support the Head of Audit opinion on internal control principally through completing the reviews set out within our agreed audit plan, approved by this Committee in March 2015.

## Summary of Audit Plan Work in Maidstone 2015/16

25. Our plan presented in March 2015 moved away from a fixed number of audit projects and instead towards a total number of productive days per year. This has considerable advantages in providing a flexible basis to keep our plans up to date and respond appropriately to the Council's developing risks and priorities.
26. Up to the date of this report, our outturn days against each type of work separately identified in the plan is as set out below:

Type of work	Plan Days	Outturn days	Difference
Planned 2015/16 assurance projects	316	277	-41
Risk Management and Counter Fraud work	40	41	+1
Recommendation follow ups	60	47	-13
Other audit work <sup>1</sup>	54	112	+58
<b>Total</b>	<b>470</b>	<b>477</b>	<b>+7</b>

27. There are still a few days to be accounted as the remaining 2015/16 projects reach conclusion, but up to the date of this report we have delivered 100% of the planned audit days. The variation above, and detailed in the tables to follow, also indicates the advantages to the flexibility and responsiveness of our audit planning.

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<sup>1</sup> Includes unplanned reviews, Audit Committee training, preparation and attendance and various ad hoc assurance and advice provided to Maidstone BC during 2015/16.

## Audit Review Findings to Date

28. The table below summarises audit project findings and outturn up to the date of this report. Where there are material matters concluded between report issue and committee meeting we will provide a verbal update. We are satisfied that sufficient work has been completed, and the risk of adverse findings in the remainder sufficiently low, that we can offer our annual opinion.

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
<b>Planned 2015/16 assurance projects completed</b>							
I	Finance	Business Rates System	12	13	Jun-15	<b>STRONG</b>	As reported to this Committee in Nov-15 interim report
II	Finance	Council Tax System	12	14	Sep-15	<b>SOUND</b>	As reported in Nov-15
III	Governance	Safeguarding	15	16	Oct-15	<b>WEAK</b>	As reported in Nov-15
IV	Governance	Members' Allowances	10	15	Nov-15	<b>SOUND</b>	As reported in Nov-15
V	Finance	Accounts Receivable System	10	16	Jan-16	<b>SOUND</b>	Scope expanded to include system documentation
VI	Service	Grounds Maintenance	15	22	Jan-16	<b>SOUND</b>	
VII	Finance	Procurement	10	22	Feb-16	<b>SOUND</b>	Sample sizes increased to get full coverage on compliance
VIII	Finance	Budget Setting	15	14	Feb-16	<b>SOUND</b>	Focus on budget setting following external review
IX	Governance	Business Continuity	15	15	Mar-16	<b>WEAK</b>	
X	Service	Temporary Accommodation	15	15	Mar-16	<b>SOUND</b>	
XI	Service	ICT Network Controls	6	4	Apr-16	<b>STRONG</b>	
XII	Service	Service Improvement	15	21	Apr-16	<b>STRONG</b>	Scope expanded to include website development
XIII	Service	Licensing	15	20	Apr-16	<b>SOUND</b>	
XIV	Service	Community Safety	15	17	May-16	<b>SOUND</b>	
XV	Finance	Payroll	10	6	May-16	<b>STRONG</b>	
XVI	Service	Learning & Development	8	8	May-16	<b>SOUND</b>	
XVII	Service	Litter Enforcement	15	15	Jun-16	<b>SOUND</b>	

	Review Type	Title	Plan Days	Actual Days	Report Issue	Assurance Rating	Notes
<b>Unplanned/additional projects 2015/16</b>							
XVIII	Consultancy	Planning Support Gateway Review	N/A	4	Oct-15	N/A	
XIX	Consultancy	Whistleblowing Review	N/A	11	Jan-16	N/A	
XX	Finance	Mote Park & Cobtree Café	N/A	17	May-16	WEAK	
XXI	Service	Garage Review	N/A	12	Jun-16	SOUND	
<b>Planned 2015/16 assurance projects underway</b>							
	Governance	Good Governance Review	5	6			Draft Report stage
	Service	Section 106 Payments	15	13			Draft Report stage
<b>Planned 2015/16 assurance projects not completed</b>							
		Corporate Projects Review	10	1	Deferred to 2016/17 as projects not suitably advanced to examine for audit sample		
		Commercial Projects	15	4	Scope altered to consultancy work focussing on single project with feedback to Director		
		ICT Business Applications	6	0	Assurance received from extended follow up to 2014/15 ICT Service Desk review		
		Parking	8	0	Deferred to 2016/1 following discussion with officers and to run alongside SBC work		
		Park & Ride	15	0	Deferred to 2016/17 after Sittingbourne Road closure		
		Planning Support	6	0	Replaced by project review following disaggregation decision from TWBC		
		Asset Management	15	0	Deferred following delay to asset acquisition plans		
		Discretionary Payments	8	0	Deferred to run alongside similar work elsewhere		

## I: Business Rates

29. We conclude based on our audit work that the Business Rates system demonstrates **STRONG** controls in both design and operation.
30. The controls within the Business Rates system are effective in design and operation. The Business Rates process is well controlled and mitigates the risk of fraud and error to an acceptably low level. Management controls exist to check validity and integrity of systems information. Our testing found no areas of concern, or significant areas where the service might reasonably seek to improve.

## II: Council Tax

31. We conclude based on our audit work that the Council Tax service demonstrates **SOUND** controls in both design and operation.
32. The controls within the Council Tax system are generally effective in design and operation. The key controls in operation mitigate the risks of fraud and error to an acceptable level and incorporate elements representing best practice, such as prompt and comprehensive property inspections. We noted a discrepancy between the partner sites on refund authorisation where controls could be efficiently improved by harmonisation. Our sample testing also identified a weakness in write-off procedures that the service must address.

## III: Safeguarding

33. We conclude based on our audit work that there are **WEAK** controls over the Council's Safeguarding arrangements. We have established that the Council is satisfying its statutory obligations for safeguarding, with no immediate concerns to report. However, further improvements are needed to provide greater resilience to these arrangements and to ensure safeguarding risks are being adequately managed.
34. The Council is currently undertaking a large amount of work via the Safeguarding Working Party to make improvements to the controls in place over the Council's safeguarding arrangements. We fully acknowledge and commend the Council for work currently in progress and note that this report describes the position identified in the course of our recent fieldwork.
35. We have identified a number of areas within the existing safeguarding arrangements where further improvement is needed which currently fall outside of the work being conducted by the Safeguarding Working Group. The main areas for improvement include;
  - clarifying the Council's statutory obligation for safeguarding within the Constitution,
  - introducing a Deputy Local Authority Designated Officer to provide resilience;

- including partnership and casual workers within the training programme;
  - introducing a central database of all safeguarding referrals submitted and providing periodic reports to senior management on the number of referrals submitted.
36. In addition, we have highlighted that improvements in the procedures for disclosure and barring checks are necessary to ensure that checks are kept up-to-date and in accordance with the DBS policy.
37. The actions arising from this audit will provide the Head of Housing and Community Services and the Safeguarding Working Group with the necessary support to ensure the Council can be confident of satisfying its statutory safeguarding obligations in the long term.

#### **IV: Members' Allowances**

38. We conclude based on our audit work that the service has **SOUND** controls in place to ensure accurate payments of Members' Allowances in accordance with the Members' Allowance Scheme. We provide the definitions of our assurance ratings at appendix II.
39. The Council has in place a comprehensive Members' Allowance Scheme with a framework of procedures and guidance to ensure fair processing and payment of allowances and expenses. We tested the provision of these payments from request to completion and confirm that allowances and expenses are paid accurately and in accordance with the scheme.
40. During the review we identified that the published Members' Allowance Scheme had not been updated to reflect revised allowance rates. The scheme should be reviewed to ensure that it remains up to date and includes more comprehensive details in respect of broadband allowances. We identified one missing payment as a result of our testing, and this has been brought to the attention of officers to rectify.

#### **V:Accounts Receivable System**

41. We conclude based on our audit work that there are **SOUND** controls in operation within the Accounts Receivable system to manage its risks and support its objectives.
42. The controls within the Accounts Receivable system are well designed and operate effectively with receipts against invoices being reconciled daily. In particular we identified effective controls around user access, creating and managing credit notes and writing off irrecoverable debts.
43. However, before debts raised through the Accounts Receivable section are finally deemed irrecoverable we identified the Council seldom takes the full range of recovery action available. For example, few cases are referred to Legal, which is not in line with agreed procedures.

## VI: Grounds Maintenance

44. We conclude based on our audit work that the Grounds Maintenance service has **SOUND** controls in place to manage its risks and support delivery of its service objectives.
45. The Grounds Maintenance service has set a clear objective within their service plan 'to rationalise the Grounds Maintenance fleet'. During the audit, we tested the controls in place to enable the service to meet this objective, and reviewed the effectiveness of the measures and actions in place. We found that actions have been defined, and that the service is progressing well towards achievement of the objective.
46. The service has good controls in place with regards to security and use of fuel cards in order to limit the risk of theft or mis-use. Assets are kept safely and securely and controls are in place to check inventory records and account for equipment. However, we identified one instance where income from the disposal of an asset via auction had not been received. While we are satisfied that appropriate action is being taken to obtain the income due, there is an opportunity to firm up procedures for future disposals.
47. The service takes health and safety obligations very seriously, and risk assessments are in place for all of the Grounds Maintenance activities. Training is provided and completed; however, training records are not comprehensive and should be improved to enable the service to demonstrate compliance with health and safety requirements.

## VII: Procurement

48. We conclude based on our audit work that the service has **SOUND** controls in place to manage the risks associated with procurement.
49. The Council has a set of standards to comply with in relation to procurement; these are the Contract Procedure Rules. Detailed guidance is in place in the form of the Purchasing Guide to assist officers through the procurement process. This review focused on 3 groups of procurement exercises: those with values between £10,001 - £24,999, £25,000 - £74,999 and £75,000 and over.
50. During the course of the audit, we found it difficult to identify procurement exercises between the values of £10,001 – £24,999. Such exercises are delegated and managed by Council departments. Without a systematic way of capturing these, it is difficult to say whether or not the rules and procedures are being consistently applied. This was reflected in our testing, as we identified one area of non-compliance with regards to the completion of risk assessments.
51. We confirmed through testing, that the tendering process for the Council is working effectively, and that the process is appropriately supported and facilitated by the Procurement team.



## VIII: Budget Setting

52. We conclude based on our audit work that Finance has **SOUND** controls in place to manage its risks and support its objectives for budget setting.
53. The Medium Term Financial Strategy (MTFS) underpins the budget setting process. The risks associated with the budget and the barriers to achieving the resource levels assumed by the budget have been considered as part of the MTFS. Annual review of the strategy forms part of the corporate planning timetable which is approved by the Policy and Resources Committee. Members and Senior Officers are consulted as part of the budget setting process however, the findings from a survey conducted during the review indicates that budget holders do not feel engaged in the process, with the majority feeling as though they have limited ownership in setting their budget apart from setting the fees and charges for the forthcoming year.
54. Our testing confirmed that the budget is approved and accurately reflected in the Council's Financial Management System, Agresso.
55. A Financial Health Check was undertaken in February 2015 by an independent consultant and the findings have been reported. The findings of this review formed an action plan, however, there has been no progress made towards implementing the recommendations made to date.

## IX: Business Continuity

56. We conclude based on our audit work that there are **WEAK** controls in operation surrounding Business Continuity across the Council as a whole. This means that the arrangements place the Council at excess risk and require remedial action in order to consistently operate at an effective level. We provide the definitions of our assurance ratings at appendix II.
57. Our work identified that the Council does not, at present, have fully developed business continuity arrangements. Its overall plan was last updated in 2008 since which time the Council has changed premises rendering it essentially invalid. Although some work has been undertaken in the past two years on impact assessments within individual services, there are key components still missing, such as finance and property, which risk making the overall response ineffective.
58. Beyond the lack of formal arrangements, the Council also has an underdeveloped understanding of what informal arrangements would operate, with no recent testing or training in this area meaning the large majority of staff would not know how to respond in an incident which impaired the Council's ability to operate normally. Some officers and services – importantly including ICT – do have some understanding and plans but we note these were developed principally because of the demands of other parties to shared services rather than at request of Maidstone.

59. We also note that the Council is identified within the Civil Contingencies Act 2004 (“the act”) as a Category 1 responder. The Act places a responsibility on the Council to have continuity plans in place to assist others in the event of an emergency. This is only possible if the Council is able to maintain its own crisis response and core services. Given the outlined limitations in Business Continuity Plans, the Council would be at risk of not being able to comply with the requirements of the Act.
60. We note that the Council’s recent experience suggests that, in the event of emergency, the resilience and goodwill of its staff will go a long way to mitigating the worst impacts. However, without comprehensive and tested plans the Council cannot confidently manage its risk of failing to continue to deliver its core services in the event of an incident.

### **X: Temporary Accommodation**

61. We conclude based on our audit work that there are **SOUND** controls in operation within the Housing Service to manage the key risks identified by management surrounding the provision of temporary accommodation.
62. Our testing confirms that the Council meets its statutory responsibility to provide and allocate temporary and emergency accommodation to eligible persons who are assessed as being both unintentionally homeless, and in priority need.
63. Management initially expressed concerns around the charges the Council incurs for temporary accommodation. Our review concludes that financial reporting and monitoring controls around the checking and payment of invoices are sound. Our testing confirms that suitable arrangements are in place to ensure that the Council only pays for the accommodation it uses. However, as demand increases the Council is starting to pay significant sums to a limited pool of housing suppliers. While expenditure remains at this level, the service should clarify its position with procurement to ensure that spend is consistent with financial standing orders and continues to demonstrate value for money.
64. We also reviewed management of Council owned property; Aylesbury House. We found that the property is well managed and achieving high occupancy rates. However, the Council should move to reconfirm the relationship with the provider following expiry of the original contract.

## XI: ICT Network Controls

65. We conclude based on our audit work that there are **STRONG** controls in operation within the Shared ICT Service to manage the key risks identified by management surrounding the security of the Mid Kent ICT network.
66. Our testing confirms that the Mid Kent ICT service is taking suitable action to gain independent assurance on the security of the ICT network across all three sites (Maidstone, Swale & Tunbridge Wells). The network undergoes rigorous testing by an external specialist to verify the security measures in place. Our testing confirms that suitable action is taken to respond to any recommendations to address weaknesses identified as a result of these tests. As a result, all three Councils achieved compliance with the Public Services Networks IT Health Check (ITHC) in 2015.
67. We also reviewed controls around user access for officers who have left the Council's employment. Our testing identified that the ICT Service Desk is made aware when an officer is due to leave the Council and takes prompt action to ensure that network access is revoked. We are able to confirm that none of the 12 leavers we tested as part of the audit had accessed the ICT network after ceasing employment with the Council.

## XII: Service Improvement

68. We conclude based on our audit work that Service Improvement has **STRONG** controls in place to manage its risks and support delivery of its objectives.
69. Service Improvement has set an objective within its service plan to *minimise face to face contact and shift contacts to the web and to automated telephony wherever possible*. The Service is achieving this by developing new and enhancing existing online forms, promoting self-serve options and including assisted digital and telephone lines. The Council has also introduced an appointment system in the Gateway for Housing, Housing Benefit and Council Tax. Our review confirms that the controls in place are effective in design and operation, and as a result the service has already completed some of its planned actions and is making good progress on others.
70. At request of the service we also reviewed the Council's website to consider ease of accessibility and navigation. Our testing confirmed that service information and Council documents available on the website could be located within three clicks (which is the Council's benchmark); however, the search function did not always prove helpful or accurate. We are aware that a project is due in 16/17 to develop the intelligence of the search function through the implementation of Go Response. The service anticipates this will significantly improve functionality and accuracy of website searches.

### **XIII: Licensing**

71. We conclude based on our audit work that the service has **SOUND** controls in operation to manage the risks relating to compliance and enforcement of licences.
72. Our review found that the Council's policies setting out its objectives for Licensing Enforcement are well set out based on our experience of undertaking similar work elsewhere in the Partnership with the exception of some minor areas that require updating.
73. We found that good procedures are employed to deliver the requirements of the Enforcement Strategy with regards to ensuring compliance with licensing conditions. At the time of our work the monitoring programme had progressed with approximately 45% of licensed premises having received a planned inspection (representing 240 risk assessments undertaken since January 2014). Although we note that is less than half of licensed premises, we note progress the service has made and continues to make in this area. Our test findings, which included checking the correct risk assessment of premises, returned positive results which confirmed compliance with the prescribed processes.

### **XIV: Community Safety**

74. We conclude based on our audit work that there are **SOUND** controls in place over the Council's Community Safety Partnership to manage the associated risks and to support them in the delivery of their priorities.
75. We found a clear and embedded process in place to determine the Community Safety Partnership's strategic priorities. The plan to supports delivery is well defined and our testing established individual projects are chosen in keeping with its aims.
76. We also reviewed controls for administering Community Safety Grants, which for 2015/16 accounted for £37k spend. While the scheme overall operates to a clear process, we identified a range of administrative weaknesses in how grant applications are processed, monitored and paid. Although we are satisfied these weaknesses do not materially undermine the grant funding arrangements, improving controls will lead to a more effective process.

### **XV: Payroll**

77. We conclude based on our audit work that the Payroll service to Maidstone and Swale has **STRONG** controls, for the area of deductions, to control its risks and support its objectives.
78. Our work confirmed the system materially unchanged from our work in February 2015 which concluded the service had strong payroll controls.

79. This review focussed on payroll deductions. Our testing confirmed robust processes in place to account for, approve and accurately pass on mandatory deductions.
80. We found that a variety of categories for discretionary deductions exist across the two administered payrolls, which should each be supported by an employee instruction. We found a large majority of deductions adequately supported, with documentation absent for only some historic and long standing requests. Given their duration, we are satisfied the deductions are valid and the missing documentation poses no appreciable risk to the Councils or their employees.

## **XVI: Learning & Development**

81. We conclude based on our audit work that the Learning and Development service has **SOUND** controls to manage its risks and support its objectives.
82. We found the Learning and Development service at Swale and Maidstone Borough Councils has an effective process to identify staffs training needs. The service draws on a broad variety of sources when compiling the corporate training calendar. All staff can view the training calendar and book through a straightforward online process open to all.
83. We also examined procurement of training and found that while there is broad adherence to procedure, the service could do more to ensure compliance and evidence retention.

## **XVII: Litter Enforcement**

84. We conclude based on our audit work that there are **SOUND** controls in place to monitor and manage the Litter Enforcement contract.
85. The Litter Enforcement service provided by Kingdom Security operates as set out in the contract. The strong and trusted relationship between the Council and Kingdom enables continuing service development, including body worn CCTV, standalone online monitoring and integrated financial reporting. We also note Kingdom continues to meet performance targets specified in the contract.
86. However financial procedures over the reconciliation of income and verifying invoices should be improved to identify and resolve variances. While the current, largely informal, arrangements for contract monitoring work well, the Council should be clear on understanding and documenting its risks so its position is secure if in future the relationship with Kingdom changes.

## **XVIII: Planning Support Gateway Review**

87. The [project] Board has proceeded largely on the basis that the option originally put to TWBC cabinet – of a TWBC withdrawal leaving a two-way partnership – would be the most likely outcome. As a result the Board has sought to fully appraise in greater detail this single and most likely option. While other options have been considered at the early stages of the project, they have not received a similar depth of analysis and, in the case of the option 3; have not been considered at all.
88. No options have been considered that involve TWBC remaining in the partnership as this fell outside of the mandated scope of the project. The Board therefore has largely been an exercise in constructing a business case rather than appraisal of different options as originally mandated.
89. Within those constraints, though, the Board has operated diligently in seeking to obtain the best evidence it can, including commissioning external advice where a need is identified. Each work stream has provided evidence to inform the Board in its decision to pursue the chosen option.
90. The inherent lack of clarity in operating ahead of a formal decision means that some evidence relies upon assumptions and extrapolations which are difficult to pin down with certainty and are subject to wide error bars. This is particularly notable on information regarding human resource and finance considerations and data forwarded by parallel project groups operating in MBC and SBC.
91. However, we are satisfied that the Board has efficiently documented its processes meaning that those assumptions are, in general, apparent, open to fair challenge and not unreasonable.

## **XIX: Whistleblowing Review**

92. Encouraging staff to identify and raise concerns is a key component for all organisations in being able to ensure they are consistently well governed and effective. A council's staff are its first and, in some instances, only line of defence against bad or illegal practice. While the Council offers a range of methods for staff to raise concerns, one significant path is the formal Whistleblowing policy which – uniquely – provides a statutory protection to concerned employees shielding them from discrimination as a result of speaking up.
93. In our examination of the policy and practice of whistleblowing across the authorities we conclude that there are a number of encouraging aspects. All three authorities have legally compliant policies, although Maidstone in particular has some way to go to meet the best practice set out by Public Concern At Work. Also, while shallow, there is a broad awareness among staff and Members of the basics and principles of raising concerns and a clearly expressed willingness to not ignore troubling events and behaviours.

94. However, our work identified significant opportunities to update and refresh Maidstone's approach (in particular) and to raise its profile among staff. This will be needed to reduce what is, according to the survey, a significant minority (almost 1/5) of staff who have noted concerns but not raised them.

## **XX: Mote Park & Cobtree Café**

95. We conclude based on our audit work that there are **WEAK** controls in place for the management of cash and stock at Mote Park and Cobtree Manor Park cafés.
96. The management of the Mote Park and the Cobtree Manor Park cafés was taken in-house by the Council in August and December 2015 respectively. Significant work has been conducted since this time to bring the cafés into operation. Management requested that an audit be conducted to review the financial controls of both cafés as the arrangements are still relatively new. Management are keen therefore to address any issues identified as part of this review.
97. Our work identified that the cafés do not currently have robust controls in place to prepare cash for banking in such a way to enable the reconciliation of income collected to that banked. As a result discrepancies are not identified and investigated. This was particularly evident at Cobtree Manor Park where our testing found variances between amounts received and amounts banked. While work is currently underway to create an agreed set of procedures, no such guidance has been in place for the cashing up, banking and reconciliation processes. Our findings of the review are therefore outlined in more detail to assist the service in defining and creating a set of working procedures that incorporates the control improvements necessary.
98. The security of cash held at both cafés needs to be improved, in particular through the purchase of a safe at Mote Park, and secure storage of keys.
99. The Council has software to enable stock to be accounted for and managed; however, at the time of our review this software was not fully operational. It is therefore not possible to fully account for the movement of stock from delivery to sale, and to waste. Quarterly stock checks are undertaken at Cobtree Manor Park but there are no routine stock checks undertaken at Mote Park. The checking of deliveries is not consistently recorded on goods received notes, and invoices are not being reconciled prior to payment in order to ensure accuracy.
100. Given that both cafés face the same issues with regards to the collection of cash, and the management of stock, the opportunity should be taken to harmonise procedures across both sites as much as possible.

## **XXI: Garage Review**

101. We conclude based on our audit work that the Garage has **SOUND** controls in place to manage the risks associated with its current level of service.
102. The Council's garage undertakes work to appropriate quality standards and within a scheduled and effective programme. However, the recent absence of one employee led to a maintenance backlog; exposing a lack of contingency arrangements the service is now working to address.
103. Physical security at the site is sound. However, in part owing to the 'just in time' ordering common in garage environments, stock and equipment documentation is limited. This raises the risk of loss or misuse of Council assets. We also consider there is scope for the garage to review its arrangements with high-value suppliers to test for value for money.
104. We also considered the capacity of the garage for taking on additional commercial work. We concluded that the staffing levels at present are only sufficient to meet Council workload and vulnerable to absence. Additional resource would be needed to create the capacity for commercial service and there is no business plan yet in place to test viability. We also note that there are training and regulatory hurdles the service would need to clear before a commercial operation could begin.



## Follow-up of Internal Audit Recommendations

106. Our approach to recommendations is that we follow up each issue as it falls due in line with the action plan agreed with management when we finalise our reporting. We report progress on implementation to Senior Management Team each quarter, including noting where we have had reason to revisit an assurance rating (typically when a service has successfully implemented key recommendations) and raising any matters of ongoing concern.
107. Our most recent round of reports covered recommendations due for implementation on or before 31 March 2016 and consequently represents the full year outturn for 2015/16. We are pleased to note those reports confirm there are no recommendations outstanding for action beyond their agreed implementation date. This includes a few instances where, after request from the service and having considered the residual risk of delay posed to the Council, we have revised implementation date.
108. In the table below project titles shown in **bold type** are those that originally received an assurance rating of **weak** (we have issued no reports rated **poor**).

Project	Agreed Actions	Falling due on or before 31/3/16	Actions Completed	Outstanding Actions past due date	Actions Not Yet Due
<b>Projects with actions brought forward from 2014/15 and completed during 2015/16</b>					
Project Management	14	14	14	0	0
<b>Museum Collections</b>	13	13	13	0	0
Food Safety	12	12	12	0	0
<b>Emergency Planning</b>	11	11	11	0	0
CCTV	10	10	10	0	0
<b>Data Protection</b>	8	8	8	0	0
<b>ICT Service Desk</b>	8	8	8	0	0
PC & Internet Controls	8	8	8	0	0
Leisure Centre Contract	6	6	6	0	0
Treasury Management	5	5	5	0	0
Computer Use Policy	5	5	5	0	0
<b>Freedom of Information</b>	5	5	5	0	0
Property Income	4	4	4	0	0
General Ledger	3	3	3	0	0
Communications	3	3	3	0	0
Members' Allowances	2	2	2	0	0
<b>Projects with actions issued during 2015/16 and completed during 2015/16</b>					
Waste Collection Contract	4	4	4	0	0
Grounds Maintenance	2	2	2	0	0
Council Tax System	2	2	2	0	0
Housing Benefit System	2	2	2	0	0
<b>Projects with actions to carry forward into 2016/17</b>					
<b>Safeguarding</b>	12	4	4	0	8
<b>Business Continuity</b>	9	0	0	0	9

Project	Agreed Actions	Falling due on or before 31/3/16	Actions Completed	Outstanding Actions past due date	Actions Not Yet Due
<b>Declarations of Interest</b>	8	4	4	0	4
Housing Options	4	3	3	0	1
Temporary Accommodation	4	0	0	0	4
Budget Setting	3	0	0	0	3
Licensing	3	0	0	0	3
Members' Expenses	2	1	1	0	1
Accounts Receivable	2	0	0	0	2
Procurement	2	0	0	0	2
ICT Network Controls	1	0	0	0	1
Accounts Payable	1	0	0	0	1
<b>TOTAL</b>	<b>178</b>	<b>139</b>	<b>139</b>	<b>0</b>	<b>38</b>
		<b>78%</b>	<b>78%</b>	<b>0%</b>	<b>22%</b>

109. Note that the above list excludes projects where we raised no recommendations for action.

110. We note considerable progress made by managers in addressing the issues identified by our reports. With all 139 due recommendations implemented as agreed, the Council is 78% of the way to full implementation – exactly on track for delivery.

111. Of the 32 audit projects followed up, 8 originally received an assurance rating of **weak**. We have previously advised Members in our 2014/15 annual and 2015/16 interim reports that 5 of these (Museum Collections, Emergency Planning, Data Protection, ICT Service Desk and Freedom of Information) had made sufficient progress up to July 2015 for us to revisit the assurance rating as **SOUND**.

112. For the remaining three reports assessed as **weak** many of the recommendations remain due for implementation (21 of 29), so we have not yet seen evidence of sufficient progress to revisit the assurance rating. We will continue following up recommendations as they fall due and report progress to Members.

## **Corporate Governance**

113. Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled.
114. We obtain audit evidence to support the Head of Audit Opinion through completion of relevant reviews in the audit plan, as well as specific roles on key project and management groups. We also consider matters brought to our attention by Members or staff through whistleblowing and the Council's counter fraud and corruption arrangements.
115. We attend the Council's Information Governance and Corporate Governance Groups, as well as comment on other decisions and papers as required by the Council's governance processes.
116. During the year we also undertook a specific review examining the Council's readiness for compliance with the revised Code of Corporate Governance published by CIPFA/SOLACE in April 2016.

## **Counter Fraud & Corruption**

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

### **Investigations**

118. During 2015/16 we had correspondence from some areas of the Council noting three separate matters of concern requiring investigation. None of these matters are sufficiently grave that they affect the overall audit opinion. Two are still currently under investigation and so we cannot provide substantial detail at this time but will brief Members separately in the event of significant findings.

### **Whistle-blowing**

119. The Council's whistleblowing policy nominates internal audit as one route through which Members and officers can safely raise concerns on inappropriate or even criminal behaviour. During 2015/16 we have received no such declarations.
120. In the latter part of 2015/16, following work completed at request of Members, we revised the Council's whistleblowing policy and approach. The result of that review is on the same agenda as this paper and will form the basis of our work and reporting to Members from now on.

## National Fraud Initiative

121. We have continued as co-ordinator of the Council’s response to the National Fraud Initiative (NFI). NFI is a statutory data matching exercise, and we are required by law to submit various forms of data. Since March 2015, the Cabinet Office administers NFI.

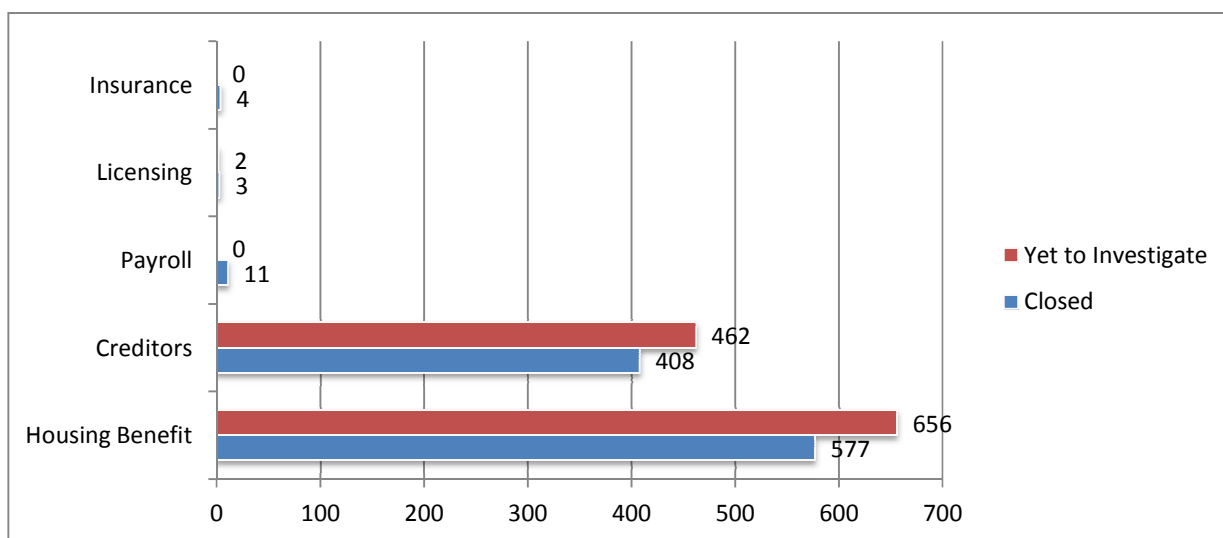
122. The current NFI exercise has been releasing data in tranches since January 2015 and includes the following services:

- Housing Benefits (1,233 total matches)
- Creditors (870 total matches)
- Payroll (11 total matches)
- Licensing (5 total matches)
- Insurance Claimants (4 total matches)

123. One further category (Residents’ Parking) returned no matches for the Council.

124. The graph below plots progress to date. Up to the end of March 2016, in reviewing the matches the Council has identified 14 cases of error (none of fraud) leading to the recovery of £11,572. Cabinet Office guidance is that all matches should be investigated within the two year cycle of NFI data (so, by January 2017).

### NFI Matches Investigation Progress



125. Work so far has focussed on the “recommended matches”; those that in the Cabinet Office’s experience are most likely to represent frauds or error. We will be examining the remaining matches during 2016 with a view to closing the exercise in time for the fresh data release in January 2017.

## National Fraud Initiative – Outcomes validation

126. In January 2016 the Cabinet Office announced they would be asking key contacts at each authority to undertake a separate testing exercise validating the NFI outcomes recorded on through the web portal. Mid Kent Audit played a key role in this consultation; the eventual wording of the declaration asked of key contacts is the same as the form we proposed and reads:

*The Cabinet Office require NFI outcomes to be validated by Key Contacts prior to reporting these outcomes externally, e.g. in a national report or to public accounts committee. Key Contacts are responsible for co-ordinating an approach that is deemed appropriate for validating outcomes at their respective authorities.*

*I declare that reasonable checks have been undertaken to ensure that 2014/15 and FMS outcome summaries are a fair reflection of outcomes achieved by Maidstone Borough Council.*

127. In response we designed a work programme that tested 10% of cases that recorded a costed outcome and 1% with a nil outcome (making for a total of 134 cases across the partnership).
128. We identified only one issue relating to an outcome where evidence was incomplete as a counter fraud officer had left the Council without leaving clear documentation behind. However, we were satisfied in that instance of being reasonably certain through inspection of other material that the outcome was accurate.
129. Consequently, in line with the Cabinet Office's deadlines, we made a positive declaration for the Council on 14 April 2016.
130. We understand that Cabinet Office will make this validation an annual requirement and so will, in consultation with partners across Kent, review our approach and methodology to the 2016 exercise to ensure it remains effective and efficient.

## Counter Fraud and Corruption Tracker

131. During 2015/16 we also contributed to the CIPFA Counter Fraud Centre annual survey, using the NFI data and other information obtained from our own records and held by the shared Revenues and Benefits Counter Fraud team. In February 2016 CIPFA published the full summary of results (available for free download [here](#)) which included the table below giving an indication of the major fraud threats in local government:

Types of fraud	Fraud cases	% of the total	Value £m
Council tax SPD	30,184	52.7%	£10.7m
Housing benefit	12,989	22.7%	£56.9m
Council tax CTR	4,142	7.2%	£2.0m
Housing and tenancy fraud	3,002	5.2%	£77.5m
Disabled parking concession (Blue Badge)	2,545	4.4%	£1.0m
Council tax other	1,556	2.7%	£1.4m
Debt	997	1.7%	£0.5m
Other types of fraud (see table below)	1,829	3.2%	£21.0m
<b>Total</b>	<b>57,244</b>	<b>100%*</b>	<b>£171m</b>

Figure 2.1

Other types of fraud	Fraud cases	% of the total	Value £m
Social care	287	0.5%	£2.0m
Abuse of position	155	0.27%	£2.0m
Payroll	137	0.24%	£0.3m
Insurance	133	0.23%	£2.6m
Welfare assistance	104	0.18%	£1.6m
Business rates	102	0.18%	£0.8m
Procurement	60	0.10%	£2.2m
Recruitment	58	0.10%	£0.2m
Expenses	56	0.10%	£0.1m
Economic and voluntary sector	28	0.05%	£1.1m
Manipulation of data	24	0.04%	N/A
Pensions	20	0.03%	£0.2m
Investment	11	0.02%	£0.0m
Other fraud	654	1.14%	£7.8m

Figure 2.2

## **Attempted Frauds**

132. We previously advised Members in our interim report that another Council within the Mid Kent area were subject to a fraud attempt involving the use of a 'spoofed' email account purporting to be that of a Council employee and requesting a bank transfer. Our investigation could not identify the culprit – 'spoof' emails are created easily enough and very difficult to trace – but we did examine the Council's controls and investigated to determine whether any similar attempts had been successful and undetected.
133. In the remainder of 2015/16 we did not identify any further such attempts which, coupled with successful operation of financial and IT controls, led us to identify this as a low fraud risk. Consequently, we have provided advice to finance teams on remaining vigilant and have reported the matter to the police but plan no continuing action unless there are further developments.

## Risk Management

134. Risk management is the process of identifying, quantifying and managing the risks that the Council faces in attempting to achieve its objectives.
135. We obtain audit evidence to support the Head of Audit Opinion through completion of our audit plan plus continuing monitoring of and contribution to the Council's risk management processes.
136. During 2015/16 we worked with the Council to produce a revised Risk Management Framework. Policy & Resources Committee approved this framework in outline [June 2015](#).
137. Following that approval we undertook a series of workshops across the Council's services to establish a *comprehensive risk register*. This process also involved Members at a Strategic Risk Workshop led by Grant Thornton in December 2015.
138. The first output of the *comprehensive risk register* and the full framework was reported to Policy & Resources Committee in [February 2016 \(item 165\)](#). This highlighted six overall risk themes being managed by the Council:
- Variation in Business Rates income,
  - Significant commercial failure,
  - Shortfall of income from festivals and events,
  - Housing market failure and increased homelessness approaches,
  - Lack of suitable temporary accommodation options, and
  - Recruiting and retaining skilled staff Council wide.
139. Following adoption of a revised Audit Charter by this Committee in March 2016 which clarified the extent of our role in risk management we will be leading within the Council in expanding and settling the *comprehensive risk register*. This draws together risks identified in the course of service planning and corporate projects to inform the Council's decision making as well as audit planning.
140. We will continue to report outcomes and progress to the Audit, Governance & Standards Committee and substantive output to Policy & Resources Committee through the year.



# Mid Kent Audit Service Update

## Team Update

141. During 2015/16 following the departure of a long-serving manager, absences for maternity leave and a pair of recruitment exercises, the audit service averaged a vacancy rate of 2.5 FTE, around 20% of establishment. However, due to a variety of factors including around 1xFTE of short term contractor support, efficiencies arising from our mid-year restructure and resilience of working in a shared service across four authorities we have been able to complete the work set out in this report which supports a definitive Head of Audit Opinion.
142. The whole management team of Mid Kent Audit convey their public thanks to the team for their hard work and dedication through 2015/16.
143. We have continued through the year to support our staff in their professional development. During 2015/16 the audit team has added the following skills and qualifications to help support our partner authorities:
- Frankie Smith (Audit Manager, Swale & Tunbridge Wells) achieved Chartered status with the Institute of Internal Auditors (IIA) (CMIIA designation)
  - Jo Herrington (Senior Auditor) achieved the practitioners' diploma from the IIA (PIIA designation)
  - Helen Pike (Trainee Auditor) achieved the IIA's Certificate in Internal Audit and Business Risk (IACert designation)
  - Alison Blake (Audit Manager, Ashford & Maidstone) achieved the professional qualification of the Institute of Risk Management (IRM designation)
  - Russell Heppleston (Deputy Head of Audit Partnership) achieved the International Certificate in Risk Management from the IRM.
  - Rich Clarke (Head of Audit Partnership) achieved the Chartered Institute of Public Finance & Accountancy (CIPFA) professional qualification as an Accredited Counter Fraud Specialist (ACFS designation)
  - Mark Goodwin (Senior Auditor) achieved CIPFA's professional qualification as an Accredited Counter Fraud Technician (ACFT designation)
144. We congratulate all in the team on these achievements during 2015/16 and anticipate further exam success in 2016/17.

## Quality and Improvement

145. Under the Public Sector Internal Audit Standards we must each year assess our conformance to those standards and report the results of that assessment to Members. At least every five years that assessment must be external and independent.
146. We underwent an external independent assessment from the IIA in 2014 which confirmed our full conformance with all but 5 of the standards and partial conformance to the remainder. In 2015, following action to implement the IIA's recommendations, we were re-assessed as being in full conformance to the standards – the first English local authority audit service to be so assessed by the IIA.
147. In 2016 we have undertaken a self assessment against the Standards and confirm to Members we remain in full conformance.
148. Beyond simple conformance, as reported to Members in our interim report, we go further and comply with the requirements of the IIA's revised International Professional Practices Framework (IPPF) unveiled in July 2015 but not mandatory for local government internal audit until 2016/17. We are assisted in remaining at the leading edge of developing standards by the presence of the Head of Audit Partnership as the English Local Government representative on the Internal Audit Standards Advisory Board (IASAB), as well as roles as Chairman of Kent Audit Group and on the Executive Board of the London Audit Group.
149. During 2016/17 we hope to capitalise on this position by beginning to offer Quality Assessments against the Standards either in our own right or in partnership with a national body. Aside from the benefits of sharing good practice, we hope that this route will provide income to the authorities. We will keep Members updated on progress in this regard through our update reports.

## Performance

150. Aside from the progress against our audit plan we also report against a number of specific performance measures designed to monitor the quality of service we deliver to partner authorities. The Audit Board (with David Edwards, Paul Riley and now Mark Green as Maidstone's representative over the past year) considers these measures at each of its quarterly meetings, and they are also consolidated into reports submitted to the MKIP Board (which includes the Council's Chief Executive and Leader).
151. Note that all figures are for performance across the Partnership. Given how closely we work together as one team, as well as the fact we examine services shared across authorities, it is not practical to present authority by authority data.

Measure	2014/15 Outturn	2015/16 Target	2015/16 Outturn
Cost per audit day	Met target	Meet target	Met target
% projects completed within budgeted number of days	47%	60%	60%
% of chargeable days	75%	68%	63%
Full PSIAS conformance	56/56	56/56	56/56
Audit projects completed within agreed deadlines	41%	60%	76%
% draft reports within ten days of fieldwork concluding	56%	70%	68%
Satisfaction with assurance	100%	100%	100%
Final reports presented within 5 days of closing meeting	89%	90%	92%
Respondents satisfied with auditor conduct	100%	100%	100%
Recommendations implemented as agreed	95%	95%	98%
Exam success	100%	75%	100%
Respondents satisfied with auditor skill	100%	100%	100%

152. Of particular note in the figures above is the continuing improvement in completing projects within the scheduled budgeted days. This has shown steady improvement as the year progressed and our refreshed audit methodologies became more established, with a 78% outturn in quarter 4. This bodes well for meeting the stretched 2016/17 target of 75%.

153. We also note the continued strong performance in customer satisfaction. This has remained at a high level even as, with the help of the audit team's new administrative assistant, we have increased response rate more than fivefold.

154. A note too on chargeable days (which is the percentage of audit time spent directly progressing the audit plan as opposed to, for example, training, administration, personnel management and so on). This was affected during the year by the departure of one of our trainees during his probationary period meaning lost time both in the new recruitment and supporting integration of his replacement. However, as noted earlier, by using additional contractor support, resilience in the team, and efficiencies introduced in our restructure this did not impair our ability to substantially complete the audit plan.

## **Acknowledgements:**

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

## Appendix I: Assurance & Priority level definitions

### Assurance Ratings 2015/16

Full Definition	Short Description
<p><b>Strong</b> – Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk. There will also often be elements of good practice or value for money efficiencies which may be instructive to other authorities. Reports with this rating will have few, if any; recommendations and those will generally be priority 4.</p>	<p>Service/system is performing well</p>
<p><b>Sound</b> – Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks. Reports with this rating will have some priority 3 and 4 recommendations, and occasionally priority 2 recommendations where they do not speak to core elements of the service.</p>	<p>Service/system is operating effectively</p>
<p><b>Weak</b> – Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims. Reports with this rating will have mainly priority 2 and 3 recommendations which will often describe weaknesses with core elements of the service.</p>	<p>Service/system requires support to consistently operate effectively</p>
<p><b>Poor</b> – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole. Reports with this rating will have priority 1 and/or a range of priority 2 recommendations which, taken together, will or are preventing from achieving its core objectives.</p>	<p>Service/system is not operating effectively</p>

## Recommendation Ratings 2015/16

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

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

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

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

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

# Agenda Item 12

## Audit, Governance & Standards Committee

11 July 2016

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

Yes

### Speaking Up Policy (Whistleblowing)

<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. The Committee **approves** the Speaking Up Policy.
2. The Committee **adds to its work programme** appropriate periodic updates on matters raised through the Speaking Up 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
Managers' Meeting (officers)	18 July 2016

# Speaking Up Policy (Whistleblowing)

## 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 with best practice issued by CIPFA and Public Concern At Work. The Policy has been reviewed and accepted by officer groups through the Council and now comes to Members for final comment and approval before adoption and publication.
- 

## 2. INTRODUCTION AND BACKGROUND

- 2.1 In September 2015 this Committee commissioned Mid Kent Audit to complete an overview of the Council's arrangements to support concerns raised by staff (formally known as 'whistleblowing').
- 2.2 That work reported to Members in January 2016 (we include the full report here as Appendix II) and concluded that while arrangements were not fundamentally deficient there was sufficient scope for improvement. This scope not least because the existing arrangements preceded legal developments and best practice guidance issued by CIPFA and Public Concern At Work.
- 2.3 The January 2016 report recommended that officers draw up a new policy in line with best practice and seek to publicise it across the Council. Following revisions to the Audit Charter in March 2016 by this Committee, responsibility for drawing up the policy could, and did, fall to Mid Kent Audit.
- 2.4 Mid Kent Audit, with reference to current best practice across the public sector and with advice of the CIPFA Counter Fraud Centre, drew up the Policy shown at Appendix I in April 2016.
- 

## 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 (appendix II here) 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).
- 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 The Policy has been considered by officer groups (Corporate Governance and Wider Leadership Team). It has also been informally considered by Members of this Committee in 2015/16 via email to ensure Members who were on this Committee when the Policy was commissioned have opportunity to comment on the final result.
- 5.2 We also consulted with the Chair and Vice Chair of the Policy and Resources Committee on whether this document should go to that Committee. The conclusion was clear that Audit, Governance and Standards – having originally sparked the update and effectively commissioned the Policy – was the appropriate Member body to handle its approval and monitoring.
- 5.3 The Policy attached has been adapted for comments received from Officers and Members through this consultation.

---

#### **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.



## 7. CROSS-CUTTING ISSUES AND IMPLICATIONS

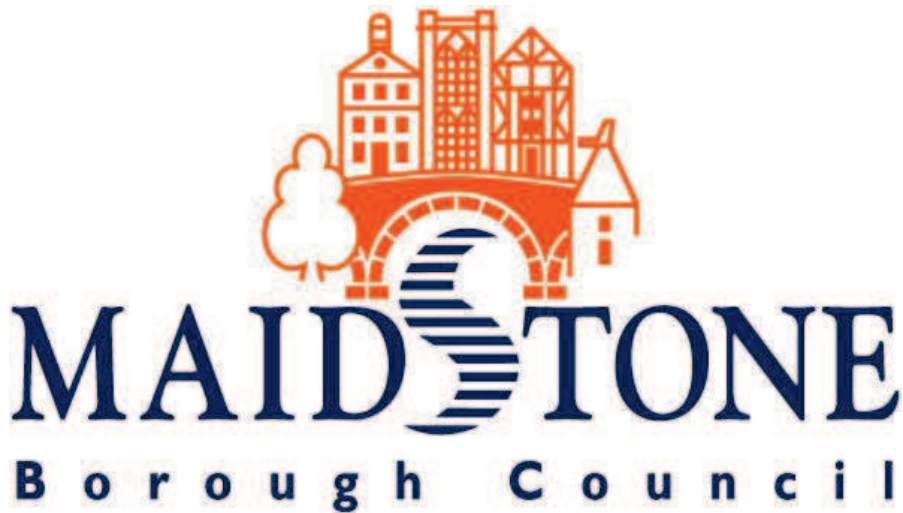
<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	The Policy has no impact on Corporate Priorities of itself. However, the nature of issues that are subsequently raised by staff may have impact, but these will be considered in subsequent outcome reports.	Rich Clarke, Head of Audit Partnership (and all below)
<b>Risk Management</b>	The Policy has no risk management implications in itself.	
<b>Financial</b>	The Policy has no financial implications in itself.	
<b>Staffing</b>	The Policy has no staffing implications in itself.	
<b>Legal</b>	The Policy was considered by the Council's legal team on presentation at Corporate Governance Group and is amended for comments received.	
<b>Equality Impact Needs Assessment</b>	The Policy does not require an Equality Impact Needs Assessment.	
<b>Environmental/Sustainable Development</b>	The Policy has no environmental implications in itself.	
<b>Community Safety</b>	The Policy has no community safety implications in itself. Note that the Policy specifically advises individuals with concerns related to immediate matters of safety (including safety of children and vulnerable adults) to raise their concerns with police or through the Council's safeguarding policy as appropriate.	
<b>Human Rights Act</b>	The Policy has no Human Rights Act implications in itself.	
<b>Procurement</b>	The Policy has no procurement implications in itself.	
<b>Asset Management</b>	The Policy has no asset management implications in itself.	

## **8. REPORT APPENDICES**

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

- Appendix I: Maidstone Borough Council Speaking Up Policy
  - Appendix II: Whistleblowing Report (January 2016)
- 

## **9. BACKGROUND PAPERS**



# Speaking Up Policy

A guide on how to raise concerns at Maidstone Borough Council (whistleblowing) 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.

Ratified Date	11 July 2016
Ratified By	Audit, Governance & Standards Committee
Next Review Date	June 2018
Accountable Service	Mid Kent Audit
Policy Author	Head of Audit Partnership

**Mid Kent Audit**

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# Policy Statement

Maidstone Borough Council is committed to working to our values:

**S**ervice  
**T**eamwork  
**R**esponsibility  
**I**ntegrity  
**V**alue for money  
**E**quality

We expect all staff, Members, contractors and partners working with the Council to live up to these values and maintain high standards in accordance with our Code of Conduct and all applicable rules, regulations and legislation.

However, like all public authorities, we face the risk of things going wrong sometimes or of unknowingly allowing illegal or unethical conduct.

Speaking up when you have a concern is important – even vital because it will help us to keep improving our services to local people and the working environment for our staff.

You may feel worried about raising a concern, and we understand this. But please don't be put off. We aim to create and maintain a culture welcoming openness, honesty and accountability. We will look into what you say and you will have access to the support you need.

The policy aims to:

- Encourage staff, Members and partners to speak up on suspected wrongdoing as soon as possible in the knowledge their concerns will be taken seriously and investigated appropriately, including respecting confidentiality.
- To provide staff with guidance on how to raise concerns.
- To reassure staff they can raise genuine concerns without fear of reprisals, even if you are mistaken.

# 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 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. It will never be appropriate to alert the media. We strongly encourage you to seek advice before reporting externally, 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 concerns are sometimes worried about possible repercussions. We will not tolerate harassment or victimisation of anyone raising a concern, nor any attempt to bully you into not raising a concern. Any behaviour of this type is a breach of our values and may result in disciplinary action. If you are subject to this type of action you should report it. Providing you are acting honestly, it does not matter if you are mistaken or there is a reasonable explanation for your concerns.

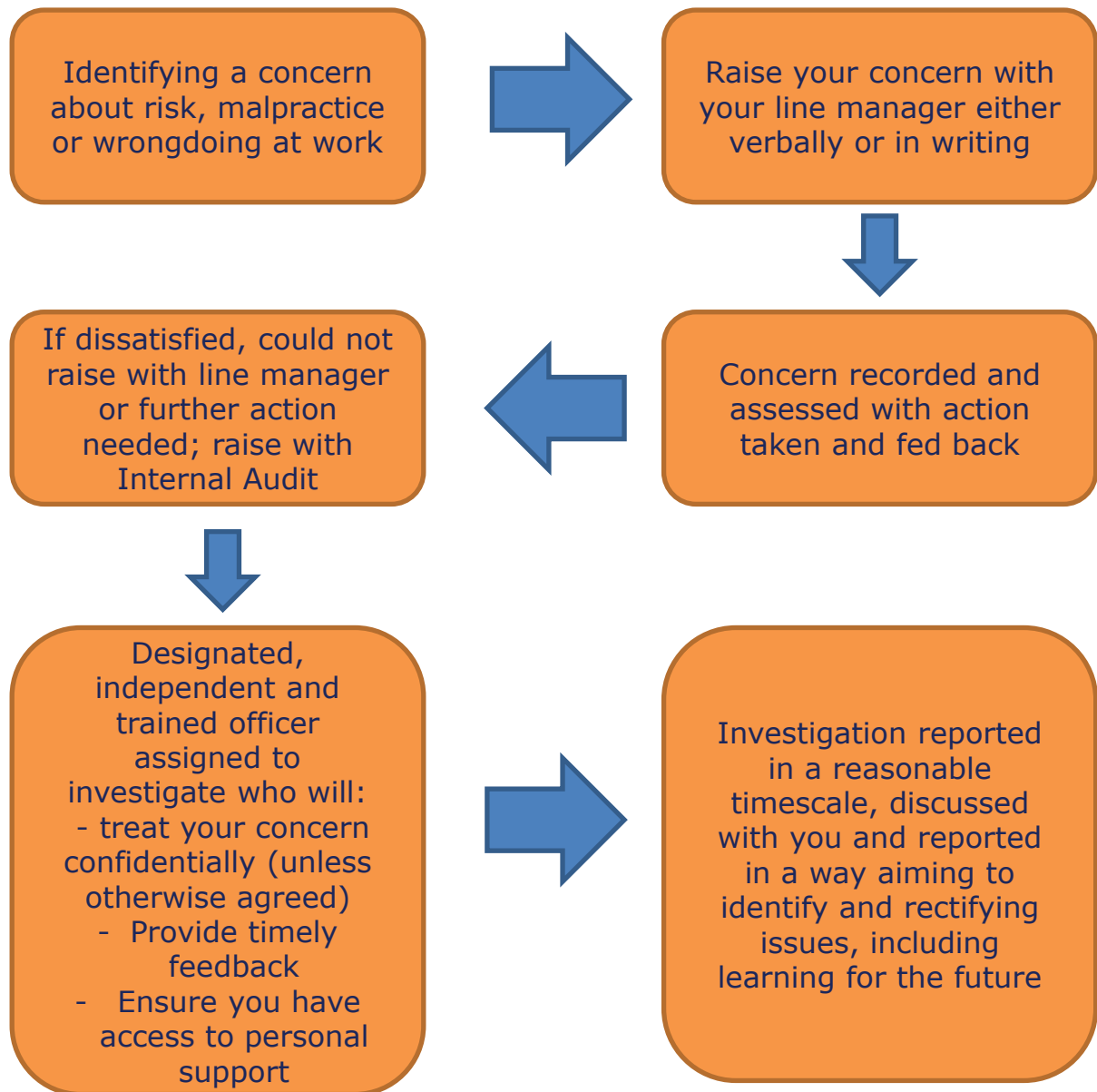
If we conclude that a member of staff has made false allegations raised in bad faith (for example, maliciously or with a view to personal gain) then they may be subject to disciplinary action. Also, speaking up does not guarantee immunity for any person who raises concerns about malpractice they have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

# MID KENT AUDIT

## WHISTLEBLOWING REVIEW

### DRAFT REPORT

January 2016

<b>Audit Code</b>	MBC-CON01(15-16)	<b>Service</b>	Audit, Governance & Standards Committee (MBC)
<b>Audit Lead</b>	Rich Clarke	<b>Audit Sponsor</b>	CLlr Steve McLoughlin
<b>Audit Review</b>	Russell Heppleston		



# MID KENT AUDIT

## Summary Report

1. This report represents the first systematic attempt to examine the effectiveness of arrangements at Maidstone BC for raising concerns at work ('whistleblowing'). It was commissioned by Maidstone's Audit, Governance and Standards Committee in September 2015 and subsequently joined by Tunbridge Wells BC and Ashford BC.
2. Encouraging staff to identify and raise concerns is a key component for all organisations in being able to ensure they are consistently well governed and effective. A council's staff are its first and, in some instances, only line of defence against bad or illegal practice. While the Council offers a range of methods for staff to raise concerns, one significant path is the formal Whistleblowing policy which – uniquely – provides a statutory protection to concerned employees shielding them from discrimination as a result of speaking up.
3. In our examination of the policy and practice of whistleblowing across the authorities we conclude that there are a number of encouraging aspects. All three authorities have legally compliant policies, although Maidstone in particular has some way to go to meet the best practice set out by Public Concern At Work. Also, while shallow, there is a broad awareness among staff and Members of the basics and principles of raising concerns and a clearly expressed willingness to not ignore troubling events and behaviours.
4. However, our work identified significant opportunities to update and refresh Maidstone's approach (in particular) and to raise its profile among staff. This will be needed to reduce what is, according to the survey, a significant minority (almost 1/5) of staff who have noted concerns but not raised them.

## Next Steps

5. As noted in our audit brief, the scope of the review was not such that we would raise formal recommendations for implementation and follow up. However, there are a number of actions the Council may wish to consider to improve its arrangements:
  - Clearly establish overall responsibility for whistleblowing at an officer level, including amending the constitution and/or audit charter where necessary.
  - Revise and refresh the Whistleblowing charter with reference to Public Concern At Work's identified best practice.
  - The revised charter should in particular give staff clear expectations on the Council's response including investigation approaches and timescales.

# MID KENT AUDIT

- Undertake relevant training and awareness raising periodically among staff and Members.
  - Report monitoring information to Members on progress towards raising awareness of whistleblowing, quantitative information on concerns raised and headline narrative on what the Council has learned from matters brought to its attention through whistleblowing.
6. Our overall 'recommendation', as expressed in the covering report, is that Members invite officers from Audit, Policy & Performance and Finance via the Corporate Governance Group to consider proposals for refreshing Maidstone's approach to whistleblowing with a view to bringing an implementation report back to the Audit, Governance and Standards Committee.

## Independence

7. We are required by Public Sector Internal Audit Standard 1100 to act at all times with independence and objectivity. Where there are any threats, in fact or appearance, to that independence we must disclose the nature of the threat and set out how it has been managed in completing our work.
8. The current whistleblowing charter at Maidstone was originally written by Mid Kent Audit some years ago but adopted by the Council corporately. The charter does not clearly set out ongoing responsibility and such responsibility has never been part of approved audit plans for Mid Kent Audit, so we are satisfied this report does not present a risk of self review.
9. We have no other matters to report in connection with this audit project.

## Acknowledgements

10. We would like to express our thanks to all those officers who assisted completion of this work in particular the 173 people who completed the survey and Roger Adley, Susanna Aiano and Adam Chalmers for their assistance in its publication.

# MID KENT AUDIT

## Detailed Findings

11. We completed fieldwork during December 2015 to the agreed objectives and using the tests set out in the final audit brief. We include the audit brief at appendix I.
12. We present the brief as originally agreed since we completed this review in line with original timing and budget expectations. We again thank officers and Members for support provided to enable efficient completion of our work.

## Objective 1: Whistleblowing Policy Assessment

13. On initial inspection, the three polices vary significantly. The Ashford and Tunbridge Wells policies are logically and clearly laid out with apparent knowledge of the Whistleblowing Commission’s Code of Practice (‘the Code’), although there is a need to update some internal referencing in the Tunbridge Wells policy.
14. Maidstone’s policy, however, is significantly out of date having not been revised since 2008. Unsurprisingly given its age, the contact numbers and internal referencing is inaccurate. In particular, the extension number given for the Head of Audit (which is the only contact number in the document) is no longer valid. There is also no coherent structure to the document, which misses out key elements of the Code as noted in the table below.

### Assessment against the Code’s Written Procedures guidance:

Code Section <sup>1</sup> . The procedures should...	MBC	ABC	TWBC
4: ...be clear, available, well-publicised, easily understandable.	–	–	–
5a: ...identify types of concerns, including examples	✓	✓	✓
5b: ... include a list of persons with whom workers can raise concerns. The list should be sufficiently broad.	–	✓	✓
5c... give assurance that the worker will not suffer detriment unless it is later proved the information was false.	✓	✓	✓
5d... assure workers that his or her identity will be kept confidential if requested unless required by law	✓	✓	✓
5e... assure workers who will address their concern and how including an estimated timing and feedback method. Also that they should report any detriment for having raised a concern and that they are entitled to independent advice.	✘	–	–
6 .... state that the employer will sanction those who subject the worker to detriment for having made a disclosure.	✓	✓	✓

<sup>1</sup> References are to paragraph numbers in the Code, so not consecutive as the Code also includes explanatory and additional information.

# MID KENT AUDIT

Key:

✘	Not meeting Code expectations
–	Partially meeting Code expectations
✓	Meeting Code expectations

15. We set out below further details on areas where policies do not fully meet Code expectations.

***(Para 4) Clear, readily available and well publicised***

16. The results of our survey (see objective two) give us reason to believe the procedures are not absolutely clear, readily available and well publicised at any authority. We include more details on the survey findings further on in this report.

***(Para 5b) Include a broad list of people with whom workers can raise concerns***

17. The Code includes an example list, comprising:

- The worker's line manager,
- More senior managers
- An identified senior executive/board member
- Relevant external organisations

18. Maidstone's policy includes internal directions but, unlike the Ashford and Tunbridge Wells examples, does not provide any examples of external bodies to whom workers might raise concerns (such as Public Concern At Work, the police or appropriate regulators).

***(Para 5e) Process of handling concerns***

19. The Ashford and Tunbridge Wells policies both set out clear expectations to workers on how and by whom their concerns will be handled, including timescales and feedback. However, neither policy advisers workers to raise concerns about any detriments they suffer as a result of having raised a concern.

20. The Maidstone policy includes no details on how and by whom concerns will be investigated nor any indication of timescale or how (or whether) the worker will receive feedback.

# MID KENT AUDIT

## Training, Review and Oversight

21. The Code also includes guidance for how organisations should manage training, review and oversight of Whistleblowing arrangements. Although not directly part of our scope, we have nonetheless evaluated each authority against the Code using the information contained within the policies and our own experience in working with each Council.

### Assessment against the Code’s Training, Review & Oversight guidance:

Code Section <sup>2</sup> . The employer should...	MBC	ABC	TWBC
7a:... identify how concerns should be raised and recorded	✘	✓	✓
7b:... ensure effective training at all levels	✘	–	✘
7c:... identify a person with overall responsibility for whistleblowing arrangements	✘	✓	✘
7d:... conduct periodic audits on the effectiveness of whistleblowing arrangements, including feedback from workers and review of incidents identified as a result of raised concerns.	–	–	–
7e:... provide for independent oversight of arrangements (e.g. by an Audit Committee)	✓	✓	✓
8: publish information on whistleblowing in an annual report, including number and types of concerns raised and staff awareness, confidence and trust in arrangements.	✘	–	✘

Key:

✘	Not meeting Code expectations
–	Partially meeting Code expectations
✓	Meeting Code expectations

### *(Para 7a) Identifying how concerns should be raised and recorded*

22. Maidstone’s policy is brief, without any detail on the process by which concerns could be raised. By contrast, Tunbridge Wells’ runs through the process of investigation and recording of concerns in some detail, including specific commitments to whistleblowers (such as all concerns will be recorded and an initial response within 10 working days).

<sup>2</sup> References are to paragraph numbers in the Code, so not consecutive as the Code also includes explanatory and additional information.



# MID KENT AUDIT

## ***(Para 7b) Ensure effective training at all levels***

23. None of the documents in themselves promise or suggest any specific training arrangements. We are aware that, in practice, there are no ongoing counter fraud training programmes for general staff at Maidstone or Tunbridge Wells (although there is some specific ad hoc training for particular staff, such as giving benefits officers information on how to identify fraudulent documents). Ashford's dedicated counter fraud team have embarked upon a series of awareness raising workshops in key at risk departments such as Housing but these are still in the process of rolling out across the Council.

## ***(Para 7c) Overall responsibility***

24. Ashford's document names a particular cabinet member as having responsibility at a member level with officer responsibility also assigned to named individuals. At both Maidstone and Tunbridge Wells, although the documents both name contacts who people can approach with concerns, neither names an individual with overall responsibility for setting and monitoring whistleblowing.

## ***(Para 7d) Periodic audits***

25. This review constitutes the first attempt to systematically assess the effectiveness of whistleblowing arrangements across the three authorities. It was conducted as a one-off commission rather than as part of a regular process (although assessing effectiveness of counter fraud, in general, is within the remit of internal audit at each authority).

## ***(Para 8) Annual Reporting***

26. Members at Maidstone and Tunbridge Wells receive an annual report from the revenues and benefits counter fraud team. However this report is, naturally, focussed on fraud in those areas and so does not comment on whistleblowing. At Ashford, whistleblowing reporting will be within the remit of the counter fraud team but they are yet to present their first annual report reflecting their broader scope.

# MID KENT AUDIT

## Objective 2: Whistleblowing Awareness

### Online Survey: Methodology

27. Given the timescales available, we opted for an online survey as the principal vehicle for assessing awareness of whistleblowing policies and attitudes towards whistleblowing and raising concerns generally. Although an online survey has necessary and acknowledged limitations – most notably in only reaching those with regular IT access and skills – we were satisfied it was the most efficient means of reaching a wide audience quickly for a broad overview.
28. The most significant audience outside the scope of the online survey were staff employed at the Council's depot who generally have shared IT access only. We did not ask in the survey for information to identify participants and so do not know how many (if any) responses came from the depot but response rates there were likely to have been low. Consequently we also discussed whistleblowing with management at the depot for their impressions on the depth and extent of knowledge on this topic within their teams. Although information received by this method is limited and largely anecdotal we received no indications that awareness is greater at the depot than elsewhere, if anything the indication was that knowledge and awareness is low.
29. The survey was circulated to all officers and Members and each of the three authorities and available for completion for up to two weeks ending 14 December 2015 (dates of issue varied a little depending on authorities' internal communications). The survey used the *surveymonkey* platform used previously by all three authorities for internal (and some external) surveys. The questions were also trialled within the audit service prior to issue to assess clarity and ease of response which lead to some adaptations.
30. As a means of incentivising responses to an anonymous survey (meaning rewards direct to recipients cannot be offered) we invited respondents to nominate a charity to receive a £25 donation. This appeared to be a popular approach – the overall response rate of 173 completed surveys was significantly ahead of expectations and represents about a fifth of all recipients (noting the limitations in online access mentioned above). On a random draw [The Pickering Cancer Centre](#), a drop-in centre in Tunbridge Wells for cancer patients and their relatives, was selected to receive the donation. We note that, despite it being the only fill-in required question on the survey (which was otherwise tick box) more than 95% of recipients nominated a charity, suggesting this approach did act as a motivator for responses.

# MID KENT AUDIT

## Online Survey: Responses

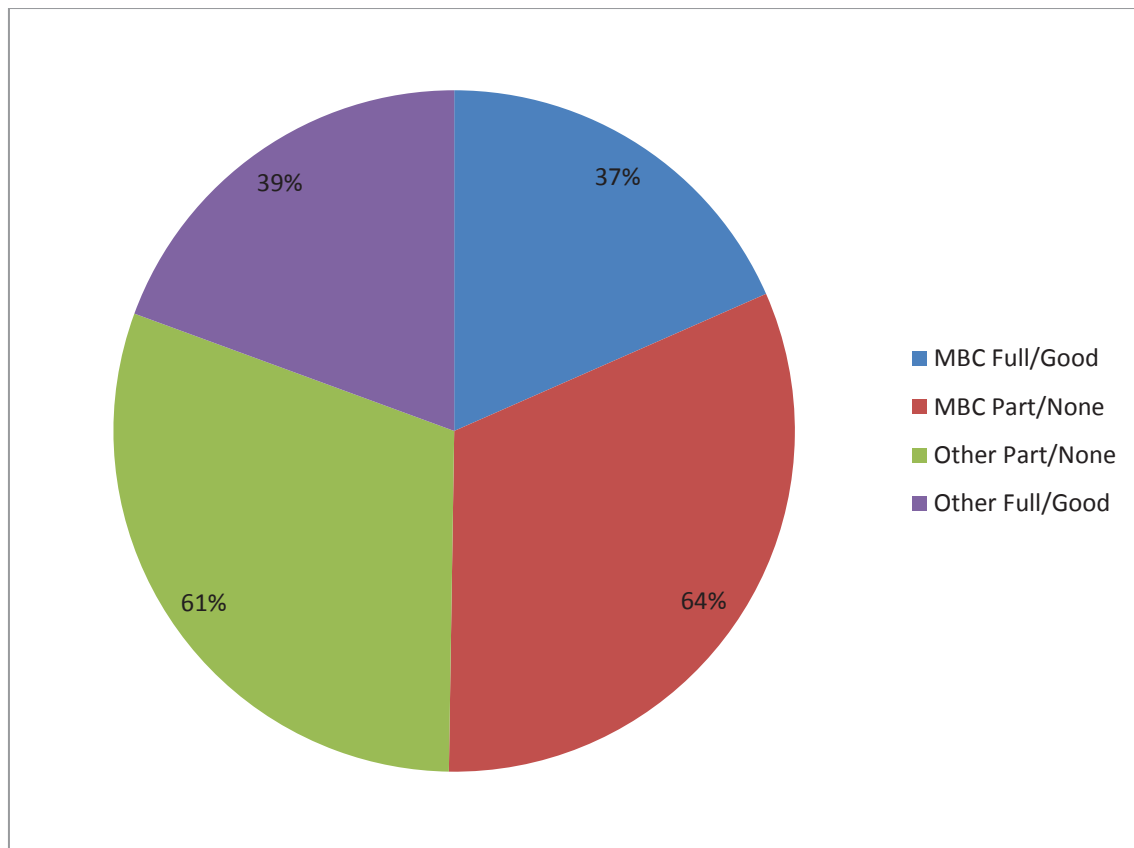
31. The table below shows total responses (thereafter, the graphs/tables show percentages). Note that we have grouped those working in shared services according to which authority they reported being most familiar with. We've also grouped Members and Senior Officers together because of (a) the relatively lower number of responses compared to officers and (b) there was no substantial difference in responses from the two groups.

Type of respondent	Ashford BC	Maidstone BC	Tunbridge Wells BC
Member/Senior Officer	26	23	16
Officer	43	42	23
<b>Total</b>	<b>69</b>	<b>65</b>	<b>39</b>

Source: Online Survey December 2015

## Online Survey: Awareness

32. The chart below shows total levels of awareness recorded by the survey results, Maidstone on the right hand side and non-Maidstone on the left.



# MID KENT AUDIT

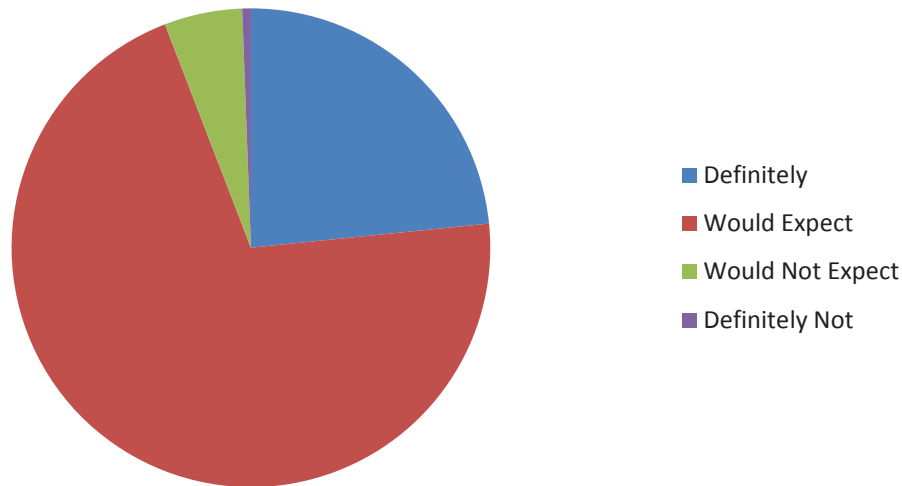
33. Headlines from the chart are that, across mid Kent, overall awareness is about level with **one third** of respondents claiming full or good knowledge of whistleblowing. This does not vary significantly depending on seniority either. Awareness is lower among officers than senior officers (29% against 35% claiming a good knowledge). We also note that there are very low numbers (5% in Maidstone) with no knowledge at all but even lower (a single respondent at Maidstone) claiming full knowledge.
34. For the large majority of respondents – 80% of all responses – whistleblowing is something where they profess at least an awareness of the basics if not the detail.

## Online Survey: Knowledge

35. The next question in the survey sought to test that awareness by asking respondents to identify (or guess) what provisions whistleblowing charters contain. This question listed two provisions which are/should be present – contact details and a promise of investigation – one provision which is optional – a warning that disciplinary action could follow malicious false reports – and one that does not – guarantee of anonymity. This final provision (anonymity) is often erroneously cited as a component in whistleblowing policies but actually cannot feature in full since the key part of the legislation aims at protecting whistleblowers from discrimination and you cannot protect someone you cannot identify.
36. On the two definite provisions people knew, or could correctly guess, their presence with **100% of respondents** identifying their inclusion.
37. Regarding a provision regarding malicious false reports, this features prominently in Maidstone’s document and is mentioned in the other authorities. In our survey **92% of respondents** knew or believed that such a provision would be present. Maidstone’s results here were in line with the average but, in keeping with the overall lack of familiarity with the detail, only **11% of MBC respondents** reports that such a provision was definitely included, most (80%) assuming its presence.
38. However, the question on anonymity perhaps exposed the extent to which respondents were assuming provisions in the charters. The chart below shows responses to this question:

# MID KENT AUDIT

## Does the Whistleblowing Charter Guarantee Anonymity?



39. As noted in the chart, 93% of respondents expect to see a guarantee of anonymity in a whistleblowing charter – something which it cannot provide and be consistent with the legislation. In this aspect, there was no significant difference between authorities or seniority. It is also notable that all of the respondents who professed a detailed knowledge of the whistleblowing charter were mistaken (the only respondent who correctly identified that the charters cannot guarantee anonymity had declared in the first question to have no previous knowledge of whistleblowing).
40. The survey also asked respondents on by which route they would report certain circumstances. Under the Public Interest Disclosure Act there are a defined range of disclosure categories which fall within the protection of the legislation and thus within the scope of a whistleblowing policy. These are:
- A criminal offence (e.g. fraud),
  - Endangerment to health or safety,
  - Risk or actual environmental damage,
  - Miscarriage of justice,
  - Non-criminal law breaking, and
  - Covering up of wrongdoing.
41. Not among the categories of protected disclosures include such matters as workplace inefficiency, bullying or harassment (unless criminal) and safeguarding concerns (unless in present danger).

# MID KENT AUDIT

42. One finding here is that there appears to be some misunderstanding about the types of concerns the whistleblowing policy is aimed at protecting. Almost half of respondents who would use the whistleblowing route to report cited one or more non-protected disclosures.

## Online Survey: Raising concerns

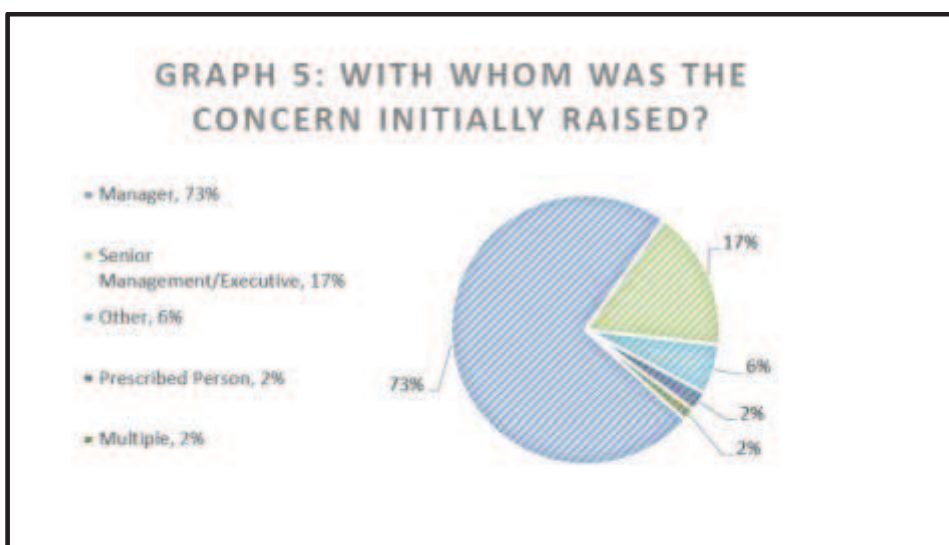
43. However, whatever misunderstanding may exist on where to report, that question did identify a strong willingness to report concerns. **90% of respondents** stated that they would report concerns across all of the listed categories. In response to the question of where people would raise those concerns:

Reporting route	First Call	Would Report	Would Not Report
Line Management	82%	91%	9%
Chief Exec/Director	16%	72%	28%
Internal Audit	6%	62%	38%
Regulators	3%	56%	44%
Trade Union	9%	50%	50%
Members	5%	35%	65%
Media	1%	16%	84%

Source: Online Survey December 2015. "Would Report" incorporates responses who would take that route first.

44. This pattern broadly correlates with research undertaken by Public Concern at Work in 2015, examining more than 2,500 tribunal referrals:

## Public Concern at Work Graph

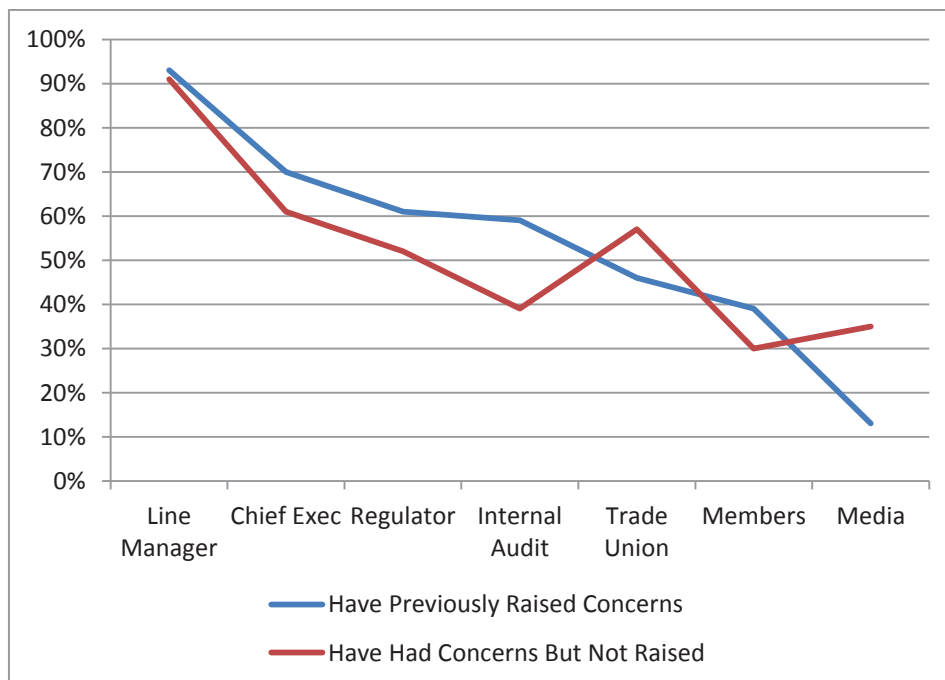


# MID KENT AUDIT

45. Within the headline data, there were some interesting details from our survey:

- Among people who had reported concerns previously, line manager as first route was even more prominent (95% of these respondents). Conversely, of those who had identified issues but not raised concerns only 70% would go to their line manager first – suggesting that a strong relationship with immediate management is a significant factor in willingness to raise concerns.
- Willingness to report to Directors/Chief Exec showed variance between authorities and grades. For instance, at Ashford only 73% of officers would be willing to report concerns at this level, compared with 97% at Tunbridge Wells (Maidstone 80%). However 100% of senior officers and members would be willing to report here.
- There was no strong difference between authorities on willingness to report to Members, and only limited difference between seniority of officers. 28% of other officers would report concerns to members, against 40% of senior officers. All but one Member reported a willingness to raise concerns with colleagues.
- Willingness to report to the media was low across the board but higher in other officers (19%) than senior officers/members (9%). The highest subgroup on this analysis was those who had identified issues but not raised them (34%)

Looking solely at those who had identified issues of concern, the chart below shows where people with concerns indicated they were willing to raise them:



# MID KENT AUDIT

46. As might be expected, people who have had concerns but not raised them are less willing generally, but it is interesting to note the only two exceptions to that general rule – trade unions and media – are both external, suggesting one motivating factor is a lack of confidence in internal processes to resolve the matter. This extends in particular to internal audit – the largest single difference between the groups – where 59% of those who have previously raised concerns would be willing to raise, but only 39% of those who have elected not to speak up.
47. The table below shows replies to the question on whether respondents had raised concerns in the past:

Previously raised a concern	Ashford BC	Maidstone BC	Tunbridge Wells BC
Yes	28%	25%	28%
No, but could have	10%	18%	10%
No, never considered	62%	55%	59%

Source: Online Survey December 2015.

48. Two immediately apparent results here – firstly that around a quarter of respondents have raised concerns (which is considered further in the next section). However secondly, and in particular at Maidstone, there is a significant group who have identified concerns but not spoken up. It may be that this is related to – as per objective one of this report – Maidstone having the least well developed approach to whistleblowing among the authorities.

## Online Survey: Investigating Concerns

49. The first point to note here is that none of the three authorities have had issues raised formally under their whistleblowing policies in the recent past. Whether or not that makes them unusual as local authorities is difficult to say precisely since there is no centrally kept register of concerns that would enable national (or local) comparisons.
50. The charity Public Concern at Work undertook some research in 2015 looking at the results of around 2,500 employment tribunal cases where the plaintiff contended their employer had failed to protect their rights as a whistleblower<sup>3</sup>. PCaW's research identified a little over 200 such cases from 2011-2013 involving a local government employer.

<sup>3</sup> "Is the Law Protecting Whistleblowers: A Review of PIDA Claims"

<http://www.pcaw.org.uk/files/PIDA%20REPORT%20FINAL.pdf>



# MID KENT AUDIT

51. However, this research represents cases where the whistleblowing policies have arguably failed; in that they have (by the plaintiff's estimation) not offered sufficient protection. Therefore, these 200 or so cases are likely to represent only a small proportion of all the issues raised in local government. Therefore while it is reasonable to say it is unusual for a group of three authorities to have had no concerns raised we cannot say how unusual nor attempt any calculation at how many there 'should' have been.
52. However, our survey did identify that around 25% of respondents – 48 people – had raised concerns at work, presumably by other means. While a slim majority were satisfied with the outcome of their having spoken up (55% of respondents who had raised a concern), a significant amount were dissatisfied. Moreover, 25% of respondents who had raised a concern reported that – from their perspective – no action was taken at all.

## Appendix I: Audit Brief

### About the Governance Area

Corporate governance is the system of rules, practices and processes by which the Council is directed and controlled. Broader than just financial controls, it is also concerned with how the Council maintains legal compliance and seeks to arrange its operations in order to achieve its objectives.

The [Public Interest Disclosure Act 1998](#) places specific responsibilities on organisations to support individuals who make certain disclosures of information in the public interest, in particular to protect them from subsequent victimisation. Maidstone Borough Council (“The Council”) seeks to fulfil these obligations through operation of its Whistleblowing Charter.

The Council’s [constitution](#) (as recently updated) assigns governance responsibility for monitoring policies on whistleblowing to the Audit Governance and Standards Committee with the ability to delegate that monitoring function to the Head of Audit Partnership. The constitution further assigns responsibility to the Head of Audit Partnership for acting on whistleblowing reports but does not specifically assign overall responsibility for the policy at officer level.

Successful management of its whistleblowing responsibilities will help the Council to:

- Ensure it remains in compliance with its legal obligations,
- Receive information and feedback on its performance to improve its services, and
- Support and encourage staff to speak up on matters of concern.

# MID KENT AUDIT

## About the Audit

This audit is a **corporate governance review** meaning that we will focus on how the Council manages the risks associated with this area, and uses governance to achieve its objectives.

As the review has been commissioned outside of our direct audit plan at specific request of the Audit, Governance & Standards Committee the timescale is somewhat more abbreviated than a more substantial review. For this reason the report will reach conclusions and make comments but not make formal recommendations for implementation nor an overall assessment on our usual scale. However, it is possible that the review will identify scope for subsequent, more detailed, audit work that may make formal recommendations. We have also, since original circulation of the draft, confirmed that Tunbridge Wells and Ashford BCs wish to participate. Consequently we will obtain and provide comparative information to all three councils that may suggest helpful ways forward.

## Audit Objectives

1. To assess conformance of the Councils' whistleblowing documentation and formal procedures against the [Whistleblowing Commission's Code of Practice](#) (the Code) as published by Public Concern At Work in 2014.
2. To gather information on awareness and assess effectiveness of the whistleblowing procedures (including investigations into any declarations).

## Audit Scope

1. The design and operation of whistleblowing procedures at the named Councils.

## Audit Testing

1. Document review comparing the Councils' procedures against the Code.
2. Assess, by means of survey, the level of awareness among Council employees and Members of whistleblowing procedures and processes.
3. Consider whistleblowing disclosures made previously at the Councils and at councils more generally to assess whether they are learning points for the Council.

# MID KENT AUDIT

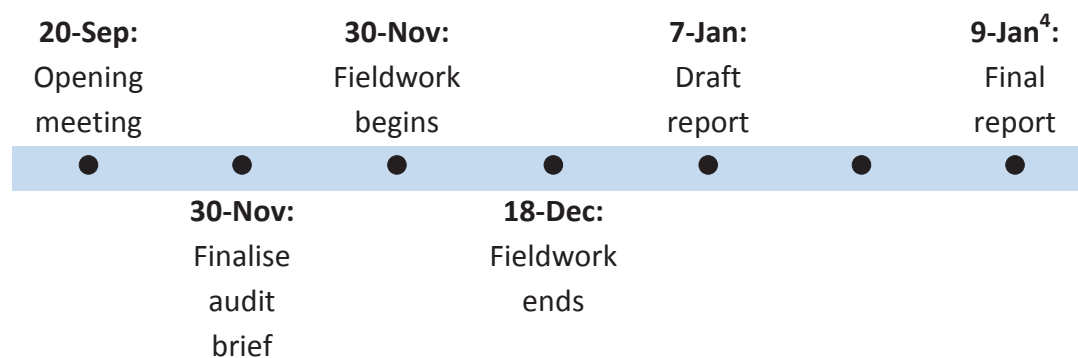
## Audit Resources

Based on the objectives, scope and testing identified we expect this review will require **10 days** of audit resources broadly divided as follows:

Audit Task	Auditor/s	Number of Days (Projected)
Planning	Rich Clarke	1.5
Fieldwork	Rich Clarke/Ben Davis	6
Reporting	Rich Clarke	1.5
Supervision & Review	Russell Heppleston	1
<b>Total</b>		<b>10</b>

The review will be funded from the consultancy/contingency days allowance agreed by the then Audit Committee in approving the Audit Plan for 2015/16 at its meeting in March 2015. Any ancillary costs will be met from the audit budget. The £25 incentive for completing the survey was not drawn from Council funds.

## Audit Timeline



## Council Resources required by audit

Documents required
Whistleblowing Charters

<sup>4</sup> Fixed date in order to meet Committee papers deadlines

# MID KENT AUDIT

## Appendix II: Survey Questions

We used the *Survey Monkey* platform to undertake the survey, which was emailed to all officers and members at each authority. The survey was open for between ten and fourteen days depending on site but period open did not significantly impact response numbers (90% of respondents replied in the first 5 days of availability). The available responses were presented in a randomly generated order for each user.

- 1. Which council do you work for or represent?**
  - a. Maidstone Borough Council
  - b. Ashford Borough Council
  - c. Tunbridge Wells Borough Council
  - d. Shared Service
  
- 2. If you work in a shared service, which Council are you most familiar with?**
  - a. Maidstone Borough Council
  - b. Ashford Borough Council
  - c. Tunbridge Wells Borough Council
  
- 3. Which best describes your position at the Council?**
  - a. Member
  - b. Officer – Manager or above
  - c. Other officer
  
- 4. Please rate your current knowledge of your Council’s whistleblowing charter?**
  - a. Very knowledgeable – I know it in detail
  - b. Somewhat knowledgeable – I know broadly what it covers and where to find more detail
  - c. Vague knowledge – I know it exists but am not familiar with its content
  - d. No knowledge – First I’ve heard of its existence.
  
- 5. Which of the following features in your Council’s whistleblowing charter?** (each response given the options “definitely features”, “uncertain, but would expect to see”, “uncertain but would not expect to see” and “definitely does not feature”)
  - a. Guaranteed anonymity for whistleblowers
  - b. Protection of whistleblowers from harassment
  - c. Contact details for where to raise concerns
  - d. A promise to investigate all concerns
  - e. A warning that malicious false reports could lead to disciplinary action

# MID KENT AUDIT

**6. If you had a serious concern in any of the following areas, how would you raise it?**

(each response given the options “Through the whistleblowing procedure”, “Formally within the council via another route”, “Informally within the Council”, “To an external body”, “Wouldn’t raise such issues”. Respondents could select all that apply)

- a. Inefficient practice/poor value for money
- b. A breach of legal obligation
- c. Concealing information improperly
- d. Bribery or corruption
- e. Other criminal offences
- f. Bullying or harassment
- g. Environmental damage
- h. Safeguarding risk to a child or vulnerable adult
- i. Endangerment to health and safety
- j. Miscarriage of justice

**7. If you had a serious concern, who would you raise it with?** (each response given the

options “I’d go here first”, “I’d be comfortable reporting here, but not first”, “I’d only report here if I had no response” and “I wouldn’t report a concern here”)

- a. Line manager/Head of Service
- b. Director/Chief Executive
- c. Internal Audit
- d. Trade Union representative
- e. Members
- f. External agencies
- g. Media

**8. Have you ever raised a concern at work?**

- a. Yes
- b. No, but I’m aware of issues I could have raised
- c. No, never encountered an issue I would want to raise

**9. If you have raised a concern, were you satisfied with its handling?**

- a. Yes, I got the outcome I wanted
- b. Yes, I didn’t get the outcome I wanted but understand why not
- c. No, although some action was taken I was dissatisfied with the outcome
- d. No, it did not appear that any action was taken

## Audit, Governance and Standards Committee

**11 July 2016**

Is the final decision on the recommendations in this report to be made at this meeting?	<b>Yes</b>
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## Statement of Accounts 2015-16

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

**This report makes the following recommendations to the final decision-maker:**

1. To note the draft 2015-16 Statement of Accounts attached at **Appendix I**.
2. To note and comment on the Chairman’s response to enquiries made by the external auditor, attached at **Appendix II**.

**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	11 July 2016 (draft)
Audit, Governance and Standards Committee	19 September 2016 (final – audited)

# Statement of Accounts 2015-16

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The draft statement of accounts has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015-16. The purpose of this report is to provide the committee with an early opportunity to review the draft accounts submitted for audit prior to formally approving them in September.
  - 1.2 The audit has now commenced and representatives from Grant Thornton will be in attendance at the meeting to answer any questions relating to the audit and provide a verbal update on progress.
  - 1.3 As part of the external audit process, the external auditor is required to make certain enquiries of the Chairman of this committee, the responses to which are documented within **Appendix II**. The Chairman has requested that his responses are ratified by the committee prior to being formally submitted to the external auditor.
- 

## 2. INTRODUCTION AND BACKGROUND

- 2.1 The draft Statement of Accounts attached at **Appendix I** was submitted to the council's external auditors on 30 June in line with the amended Accounts & Audit Regulations 2011.
  - 2.2 Under these regulations the Audit, Governance and Standards Committee are required to formally approve the final audited Statement of Accounts by 30 September for the previous accounting period in their capacity as the committee charged with governance.
  - 2.3 It is considered appropriate to bring the draft Statement of Accounts to the committee at this stage to provide an early opportunity for committee members to review the Statement and to ask any relevant questions of officers in advance of the statutory deadline in September.
  - 2.4 The draft Statement of Accounts is currently subject to external audit. In conducting their work, the external auditors need to establish an understanding of the management processes in place to detect fraud and to ensure compliance with laws and regulations. In this regard, the external auditor is required to make enquiries of the Chair of this committee as to their knowledge of such processes, and awareness of any actual, suspected or alleged fraud.
-



### **3. AVAILABLE OPTIONS**

- 3.1 The annual production and external audit of the Statement of Accounts is a statutory requirement and there are therefore no alternative options.
- 

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

- 4.1 It is recommended that the committee:
- 4.1.1 notes the draft unaudited Statement of Accounts attached at **Appendix I** to this report; and
- 4.1.2 notes and comments on the Chairman's response to enquiries made by the external auditor, attached at **Appendix II**.

Further information regarding these documents is set out below:

#### **Statement of Accounts 2015-16**

- 4.2 As noted above, the council's financial statements must comply with CIPFA's Code of Practice on Local Authority Accounting, which is based on International Financial Reporting Standards (IFRS). Both frameworks require a number of complex and detailed disclosures which accompany the main financial statements. There have not been any significant changes to these accounting requirements for 2015-16.
- 4.3 Officers have made efforts to 'de-clutter' the Statement of Accounts in recent years by removing unnecessary and immaterial disclosures. The remaining disclosures may appear extensive, but are considered necessary in order to comply with accounting standards.
- 4.4 In order to ensure that the key messages are delivered, the statements are preceded by a Narrative Report, which summarises the council's performance over the financial year 2015-16 and highlights the most significant elements of the financial statements.

The 2015-16 Statement of Accounts demonstrates that the council has continued to manage its resources effectively despite significant financial pressures brought about by sustained reductions in central government funding, and that it is preparing to deal with the continuing economic uncertainty and associated challenges that lie ahead. This is evidenced by the fact that the balance on the general fund and usable reserves has increased by £3.6m to £18.85m at the end of 2015-16. It should be noted that within this increase, £3.2m needs be set aside to fund the deficit on the collection fund.

- 4.5 Headline messages from the Statement of Accounts can be summarised as follows:

- Long term investments have decreased by £5m. All of the council's investments are now short term (less than one year) which is reflected in the increase in short term investments.
- Movements in the short term debtor and creditor balances relate to amounts due to and from precepting authorities in relation to Council Tax and NNDR including the Kent Business Rates Pool.
- Long term liabilities have decreased by £6.3m, which is largely a consequence of the decrease in pensions liability arising from changes in actuarial assumptions following the annual assessment of the fund by actuaries acting on behalf of Kent County Council. There is a corresponding increase in the value of unusable reserves. The next full actuarial valuation of the Fund will be carried out as at 31 March 2016 and will set the employer contributions for the period from 1 April 2017 to 31 March 2020.

### **Understanding how the Audit, Governance and Standards Committee gains assurance from management**

- 4.6 The letter attached at **Appendix II** details a series of questions which the external auditor must ask of the committee in order to comply with International Auditing Standards. The questions pertain to the management processes in place to ensure compliance with applicable law and regulation, and to prevent and detect fraud which may impact on the financial statements. Similar questions have been asked of management and a response has been provided.
- 4.7 The Chair's proposed responses to the questions are included as an appendix to the letter and the committee are asked to confirm that they are satisfied with the details provided, prior to a formal response being issued to the external auditor.

## **5. 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	Director of Regeneration & Communities

	assessment has been undertaken in order to mitigate this risk.	
<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.	Section 151 Officer & Finance Team
<b>Staffing</b>	Not applicable.	
<b>Legal</b>	Not applicable.	
<b>Equality Impact Needs Assessment</b>	Not applicable.	
<b>Environmental/Sustainable Development</b>	Not applicable.	
<b>Community Safety</b>	Not applicable.	
<b>Human Rights Act</b>	Not applicable.	
<b>Procurement</b>	Not applicable.	
<b>Asset Management</b>	Not applicable.	

## 6. REPORT APPENDICES

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

- **Appendix I:** Draft un-audited Statement of Accounts 2015-16
- **Appendix II:** Understanding how the Audit, Governance and Standards Committee gains assurance from management (letter and Chair's response)

---

## 7. BACKGROUND PAPERS

None



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

**Draft Statement – Subject to External Audit**

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**Appendices**

Appendix A - Annual Governance Statement	To follow
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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:

<b>2014/15</b>		<b>2015/16</b>
<b>£000</b>		<b>£000</b>
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	31,588
(13,737)	Money owed by the Council	(15,068)
(72,038)	Long Term Liabilities	(65,715)
<b>27,267</b>	<b>Net Assets</b>	<b>35,832</b>
15,546	Usable Reserves	19,309
11,721	Unusable Reserves	16,073
<b>27,267</b>	<b>Total Reserves</b>	<b>35,382</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:



	<b>Original Estimate £000</b>	<b>Revised Estimate £000</b>	<b>Actual £000</b>	<b>Variance to Revised £000</b>
<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:

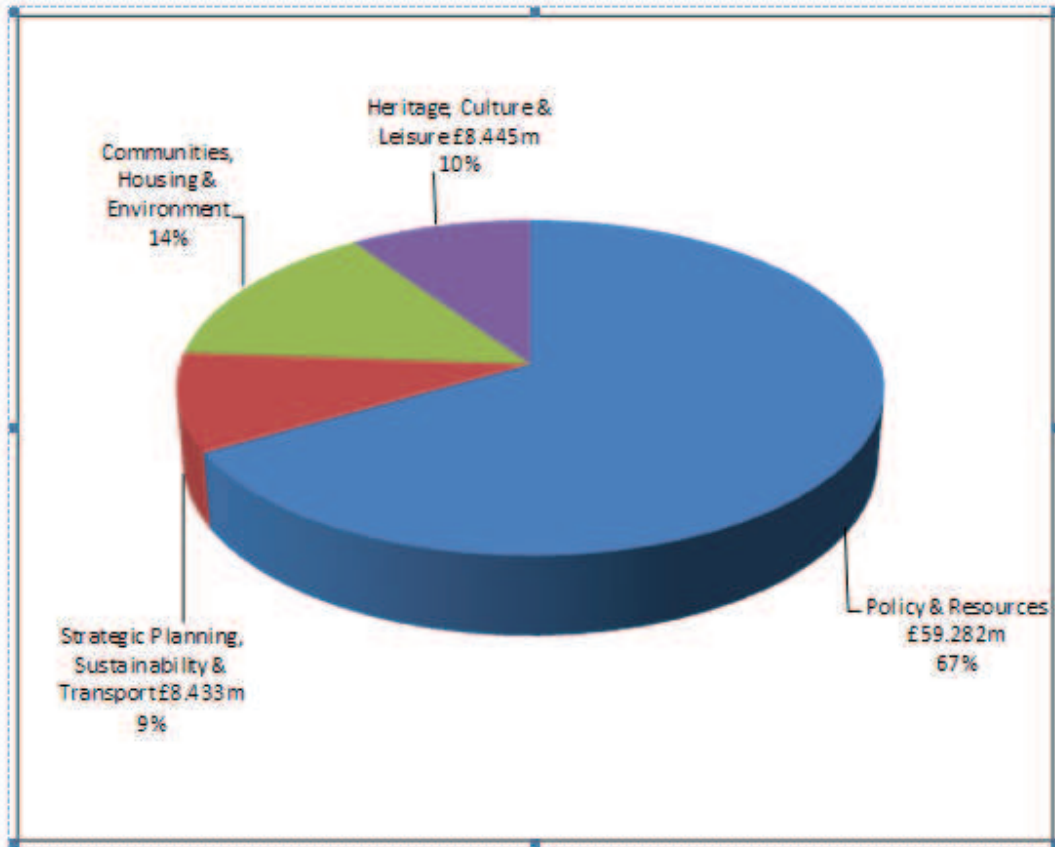
- Higher than budgeted income for garden bins, resulting in a favourable variance of £0.1m;
- Higher than budgeted income from on street and residents parking, however, it should be noted that part of this surplus is ring-fenced by statute so this does not represent a general underspend;

- 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.

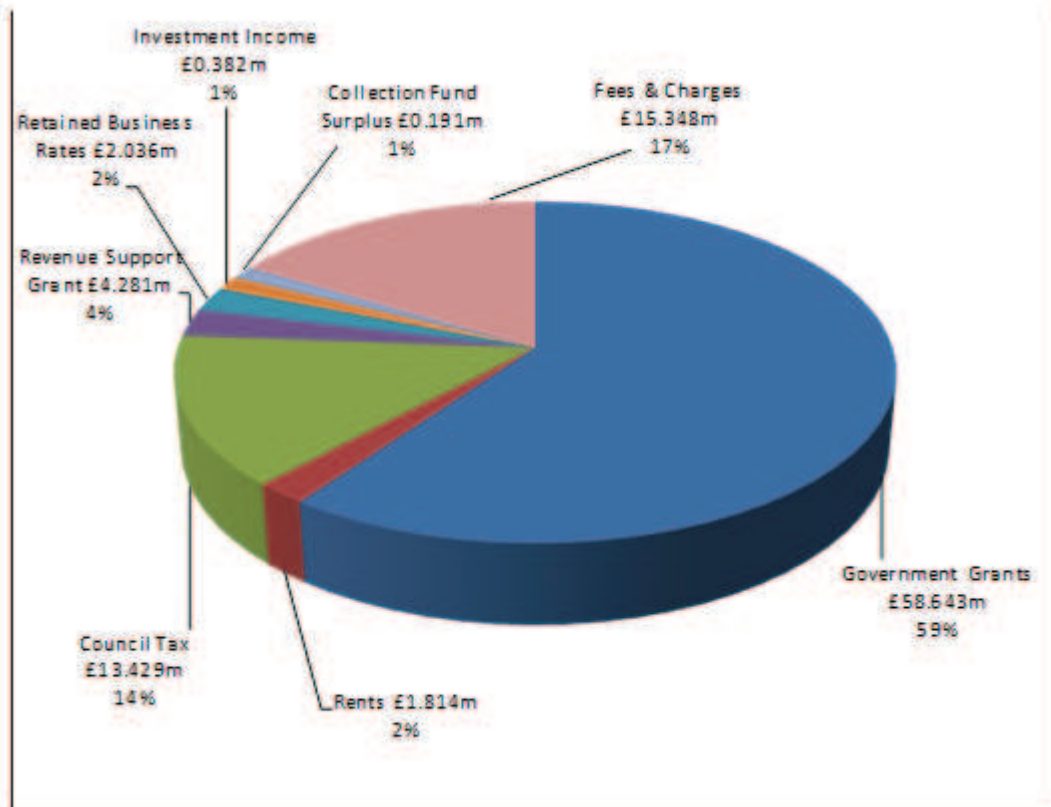
**Expenditure & Income** - The pie charts shown on the following page illustrate in broad terms where the Council's money comes from and the services that it provides.

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:

Committee	Original Estimate £000	Revised Estimate £000	Actual £000	Variance to Revised £000
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:

<b>Authority</b>	<b>£000</b>
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:

<b>Authority</b>	<b>£.p</b>
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,

Page 9 (Draft Statement – Subject to External Audit)

from £70.680m in 2014/15 to £64.641m in 2015/16.

### 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% (5) 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.

As part of the finance settlement for 2016/17 the Government made an offer of a fixed, four year local government finance settlement. This is subject to formal acceptance by each local authority. As part of accepting the offer the local authority must produce and publish on their website 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 Council is currently putting together its efficiency plan and this will be published shortly.

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:** 30<sup>th</sup> June 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	(1,672)	0	0	(1,672)	0	(1,672)
Other Comprehensive Income and Expenditure	0	0	0	0	9,787	9,787
<b>Total Comprehensive Income and Expenditure</b>	<b>(1,672)</b>	<b>0</b>	<b>0</b>	<b>(1,672)</b>	<b>9,787</b>	<b>8,115</b>
Adjustments between Accounting and Funding Basis under Regulation (Note 5)	5,236	167	30	5,433	(5,433)	0
<b>Net Increase or (Decrease) before Transfers to Earmarked Reserves</b>	<b>5,236</b>	<b>167</b>	<b>30</b>	<b>5,433</b>	<b>(5,433)</b>	<b>0</b>
Transfers to/from Earmarked Reserves	0	0	0	0	0	0
<b>Increase or (Decrease) in Year</b>	<b>3,565</b>	<b>167</b>	<b>30</b>	<b>3,761</b>	<b>4,354</b>	<b>8,115</b>
<b>Balance at 31st March 2016</b>	<b>18,857</b>	<b>321</b>	<b>130</b>	<b>19,309</b>	<b>16,073</b>	<b>35,382</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	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	7,657	(4,502)	3,155
7,598	(2,425)	5,173	Cultural & Related Services	7,661	(2,302)	5,359
9,674	(3,458)	6,216	Environment & Regulatory Services	9,786	(3,512)	6,274
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>89,699</b>	<b>(65,834)</b>	<b>23,865</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>1,672</b>
		(256)	Surplus or deficit on revaluation of non current assets			(990)
		11,987	Remeasurement of the Net Defined Benefit Liability			(8,797)
		<b>11,731</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(9,787)</b>
		<b>13,555</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(8,115)</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
88,127	<b>Long Term Assets</b>		85,027
8,000	Short Term Investments	<b>21</b>	14,000
87	Inventories		53
8,564	Short Term Debtors	<b>23</b>	13,385
8,264	Cash & Cash Equivalents	<b>24</b>	4,150
24,915	<b>Current Assets</b>		31,588
10,039	Short Term Creditors	<b>25</b>	9,320
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
13,737	<b>Current Liabilities</b>		15,068
181	Provisions		176
1,177	Deferred Liability	<b>28</b>	898
70,680	Other Long Term Liabilities	<b>33</b>	64,641
72,038	<b>Long Term Liabilities</b>		65,715
<b>27,267</b>	<b>Net Assets</b>		<b>35,832</b>
15,546	Usable Reserves		19,309
11,721	Unusable Reserves	<b>31</b>	16,073
<b>27,267</b>	<b>Total Reserves</b>		<b>35,382</b>

## CASHFLOW STATEMENT

2014/15 £000	Notes	2015/16 £000
1,824	Net (surplus) or deficit on the provision of services	1,672
(3,117)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(5,700)
2,417	Adjustments for items included in the net surplus or deficit on the provision of services that are investing & financing activities	6,751
1,124	<b>Net cash flows from Operating activities</b>	2,723
9,082	Investing Activities	(2,708)
(2,939)	Financing Activities	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

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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 – fair 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.

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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) ACCOUNTING PRACTICE FOR COUNCIL TAX AND 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 rates income included in the Comprehensive Income & Expenditure Statement 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 rates surplus or deficit on the Collection Fund at the end of the current year, adjusted for the Council's share of the surplus or deficit on the fund at the preceding year end that has not been distributed or recovered in the current year.

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

The Council as billing authority recognises the 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.

#### **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	(80)			<b>(80)</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	2,756			<b>2,756</b>
(3,200)			<b>(3,200)</b>	Employer's pensions contributions and direct payments to pensioners payable in the year				<b>0</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>5,236</b>	<b>167</b>	<b>30</b>	<b>5,433</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</b>	<b>2015/16</b>
	<b>£000</b>	<b>£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</b>	<b>2015/16</b>
	<b>£000</b>	<b>£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	(5,784)	1,050	(1,337)	1,947	<b>(4,124)</b>
<b>Total expenditure</b>	<b>58,487</b>	<b>8,434</b>	<b>12,780</b>	<b>8,446</b>	<b>88,147</b>
<b>Net Expenditure</b>	<b>6,868</b>	<b>1,799</b>	<b>9,843</b>	<b>5,355</b>	<b>23,865</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	23,865
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>23,865</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	72,704	(969)	71,735
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>88,145</b>	<b>2,173</b>	<b>90,318</b>
<b>Surplus or deficit on the provision of services</b>	<b>23,864</b>	<b>(22,192)</b>	<b>1,672</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
	(Surplus)/ Deficit £000	Income £000	Expenditure £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:

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

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

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	529	305	50	2,049	<b>3,920</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	0	0	0	(12)	<b>(91)</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>

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

Analysis of Land & Buildings Movements 2015/16	Car Parks	Cemetery & Crematorium	Depots, Workshops & Toolsheds	Halls	Housing	Land	Leisure Centres & Pools	Markets	Museums & Galleries	Parks & Open Spaces	Public Conveniences	Theatres	Town Hall	Total Land & Buildings
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<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>
<b>At 31st March 2016</b>	<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>
<b>At 31st March 2016</b>	<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>

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 fair 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>

## 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 & Bentrif Art Gallery, and the Carriage Museum. Further information on the museums and their collections can be seen on their dedicated website:

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

The total of £9.090m represents those items that have formally been valued as at 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
	<u>5,011</u>	<u>0</u>	<u>16,264</u>	<u>18,150</u>
<b>Debtors</b>				
Loans & receivables	28	24	7,539	8,525
<b>Creditors</b>				
Financial liabilities at amortised cost	0	0	3,210	4,844
<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>	<u>28</u>	<u>0</u>	<u>180</u>	<u>252</u>

### 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

	2014/15 £000	2015/16 £000
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

	2014/15 £000	2015/16 £000
Central government bodies	2,812	1,353
Other local authorities	2,279	2,919
Other entities and individuals	4,948	5,048
<b>Total</b>	<b>10,039</b>	<b>9,320</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	2,329
Capital creditors	132	179
Council tax payers	167	187
Business Rate payers	516	0
Receipts in advance	1,055	975
Deposits	727	1,164
Retentions	54	214
<b>Total</b>	<b>4,948</b>	<b>5,048</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.

	<b>2014/15</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
<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.

## 29 – CAPITAL RECEIPTS RESERVE

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

	31st March 2015 £000	31st March 2016 £000
<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	26,551
Capital Adjustment Account	56,258	57,275
Deferred Capital Receipts Reserve	27	23
Pensions Reserve	(70,680)	(64,641)
Collection Fund Adjustment Account	667	(2,957)
Accumulated Absences Account	(181)	(176)
Financial Instruments Adjustment Account	83	0
<b>Total Unusable Reserves</b>	<b>11,721</b>	<b>16,075</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)	(61)
Disposals		36
Difference between fair value depreciation and historical cost depreciation	(36)	(23)
<b>Balance at 31st March</b>	<b>25,547</b>	<b>26,551</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.

	<b>31st March 2015 £000</b>	<b>31st March 2016 £000</b>
<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)	118
Revenue expenditure funded from capital under statute	(1,619)	(911)
Write-off of non-enhancing capital expenditure	(163)	(112)
	<b>(6,775)</b>	<b>(4,494)</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>(4,471)</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>57,275</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>

	<b>2013/14</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Opening balance at 1 April	48,985	56,476
Remeasurements of the net defined liability	5,574	11,987
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	4,936	5,417
Employer's pensions contributions	(3,019)	(3,200)
<b>Closing balance at 31 March</b>	<b>56,476</b>	<b>70,680</b>

**d) Collection Fund Adjustment Account**

	<b>31st March 2014 £000</b>	<b>31st March 2015 £000</b>
<b>Balance at 1st April</b>	(486)	666
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.

	<b>2014/15 £000</b>	<b>2015/16 £000</b>
<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)**

	2014/15 £000	2015/16 £000
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**

	31st March 2015		31st March 2016	
	£000	%	£000	%
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	919
Later than 1 year and not later than 5 years	2,026	2,901
Later than 5 years	2,527	1,473
	<b>5,010</b>	<b>5,293</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</b>	<b>2015/16</b>
	<b>£000</b>	<b>£000</b>
Depreciation	(2,797)	(3,324)
Revaluation Gains & Losses	(2,126)	118
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	342
	<b>(3,117)</b>	<b>(5,700)</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</b>	<b>2015/16</b>
	<b>£000</b>	<b>£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</b>	<b>2015/16</b>
	<b>£000</b>	<b>£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
<b>INCOME</b>			
87,563	Income From Council Tax		90,846
57,092	Income From Business Rates (Note 2)		58,608
79	Tranfers from General Fund		
<b>144,735</b>	<b>Total Income</b>		<b>149,454</b>
<b>EXPENDITURE</b>			
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	<u>4,108</u>	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	<u>623</u>	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	<u>238</u>	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	<u>4,671</u>	4,765
208	Cost of Collection Allowance - Business Rates		206
<b>141,200</b>	<b>Total Expenditure</b>		<b>158,965</b>
3,534	Surplus/(Deficit) For Year		(9,511)
(377)	Surplus/(Deficit) Brought Forward From Previous Years		3,157
<b>2,544</b>	<b>Surplus/(Deficit) on Council Tax</b>		<b>1,764</b>
<b>613</b>	<b>Surplus/(Deficit) on Business Rates</b>		<b>(8,119)</b>
<b>3,157</b>	<b>Surplus/(Deficit) as at 31st March 2016</b>		<b>(6,355)</b>

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

## 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)	1.10	5/9	0.6
Band A	2,931.60	6/9	1,954.4
Band B	6,621.10	7/9	5,149.7
Band C	14,739.00	8/9	13,101.3
Band D	14,577.90	9/9	14,577.9
Band E	7,696.20	11/9	9,406.5
Band F	4,424.60	13/9	6,391.2
Band G	3,280.80	15/9	5,468.0
Band H	278.30	18/9	556.7
Other			197.2
			<b>56,803.5</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.

# Appendix A Annual Governance Statement

2015/16  
To be inserted when  
available

Councillor Steve McLoughlin  
Chair of the Audit, Governance and Standards Committee  
Maidstone Borough Council  
Maidstone House  
King Street  
Maidstone  
ME15 6JQ

**Grant Thornton UK LLP**  
Grant Thornton House  
Melton Street  
London NW1 2EP

T +44 (0)20 7383 5100

[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

19 April 2016

Dear Cllr. McLoughlin,

**Maidstone Borough Council Financial Statements for the year end 31 March 2016**

**Understanding how the Audit, Governance and Standards Committee gains assurance from management**

To comply with International Auditing Standards, we need to establish an understanding of how the Audit, Governance and Standards Committee, as the Governing Body, gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as the Audit, Governance and Standards Committee Chair with your responses to the following questions.

- 1 How does the Audit, Governance and Standards Committee oversee management's processes in relation to:
  - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
  - identifying and responding to the risk of breaches of internal control
  - identifying and responding to risks of fraud in the organisation ( including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
  - communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit, Governance and Standards Committee gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have attached a separate schedule which explores these areas in more detail, and this is included as an Appendix. Could you please complete this schedule and return it to me at your earliest convenience.

For information, we are also required to make enquiries of management and have communicated with Paul Riley in his role as Section 151 Officer to obtain these responses. If you could provide us with the required responses by the end of May it would be most appreciated. If you have any queries then do not hesitate to contact me on the details below.

Yours sincerely

Matthew Dean  
Audit Manager  
For Grant Thornton UK LLP

T +44(0)20 7728 3181  
E [Matthew.Dean@uk.gt.com](mailto:Matthew.Dean@uk.gt.com)

## Response from Audit Committee Chair

### Fraud risk assessment

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Auditor question	Response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	<p>It is considered that there is no direct incentive or motivation for officers to fraudulently manipulate the accounts.</p> <p>Furthermore the council has assessed the risk of material misstatement in the financial statements due to fraud and concluded that robust procedures are in place to ensure that this risk does not materialise. This has been determined through regular presentations to members on financial and audit matters and a conscious effort made by officers. The following management processes have allowed the Council to arrive at this conclusion:</p> <ul style="list-style-type: none"> <li>• The Council's constitution tasks service managers with control of financial resources.</li> <li>• Quarterly reporting of budget monitoring along with the monitoring of financial performance on other balance sheet items is formally reported to the Corporate Leadership Team and to Service Committees.</li> <li>• Risk assessment of the final accounts process and peer review of material elements of the statements by senior officers.</li> <li>• Presentation of the draft financial statements to the Audit, Governance and Standards Committee for review and challenge.</li> </ul>
What are the results of this process?	Awareness and vigilance amongst members and officers. No specific risks have been identified to date.
What processes does the Council have in place to identify and respond to risks of fraud?	<p>Procedures are in place to ensure compliance with financial regulations and contract procedure rules. These elements of the Council's constitution formally identify the procedures and levels of authority required in relation to financial transactions to reduce the risk of fraud. All financial systems maintained by the Council are subject to an annual review by Internal Audit and are monitored by the Head of Finance &amp; Resources who takes responsibility for approving all contractual commitments greater than £75,000 All payments greater than £40,000 are approved by the Chief Accountant, Head of Finance and Resources or s151 Officer. A dedicated fraud team is in place to identify and respond to fraud relating to Benefits and Council Tax fraud.</p> <p>The council also has a whistle blowing charter and anti-fraud and corruption policy in place. The whistle-blowing charter was reviewed and updated during 2015/16.</p>



Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No specific fraud risks have been identified in respect of internal Council business. The dedicated fraud team has identified and investigated a considerable number of Benefit frauds and improper applications for Council Tax Single Person Discount.
Are internal controls, including segregation of duties, in place and operating effectively?	Yes. The Corporate Leadership Team undertakes an annual review of internal controls and this is reported in the Annual Governance Statement. The most recent report to the Audit Committee on 20 July 2015 contained the Head of Audit Partnership's opinion that the Council's system of internal control accords with proper practice, the corporate governance framework complies in all significant respects with best practice guidance and the risk management processes are effective.
If not, where are the risk areas and what mitigating actions have been taken?	No specific risk areas have been identified.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Whilst performance targets exist, these are not directly linked to remuneration and are not otherwise considered to present any incentive for senior officers to fraudulently manipulate the accounts through override of controls.
Are there any areas where there is a potential for misreporting?	None have been identified.
How does the Governing Body exercise oversight over management's processes for identifying and responding to risks of fraud?	The committee place reliance on the work of internal audit to highlight any concerns over management's processes. Internal audit operate independently of management and comply with all relevant professional standards, and the Audit, Governance and Standards committee are responsible for reviewing the competence of the internal audit function, approving the annual plan and ensuring that the team is adequately resourced to deliver this.  The committee also exercise oversight through regular examination of the accounts, budgets, strategic risk register and update reports.
What arrangements are in place to report fraud issues and risks to the Governing Body?	The Head of Internal Audit provides an annual report on the work of the Internal Audit team and comments on the adequacy and effectiveness of the Council's governance framework, risk management and control. The Committee also receives an annual Benefit Fraud report. The quarterly Internal Audit reports presented to the Audit, Governance and Standards Committee also highlight the assurance levels for individual audits. The Head of Internal Audit is also able to report matters to the Audit, Governance and Standards Committee

	<p>Chair should they arise between meetings.</p> <p>The committee also considers reports from external audit and has the opportunity to question the report authors during meetings.</p>
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	The Council's constitution includes an Officers Code of Conduct which provides guidelines on the standards expected of staff. The Code of Conduct is rigorously applied and any breaches may result in the application of formal disciplinary procedures.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	The Council has a Whistleblowing Charter which has been refreshed during the year. The charter identifies how staff are able to report any concerns about potential fraud. The management team are open and approachable to staff who may have concerns to report. No significant issues have been reported during 2015-16.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	All Members and Senior Officers are required to complete an annual declaration of interests that includes details of any finance-related transactions with the Council. The results of this process will be included in the 2015-16 Statement of Accounts.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2015?	The dedicated fraud team has identified and investigated a considerable number of Benefit Fraud and improper applications for Council Tax Single Person Discount. Robust arrangements are in place to prevent and detect this type of fraud.

#### Law and regulation

Auditor question	Response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Council uses the Monitoring Officer and the Policy and Communications Section to identify and communicate all new and changed legislation throughout the organisation. This is also a focus of internal audit reviews.
How does management gain assurance that all relevant laws and regulations have been complied with?	Compliance with legislation and action to comply where legislation will change is expected to form a part of the service plan of affected services. Any concerns regarding non-compliance are raised with the Council's Monitoring Officer or through the whistleblowing channel. The internal audit function provides additional assurance and during the course of the year has carried out a number of reviews that consider compliance with laws and regulations.
How is the Governing Body provided with assurance that all relevant laws and regulations have been complied with?	The committee is made aware of requirements through regular updates and briefings on emerging legislation. This equips members with the knowledge and awareness required to hold officers to account in relation to compliance. No concerns have been raised or brought to the committee's attention during 2015-16. The committee also considers reports from

	both Internal and External Audit throughout the course of the year which provide assurance over compliance with relevant laws and regulations.
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015?	None have been identified.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	Any litigation or claims brought against the council are assessed by the council's legal team. These are brought to the attention of the finance team for financial reporting purposes and accounted for in accordance with accounting standards. Ultimately any matters of significance would be reported to the Audit, Governance and Standards Committee.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Council has been notified of a number of potential claims arising from former employees exposed to asbestos during their period of employment with the Council. The Council's previous insurers MMI are reviewing these claims and settlement figures will be calculated if liability is established.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No.

# Agenda Item 14

## **Audit, Governance & Standards Committee**

**11<sup>th</sup> July 2016**

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

**Yes**

## **Treasury Management Annual Review 2015/16**

<b>Final Decision-Maker</b>	Audit, Governance & Standards Committee
<b>Lead Head of Service</b>	Paul Riley, Head of Finance & Resources
<b>Lead Officer and Report Author</b>	John Owen, Finance Manager
<b>Classification</b>	Public
<b>Wards affected</b>	All Wards

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

1. The Audit, Governance and Standards Committee note the review of the financial year 2015/16 in accordance with CIPFA's Code of Practice on Treasury Management.
2. The Audit, Governance and Standards Committee agrees that no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2015/16.

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

- Securing a successful economy for Maidstone Borough - ensuring the safeguarding of the Council's finances and the liquidity of funds when liabilities become due will enable the Council to provide a successful economy for Maidstone Borough.

### **Timetable**

<b>Meeting</b>	<b>Date</b>
None	

# Treasury Management Annual Review 2015/16

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Chartered Institute of Public Finance and Accountancy's Treasury Management Code requires that authorities report on the performance of the treasury management function at least twice a year (at mid-year and year-end).
  - 1.2 The Council has delegated the role of considering these reports to the Audit, Governance and Standards Committee.
- 

## 2. INTRODUCTION AND BACKGROUND

- 2.1 This report sets out the activities of the Treasury Management function for 2015/16 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 12 months.
- 2.2 The Authority's Treasury Management Strategy for 2015/16 was approved by full Council on 25<sup>th</sup> February 2015. The key elements of the Strategy are:
  - Invest up to £3m of core cash for over 1 year if rates were to improve, possibly in property funds;
  - Include overseas institutions within the Council's counterparty list who are on the Council's advisor's, Capita, credit quality list and whose 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.

### 2.3 Economic Overview of 2015/16

During financial year 2015/16 the following developments took place:

- UK economy slowed with GDP growth falling to 2.3% from 3.0% the year before.
- CPI inflation hovered around 0.0% through the year with deflationary spells in April, September and October.
- The labour market continued to improve through 2015 and in Q1 2016 was the highest rate since comparable records began in 1971. The unemployment rate was at a 12 year low of 5.1%.

- Wage growth has however remained modest at around 2.2% excluding bonuses, but after a long period of negative real wage growth (i.e. after inflation) real earnings were positive and growing at their fastest rate in eight years, boosting consumers' spending power.

## 2.4 Interest Rates and PWLB Rates

Date	Bank Rate	PWLB Rates							
		1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs	
30/04/2015	0.50	1.41	2.27	2.90	3.44	3.55	3.50	3.48	
31/05/2015	0.50	1.44	2.26	2.90	3.44	3.54	3.48	3.45	
30/06/2015	0.50	1.48	2.44	3.13	3.65	3.72	3.64	3.60	
31/07/2015	0.50	1.54	2.45	3.07	3.56	3.62	3.54	3.49	
31/08/2015	0.50	1.47	2.30	2.92	3.47	3.54	3.44	3.40	
30/09/2015	0.50	1.44	2.19	2.79	3.42	3.50	3.42	3.39	
31/10/2015	0.50	1.44	2.38	2.93	3.56	3.65	3.56	3.53	
30/11/2015	0.50	1.42	2.23	2.85	3.48	3.54	3.42	3.39	
31/12/2015	0.50	1.41	2.38	3.01	3.61	3.68	3.56	3.53	
31/01/2016	0.50	1.24	1.96	2.62	3.28	3.37	3.23	3.20	
29/02/2016	0.50	1.27	1.73	2.43	3.23	3.36	3.24	3.19	
31/03/2016	0.50	1.33	1.81	2.48	3.21	3.30	3.16	3.12	

Bank of England Bank Rate has not changed over the year due to lower growth than previously expected. The Council's new treasury advisors, Arlingclose, predict in their latest update that a Bank Rate increase will not happen until quarter 2 2018.

PWLB rates have fallen over the year. However, it is expected that these will increase slightly in the medium term.

## 2.5 Investment Activity

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council has adhered to these principles during 2015/16.

In November 2015, the Council tendered for its Treasury Advisors from 1<sup>st</sup> January 2016. Two companies gave presentations to the finance team: Capita Asset Services and Arlingclose. Both companies offered a very similar service. However, Arlingclose gave a very good presentation and were selected as the Council's new advisors, replacing Capita who had acted as the Council's advisors for over 15 years.

The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2015/16 the Authority's investment balances have ranged between £18m and £47m. The average investment balance for the year was £33.7m. The Council held investments totalling £18.68m as at 31st March 2016. A full list of these can be found within **Appendix I**.

Investment income for the year totalled £252k against a budget of £270k. This is due to interest rates not increasing in line with the original forecasts made by the Council's advisors.

All investments during 2015/16 have been short term due to rates not being sufficiently appealing to justify the risk of investing funds for longer periods. Property funds have been considered and discussed with Arlingclose during the year, but it appears that yields have peaked due to the property market slowing down. There is also a consideration that funds will need to be invested for a minimum of 3 – 5 years in order to earn a modest return and the property market can fluctuate over this time.

The Council has invested fixed term deposit funds with overseas institutions in accordance with the 2015/16 Strategy. These amounts are invested with highly secure institutions within AAA rated Sovereign countries. Details of these investments are as follows:

Commonwealth Bank of Australia - £1,000,000 15/09/2015 to 15/07/2016 @0.71%

United Overseas Bank Ltd - £2,000,000 28/01/2016 to 28/10/2016 @0.75%

## 2.6 Borrowing Activity

The Council has not needed to borrow within 2015/16, except for short term cashflow purposes. Details of these borrowings are as follows:

London Borough of Tower Hamlets - £1,500,000 4 days @ 0.65% cost of borrowing £106.85.

London Borough of Havering - £1,500,000 1 day @ 0.80% cost of borrowing £32.88.

## 2.7 Prudential and Treasury Indicators

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the indicators that must be set and monitored each year.

The Council has operated within its Prudential and Treasury Indicators set in the Treasury Management Strategy 2015/16 and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **Appendix II**.

## 2.8 Cash Management

The major element of the Council's Treasury Management function is the management on a daily basis of the cash requirements of the Council. The policy objectives are:

- The minimisation of the daily credit bank balance, subject to the clearance of monies overnight;
  - Interest earned on investments should be maximised subject to the **security** of funds being paramount;
  - Interest paid on borrowing should be minimised;
  - Adequate funds should be available to meet precept, business rates and other payments as they fall due;
  - Cash management activities are carried out in accordance with the agreed Treasury Management Strategy.
- 

### **3. AVAILABLE OPTIONS**

- 3.1 The Audit, Governance and Standards Committee agrees that no amendments to the current procedures are necessary as a result of the review of activities in 2015/16.
- 3.2 The Audit, Governance and Standards Committee proposes changes to the current procedures as a result of the review of activities in 2015/16.
- 

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

- 4.1 The Audit, Governance and Standards Committee agrees that no amendments to the current procedures are necessary as a result of the review of activities in 2015/16 as there is no justification to make any changes.
- 

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

- 5.1 None.
- 

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

- 6.1 If Audit, Governance and Standards Committee agrees that no change in current procedures with Treasury management will be made, then there will be no further action.
- 

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



<b>Issue</b>	<b>Implications</b>	<b>Sign-off</b>
<b>Impact on Corporate Priorities</b>	None	
<b>Risk Management</b>	<p>Risk management is included within the Treasury Management Practices to which the Council adheres. These risks comprise of:</p> <ul style="list-style-type: none"> <li>• credit and counterparty risk,</li> <li>• liquidity risk,</li> <li>• interest rate risk and</li> <li>• exchange rate risk, refinancing risk (however, the Council only deals in its home currency sterling).</li> <li>• Legal &amp; regulatory risk</li> <li>• Fraud, error and corruption</li> <li>• Market risk management</li> </ul>	Paul Riley, Head of Finance & Resources
<b>Financial</b>	This report relates to the financial activities of the council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Mark Green Director of Finance and Business Improvement
<b>Staffing</b>	None	
<b>Legal</b>	This report is in compliance with statutory and legal regulations, e.g. CIPFA Code of Practice on Treasury Management in Local Authorities.	Legal Section
<b>Equality Impact Needs Assessment</b>	None	
<b>Environmental/Sustainable Development</b>	None	
<b>Community Safety</b>	None	
<b>Human Rights Act</b>	None	
<b>Procurement</b>	None	
<b>Asset Management</b>	None	

## **8. REPORT APPENDICES**

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

- Appendix I: List of Investments as at 31<sup>st</sup> March 2016
  - Appendix II: Prudential and Treasury Indicators
- 

## **9. BACKGROUND PAPERS**

## Maidstone Borough Council Investments as at 31st March 2016

Counterparty	Type of Investment	Principal	Start Date	Maturity Date	Rate of Return	Arlingclose Credit Limits	
						Suggested Term	Maximum Deposit
SVENSKA HANDELSBANKEN	CALL ACCOUNT	£ 42,024			0.200%	13 months	£3,000,000
STANDARD LIFE LIQUIDITY FUNDS	MONEY MARKET FUND	£ 2,640,000			0.487%	2 Years	£8,000,000
NATIONWIDE BUILDING SOCIETY	DEPOSIT - FIXED	£ 2,000,000	01/10/2015	01/04/2016	0.660%	6 months	£3,000,000
COMMONWEALTH BANK OF AUSTRAL	DEPOSIT - FIXED	£ 1,000,000	15/09/2015	15/07/2016	0.710%	6 months	£3,000,000
LLOYDS BANK PLC	DEPOSIT - FIXED	£ 2,000,000	03/08/2015	01/08/2016	1.000%	13 months	£3,000,000
NATIONWIDE BUILDING SOCIETY	DEPOSIT - FIXED	£ 1,000,000	10/02/2016	10/08/2016	0.710%	6 months	£3,000,000
LLOYDS BANK PLC	DEPOSIT - FIXED	£ 2,000,000	14/10/2015	12/10/2016	1.050%	13 months	£3,000,000
UNITED OVERSEAS BANK LTD	DEPOSIT - FIXED	£ 2,000,000	28/01/2016	28/10/2016	0.750%	13 months	£3,000,000
LLOYDS BANK PLC	DEPOSIT - FIXED	£ 3,000,000	22/07/2014	22/07/2016	1.300%	13 months	£3,000,000
ROYAL BANK OF SCOTLAND PLC	DEPOSIT - FIXED	£ 2,000,000	11/03/2016	11/03/2017	1.440%	35 days	£2,000,000
STANDARD CHARTERED BANK	CERTIFICATE OF DEPOSIT	£ 1,000,000	23/10/2015	21/10/2016	0.970%	6 months	£3,000,000

£ 18,682,024

These investments were initiated when the Council's investment consultants were Capita Asset Services and the limits were agreed within the Council's agreed investment strategy

## **PRUDENTIAL INDICATORS**

### **Ratio of Financing Costs to Net Revenue Stream**

2015/16 Estimate %	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %
-1.1	-1.3	0.6	3.2
2015/16 Estimate £,000	2015/16 Actual £,000	2016/17 Estimate £,000	2017/18 Estimate £,000
-200.00	-252.00	124.35	606.68

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

### **Incremental Impact of Capital Investment Decisions on the Council Tax**

	2015/16 Estimate £,000	2015/16 Actual £,000	2016/17 Estimate £,000	2017/18 Estimate £,000
i) Forecast of total budgetary requirement no changes to capital programme	10,192	10,192	11,224	5,528
ii) Forecast of total budgetary requirement after changes to capital programme	4,026	4,536	20,830	19,700
iii) Additional Council Tax Required in £.p.	-4.31	-3.72	3.39	10.40

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

### **Capital Expenditure**

2015/16 Estimate £,000	2015/16 Actual £,000	2016/17 Estimate £,000	2017/18 Estimate £,000
4,026	4,536	20,830	19,700

This is the actual capital expenditure

### **Capital Financing Requirement**

2015/16 Estimate £,000	2015/16 Actual £,000	2016/17 Estimate £,000	2017/18 Estimate £,000
-2,033	-1,255	10,020	23,272

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose

## **Treasury Indicators**

### **Actual External Debt**

		2015/16 Actual £,000	2016/17 Estimate £,000	2017/18 Estimate £,000
Actual Borrowing		0	11,950	27,475
Other Long Term Liabilities		4,971	4,514	4,033
<b>Total</b>		<b>5,426</b>	<b>16,464</b>	<b>31,508</b>

Actual point in time of external borrowing

### **Authorised Limit for External Debt**

	2015/16 Estimate £,000	2015/16 Actual £,000	2016/17 Estimate £,000	2017/18 Estimate £,000
Borrowing	10,000	1,500	15,950	31,475
Other Long Term Liabilities	4,971	4,971	4,514	4,033
<b>Total</b>	<b>14,971</b>	<b>6,471</b>	<b>20,464</b>	<b>35,508</b>

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

### **Operational Limit for External Debt**

	2015/16 Estimate £,000	2015/16 Actual £,000	2016/17 Estimate £,000	2017/18 Estimate £,000
Borrowing	6,000	1,500	11,950	27,475
Other Long Term Liabilities	4,971	4,971	4,514	4,033
<b>Total</b>	<b>10,971</b>	<b>6,471</b>	<b>16,464</b>	<b>31,508</b>

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

### **Upper Limit for Fixed Interest Rate Exposure**

	2015/16 Estimate £,000	2015/16 Actual £,000	2016/17 Estimate £,000	2017/18 Estimate £,000
	-45,000	-29,000	-33,050	-17,525

This is the maximum amount of net borrowing and investment that can be at a fixed rate.

### **Upper Limit for Variable Interest Rate Exposure**

	2015/16 Estimate £,000	2015/16 Actual £,000	2016/17 Estimate £,000	2017/18 Estimate £,000
	-40,000	-20,150	-40,000	-40,000

This is the maximum amount of net borrowing and investment that can be at a variable rate.

### **Principal Invested for more than 364 Days**

	2015/16 Estimate £,000	2015/16 Actual £,000	2016/17 Estimate £,000	2017/18 Estimate £,000
	8,000	0	8,000	8,000

This indicator shows the Council have not breached the limit agreed by Council within its Treasury Management Strategy 2015/16

# Agenda Item 15

## Audit, Governance & Standards

11 July 2016

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

Yes

## External Audit Update July 2016

<b>Final Decision-Maker</b>	Audit, Governance & Standards Committee
<b>Lead Director or Head of Service</b>	Mark Green, Director of Finance & Business Improvement
<b>Lead Officer and Report Author</b>	Ellie Dunnet, Chief Accountant
<b>Classification</b>	Non-exempt
<b>Wards affected</b>	None

### This report makes the following recommendations to the final decision-maker:

1. That the committee notes the external auditor's update report attached at **Appendix I**.

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

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

The report is focused on ensuring that the auditor's opinion on the 2015-16 financial statements and value for money conclusion are issued by the statutory deadline of 30 September 2016.

### Timetable

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	11 July 2016

# External Audit Update July 2016

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The committee are invited to consider the report of the external auditor which provides an update on progress with the 2015-16 audit and offers a summary of emerging national issues and developments of relevance to the local government sector.
- 1.2 Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.
- 

## 2. INTRODUCTION AND BACKGROUND

- 2.1 External audit services are provided by Grant Thornton who successfully tendered for the five year contract from 2012-13 following the abolition of the Audit Commission's audit practice.
- 2.2 This report provides an update on progress with the 2015-16 audit and informs committee members of a number of relevant emerging issues and developments.
- 

## 3. AVAILABLE OPTIONS

- 3.1 The committee could choose not to consider this report, however this option is not recommended as to do so could have an adverse impact on the Audit, Governance and Standards Committee's ability to discharge its responsibilities in relation to external audit and governance.
- 

## 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Given the respective responsibilities of both the external auditor and this committee, an update report of this nature is judged to be appropriate for consideration by committee members.
- 

## 5. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	The report is focused on ensuring that the auditor's opinion on the 2015-16 financial statements and value for money conclusion are issued by the statutory deadline of 30 September 2016.	Section 151 Officer & Finance Team
<b>Risk Management</b>	This report supports the committee in the	Section 151

	delivery of its governance responsibilities. It also helps to mitigate the risk of non-compliance with the statutory timetable for the production and audit of the annual accounts through timely communication of any potential issues.	Officer & Finance Team
<b>Financial</b>	There are no direct financial implications to this report but it provides Members with useful background on the audit process and broader issues.	Section 151 Officer
<b>Staffing</b>	Not applicable	
<b>Legal</b>	Not applicable	
<b>Equality Impact Needs Assessment</b>	Not applicable	
<b>Environmental/Sustainable Development</b>	Not applicable	
<b>Community Safety</b>	Not applicable	
<b>Human Rights Act</b>	Not applicable	
<b>Procurement</b>	Not applicable	
<b>Asset Management</b>	Not applicable	

**6. REPORT APPENDICES**

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

- **Appendix I:** External Audit Update July 2016

**7. BACKGROUND PAPERS**

None



Audit, Governance and Standards  
Committee Progress and Update  
Report for Maidstone Borough Council  
*Year ended 31 March 2016*

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11 July 2016

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Executive

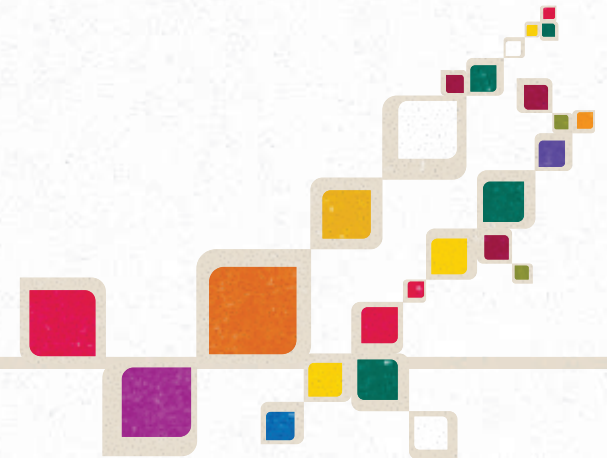
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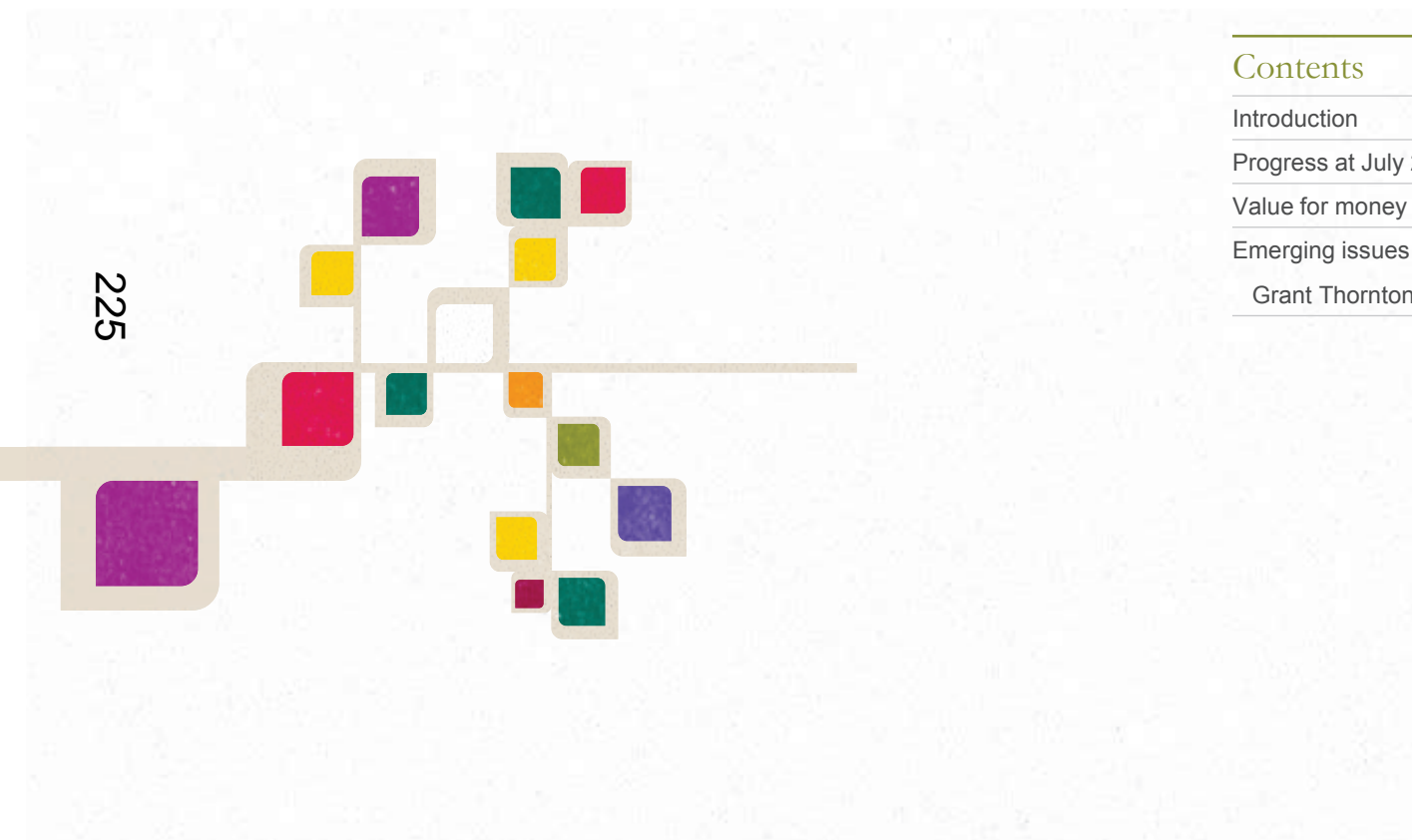


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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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



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Value for money	7
Emerging issues and developments:	
Grant Thornton and CIPFA Publications	9

# Introduction

This paper provides the Audit, Governance and Standards Committee with a report on progress in delivering our responsibilities as your external auditors.

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

- Better Together: Building a successful joint venture company;  
<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>
- Knowing the Ropes – Audit Committee; Effectiveness Review ;  
[www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/](http://www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/)
- Making devolution work: A practical guide for local leaders (October 2015)  
[www.grantthornton.co.uk/en/insights/making-devolution-work/](http://www.grantthornton.co.uk/en/insights/making-devolution-work/)

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



Darren Wells

Engagement Lead

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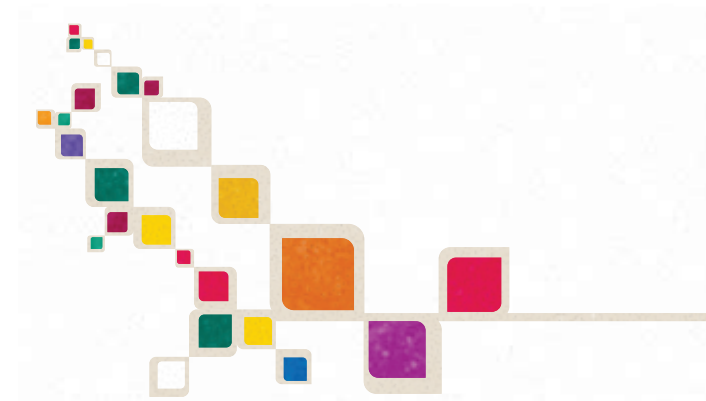
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# Progress at 11 July 2016

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**Progress against plan**  
On track



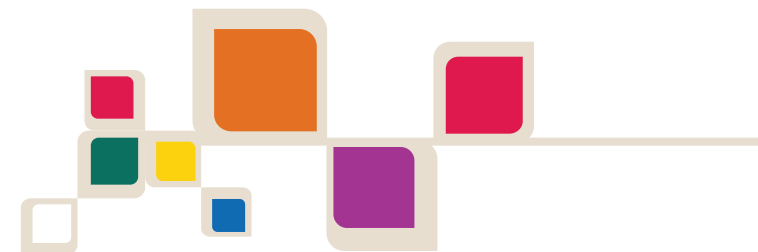
**Opinion and VfM conclusion**  
Plan to give before deadline of 30 September 2016



**Outputs delivered**  
Fee letter, Progress Reports, delivered to plan

2015/16 work	Completed	Comments
<p><b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2015-16 financial statements.</p> <p>We also inform you of any subsequent changes to our audit approach.</p>	March 2016	This was presented to and approved by the Audit, Governance and Standards Committee in March 2016. We confirm there have been no changes to the Plan with the exception of an update on our Value for Money work, which can be seen within this Report.
<p><b>Fee Letter</b> We are required to issue a 'Planned fee letter for 2015/16' by the end of April 2015.</p>	April 2015/April 2016	<p>The 2015-16 fee letter was issued during April 2015 and confirmed a fee of £50,475 for the 2015-16 Accounts Audit.</p> <p>We have also recently issued the fee letter for 2016/17, which confirms no change from the planned fee for the 2015-16 Audit. This fee letter is on the agenda for this meeting of the Audit, Governance and Standards Committee.</p>

# Progress at 11 July 2016



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2015/16 work	Completed	Comments
<p><b>Final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• Audit of the 2015-16 financial statements</li> <li>• proposed opinion on the Council's accounts</li> </ul>	<p>Planned for July – currently in progress</p>	<p>We are planning to complete our audit by the end of July as part of the transition to the earlier closedown and audit cycle that is required from 2018.</p> <p>To help the Council prepare appropriate evidence to support the financial statements, we have provided a schedule of the working papers that we require and discussed the implications of emerging accounting matters with finance staff.</p> <p>We have arranged to receive the draft financial statements by the end of June, and will report the findings from our work within our Audit Findings Report which will be presented to the Audit, Governance and Standards Committee in September 2016.</p>
<p><b>Value for Money (VfM) conclusion</b> The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "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".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	<p>Field work in March – July, formal conclusion reported by 30 September 2016</p>	<p>We have set out the result of our risk assessment and the proposed focus of our work on pages 7 and 8 of this Report</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.</p> <p>We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.</p>
<p><b>Other activities</b> We provide a range of workshops, along with network events for members and publications to support the Council.</p>	<p>February 2016</p> <p>On-going</p>	<p>We have provided a local workshop covering changes to accounting standards and the Code of Practice, and emerging issues and future developments, to support officers involved in the preparation of the Financial Statements.</p> <p>Further details of the publications that may be of interest to the Council are set out from page 12.</p>

# Value for Money

## Background

The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to issue a conclusion on whether 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.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015.

The Act and the NAO guidance state that auditors are only required to report by exception where they are not satisfied that NHS bodies have proper arrangements in place to secure value for money. However, we are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council.

The guidance identifies a criterion for auditors to evaluate, which is:

*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.*

This is supported by three sub-criteria as set out in the table to the right.

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of good governance</li> <li>Understanding and using appropriate cost and performance information to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control.</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>



# Value for money

## Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements;
- illustrative significant risks identified and communicated by the NAO in its Supporting Information;
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

*A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*

We have set out below the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks

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Significant risk	Link to sub-criteria	Work proposed to address
<p><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 next five years as part of its Medium Term Financial Plan to reduce the level of reserves needed to achieve financial balance.</p>	<p><b>Sustainable resource deployment</b>                      This links to your arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>	<p>We propose to:</p> <ul style="list-style-type: none"> <li>• review relevant Council and other committee papers;</li> <li>• review the 2015-16 financial outturn against plan, and investigate any significant areas of over/underperformance and the reasons behind these.</li> <li>• review the progress against the 2016-17 financial plan up to the completion of our audit; and</li> <li>• obtain 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>



# Grant Thornton and CIPFA Publications

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# Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

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'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

Grant Thornton reports



# Fighting Fraud and Corruption Locally

CIPFA publication

**Fighting Fraud and Corruption Locally** is a strategy for English local authorities that is the result of collaboration by local authorities and key stakeholders from across the counter fraud landscape .

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This strategy is the result of an intensive period of research, surveys, face-to-face meetings and workshops. Local authorities have spoken openly about risks, barriers and what they feel is required to help them improve and continue the fight against fraud and to tackle corruption locally.

Local authorities face a significant fraud challenge. Fraud costs local authorities an estimated £2.1bn a year. In addition to the scale of losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities will need to work with new agencies in a new national counter fraud landscape.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment
- illustrates the financial benefits that can accrue from fighting fraud more effectively
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement
- updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

The strategy can be downloaded from

<http://www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally>





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GRT102468

## Audit, Governance & Standards

**11 July 2016**

Is the final decision on the recommendations in this report to be made at this meeting?	<b>Yes</b>
---	------------

## External Audit Fee Letter 2016-17

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

**This report makes the following recommendations to the final decision-maker:**

1. That the committee notes the proposed audit fee of £61,893 for 2016-17 audit work to be undertaken by Grant Thornton.

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

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

The council has a statutory obligation to have its accounts externally audited, and this process underpins the council's ability to demonstrate accountability to taxpayers.

**Timetable**

<i>Meeting</i>	<i>Date</i>
Audit, Governance & Standards Committee	11 July 2016

# External Audit Fee Letter 2016-17

## 1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report communicates the proposed external audit fee for 2016-17, as set by Public Sector Audit Appointments Ltd under transitional arrangements arising from the introduction of the Local Audit and Accountability Act 2014.
- 

## 2. INTRODUCTION AND BACKGROUND

- 2.1 The council's external auditors for 2016-17 are Grant Thornton as in previous years. Following the closure of the Audit Commission, responsibility for overseeing the current audit contract and setting fees from 2016-17 onwards has been passed to Public Sector Audit Appointments Ltd.
- 2.2 The letter from Grant Thornton attached at **Appendix I** sets out the details of the 2016-17 fee including the scope and timing of planned audit work for the forthcoming year.

## 3. AVAILABLE OPTIONS

- 3.1 The committee are asked to note this report. There are no alternative options as the council has a statutory obligation to have its accounts externally audited.
- 

## 4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 As stated elsewhere in this report, the committee are asked to note the proposed audit fee for 2016-17.
  - 4.2 The main audit fee for the financial statements audit and value for money conclusion for 2016-17 is £50,475, and the indicative fee for grant claim certification work has been set at £11,418 for the certification of the housing benefits subsidy claim.
  - 4.3 Scale fees for 2016/17 have been set at the same level as the fees applicable for 2015/16, which were set by the Audit Commission before it closed. Audit fees were reduced in 2015/16 by 25 per cent based on the fees applicable for the previous year, in addition to the 40 per cent reduction in fees from 2012/13. It is currently anticipated that fees will remain at the same level for the remainder of the audit contract, providing there are no significant changes to auditors' work, and subject to annual review.
-

## 5. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	The council has a statutory obligation to have its accounts externally audited, and this process underpins the council's ability to demonstrate accountability to taxpayers.	Section 151 Officer
<b>Risk Management</b>	There is risk that the council could incur additional fees if the external auditor identifies significant issues which give rise to additional audit work needing to be undertaken. Officers will work closely with Grant Thornton throughout the year in order to minimise this risk.	Section 151 Officer & Finance Team
<b>Financial</b>	The proposed 2016-17 audit and grant claim certification fees of £50,475 and £11,418 respectively represent no change from the 2015-16 fees.	Section 151 Officer & Finance Team
<b>Staffing</b>	Not applicable	
<b>Legal</b>	Not applicable	
<b>Equality Impact Needs Assessment</b>	Not applicable	
<b>Environmental/Sustainable Development</b>	Not applicable	
<b>Community Safety</b>	Not applicable	
<b>Human Rights Act</b>	Not applicable	
<b>Procurement</b>	Not applicable	
<b>Asset Management</b>	Not applicable	

## 6. REPORT APPENDICES

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

- **Appendix I:** External Audit Fee Letter 2016-17

## 7. BACKGROUND PAPERS

None

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[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

27 April 2016

Dear Alison

### **Planned audit fee for 2016/17**

The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

### **Scale fee**

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no planned changes to the overall work programme for local government audited bodies for 2016/17, bar the adoption of new measurement requirements for the Highways Network Asset.

CIPFA/LASAAC is expected to confirm, subject to consultation, that the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom will adopt the measurement requirements of the CIPFA Code of Practice on Highways Network Asset.

As Maidstone Borough Council is not a highway authority, this change for accounting for highways assets is not applicable.

PSAA have proposed that 2016/17 scale audit fees (excluding work completed on the Highways Network Asset) are set at the same level as the scale fees applicable for 2015/16. The Council's scale fee for 2016/17 has been set by PSAA at £50,475.



The audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out on the [PSAA website](#). Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return (if applicable).

As outlined above, the fee for any additional work in respect of the Highways Network Asset is not included in this fee.

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### **Value for Money conclusion**

The Code requires us to consider whether 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.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

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

### **Certification of grant claims and returns**

The Council's indicative grant certification fee has been set by PSAA at £10,433. This fee covers the cost of certifying the housing benefit subsidy claim only and is based on final 2014/15 certification fees.

The indicative fee for certification work is based on the expectation that you provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

Assurance engagements for other schemes will be subject to separate arrangements and fees agreed between the grant-paying body, the Council and ourselves

## Billing schedule

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2016	12,618
December 2016	12,619
March 2017	12,619
June 2017	12,619
<b>Total</b>	<b>50,475</b>

<b>Grant Certification</b>	
March 2017	10,433

## Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2016 to March 2017. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July 2017, along with our work on the Whole of Government Accounts return.

<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
Audit planning and interim audit	November 2016 to March 2017	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	July 2017	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	November 2016 to July 2017	Audit Findings (Report to those charged with governance)	As above
Whole of Government Accounts	July 2017	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2017	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

Grant certification	September to December 2017	Grant certification report	A report summarising the findings of our grant certification work
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**Our team**

The key members of the audit team for 2016/17 are:

	Name	Phone Number	E-mail
Engagement Lead	Darren Wells	01293 554 120	darren.j.wells@uk.gt.com
Engagement Manager	Matt Dean	020 7728 3181	matthew.dean@uk.gt.com
In Charge Auditor	Pratheesh Kulendran	07792 549 288	pratheesh.kulendran@uk.gt.com

**Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner, via [paul.dossett@uk.gt.com](mailto:paul.dossett@uk.gt.com).

Yours sincerely



Darren Wells

Engagement Lead

For Grant Thornton UK LLP

**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>AGS Committee Annual Report 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>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>	Paul Riley, Head of Finance and Resources
16 January 2017	<b>Grant Claim Certification</b>	Stephen McGinnes, 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>	Paul Riley, Head of Finance and Resources
TBA	<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>	Paul Riley, Head of Finance and Resources
TBA	<b>Independent Commission into Local Government Finance – Key Findings and Implications/Opportunities for the Council.</b>	Paul Riley, Head of Finance and Resources