

# AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 14 September 2020

Time: 6.30 p.m.

Venue: Remote Meeting - The public proceedings of the meeting will be broadcast live and recorded for playback on the Maidstone Borough Council website

Membership:

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

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

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## **AGENDA**

Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Urgent Items
4. Notification of Visiting Members
5. Disclosures by Members and Officers
6. Disclosures of Lobbying
7. To consider whether any items should be taken in private because of the possible disclosure of exempt information
8. Minutes of the meeting held on 29 July 2020 - to follow
9. Questions and answer session for members of the public (if any)
10. Questions from Members to the Chairman (if any)
11. Committee Work Programme 1 - 2
12. Complaints Received Under the Members' Code of Conduct 3 - 7
13. Audit, Governance & Standards Committee Annual Report 2019/20 8 - 19

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**Issued on Friday 4 September 2020**

**Continued Over/:**

*Alison Broom*

**Alison Broom, Chief Executive**

14. 2020/21 Updated Internal Audit & Assurance Plan	20 - 27
15. Accounts 2019/20	28 - 113
16. Budget Strategy - Risk Assessment Update	114 - 130

## **INFORMATION FOR THE PUBLIC**

In order to ask a question at this remote meeting, please call **01622 602899** or email [committee@maidstone.gov.uk](mailto:committee@maidstone.gov.uk) by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Thursday 10 September 2020). You will need to provide the full text in writing.

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

In order to submit a written statement in relation to an item on the agenda, please call **01622 602899** or email [committee@maidstone.gov.uk](mailto:committee@maidstone.gov.uk) by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Thursday 10 September 2020). You will need to tell us which agenda item you wish to comment on.

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

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

## 2020/21 WORK PROGRAMME

	Committee	Month	Origin	CLT to clear	Lead	Report Author
Annual Complaints Report 2019/20	AGS	16-Nov-20	Governance	No	Angela Woodhouse	Anna Collier
Audit Progress Report and Sector Update	AGS	16-Nov-20	Governance	No	Mark Green	Ellie Dunnet
Budget Strategy Risk Assessment Update	AGS	16-Nov-20	Officer Update	No	Mark Green	Mark Green
External Audit Fee Letter	AGS	16-Nov-20	Governance	No	Mark Green	Ellie Dunnet
External Auditor's Annual Audit Letter	AGS	16-Nov-20	Governance	No	Mark Green	Ellie Dunnet
Information Management and GDPR Action Plan Update	AGS	16-Nov-20	Officer Update	No	Angela Woodhouse	Angela Woodhouse
Internal Audit Interim Report 2020/21	AGS	16-Nov-20	Officer Update	No	Rich Clarke	Rich Clarke
Treasury Management Mid-Year Review 2020/21	AGS	16-Nov-20	Governance	No	Mark Green	John Owen
Annual Governance Statement Update	AGS	18-Jan-21	Officer Update	No	Angela Woodhouse	Angela Woodhouse
Annual Risk Management Report	AGS	18-Jan-21	Governance	Yes	Rich Clarke	Alison Blake
Budget Strategy Risk Assessment Update	AGS	18-Jan-21	Officer Update	No	Mark Green	Mark Green
Housing Benefit Grant Claim	AGS	18-Jan-21	Governance	No	Sheila Coburn	Liz Norris
Treasury Management, Investment and Capital Strategy	AGS	18-Jan-21	Strategy Update	No	Mark Green	John Owen
Budget Strategy Risk Assessment Update	AGS	15-Mar-21	Officer Update	No	Mark Green	Mark Green
Code of Conduct Matters - Six Month Update	AGS	15-Mar-21	Officer Update	No	Patricia Narebor	Jayne Bolas
External Audit Plan 2020/21	AGS	15-Mar-21	Governance	No	Mark Green	Ellie Dunnet
External Auditor's Progress Report and Sector Update March 2021	AGS	15-Mar-21	Governance	No	Mark Green	Ellie Dunnet
Fraud and Compliance Team Update	AGS	15-Mar-21	Officer Update	No	Sheila Coburn	Sheila Coburn
Information Management and GDPR Action Plan Update	AGS	15-Mar-21	Officer Update	No	Angela Woodhouse	Angela Woodhouse

## 2020/21 WORK PROGRAMME

	Committee	Month	Origin	CLT to clear	Lead	Report Author
Internal Audit and Assurance Plan 2021/22	AGS	15-Mar-21	Governance	No	Rich Clarke	Rich Clarke
Update on Draft Model Code of Conduct	AGS	TBC	Officer Update	No	Patricia Narebor	Jayne Bolas
Review of Maidstone Borough Council Code of Conduct and Arrangements for Dealing with Complaints of Alleged Breaches of the Code	AGS	TBC	Governance	No	Patricia Narebor	Jayne Bolas

<b>Audit, Governance &amp; Standards Committee</b>	<b>14 September 2020</b>
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## Complaints Received Under the Members' Code of Conduct

<b>Final Decision-Maker</b>	Audit, Governance & Standards Committee
<b>Lead Head of Service</b>	Patricia Narebor – Head of Legal Partnership and Monitoring Officer
<b>Lead Officer and Report Author</b>	Jayne Bolas – Principal Solicitor, Contentious and Corporate Governance
<b>Classification</b>	Public
<b>Wards affected</b>	All

### Executive Summary

The report provides an update to the Committee on complaints under the Members' Code of Conduct previously reported as under consideration and received in the period 1 March 2020 to 1 September 2020.

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

1. That the contents of the report be noted.

### Timetable

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	14 September 2020

# Complaints Received Under the Members' Code of Conduct

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	High standards of conduct are essential amongst Members in delivering the Council's priorities. The Code of Conduct complaints procedure supports this.	Principal Solicitor, Contentious and Corporate Governance
<b>Cross Cutting Objectives</b>	No impact.	Principal Solicitor, Contentious and Corporate Governance
<b>Risk Management</b>	The report is presented for information only and has no risk management implications. An effective and robust Code of Conduct complaints procedure minimises the risk of Member misconduct and is part of an effective system of governance..	Principal Solicitor, Contentious and Corporate Governance
<b>Financial</b>	There are no direct financial implications; however, should it be necessary to appoint external Independent Investigators, the cost of this will be met by the Borough Council.	Principal Solicitor, Contentious and Corporate Governance
<b>Staffing</b>	The complaints procedure is dealt within the remit of the Monitoring Officer with input from the Legal team as required.	Principal Solicitor, Contentious and Corporate Governance
<b>Legal</b>	The requirements of the Localism Act 2011 with regards to the Code of Conduct complaints procedure are set out within the report. The reporting process ensures that the Committee continues its oversight of the Code of Conduct as required by the Constitution.	Principal Solicitor, Contentious and Corporate Governance
<b>Privacy and Data Protection</b>	No personal information is provided as part of the report.	Principal Solicitor, Contentious and Corporate Governance

<b>Equalities</b>	Any potential to disadvantage or discrimination against different groups within the community should be overcome within the adopted complaints procedure.	Principal Solicitor, Contentious and Corporate Governance
<b>Public Health</b>	None identified in the report.	Principal Solicitor, Contentious and Corporate Governance
<b>Crime and Disorder</b>	None identified in the report.	Principal Solicitor, Contentious and Corporate Governance
<b>Procurement</b>	None identified in the report.	Principal Solicitor, Contentious and Corporate Governance

## 2. INTRODUCTION AND BACKGROUND

- 2.1 It is a requirement under the Localism Act 2011 that all Councils adopt a Code of Conduct and that the Code adopted must be based upon the Nolan Principles of Conduct in Public Life. The current Members' Code of Conduct ("the Code") for Maidstone Borough Council is set out in the Constitution.
- 2.2 The Localism Act 2011 requirement to adopt a Code of Conduct also applied to all Parish Councils. Most Parish Councils in the Maidstone area have adopted a similar Code of Conduct to the Borough Council, based on a Kent wide model. A few Parish Councils have adopted their own particular Code.
- 2.3 The Local Government Association (the LGA) prepared a model Code of Conduct following recommendations made by the Committee on Standards in Public Life which is an independent, advisory, non-governmental public body funded by the Cabinet Office. The consultation on the draft member code of conduct ran for a 10 weeks period from Monday 8 June until Monday 17 August. The monitoring officer made representations for the consultation period to be extended but a response was not received from the LGA. The LGA is currently reviewing the consultation responses and will finalise the model Code. Most Code of Conducts adopted by district and parish councils within Kent are modelled on the Kent County Council Code of Conduct. Further work will need to be undertaken to review the Council's Code of Conduct following completion of the model Code of Conduct and action taken by KCC.

- 2.4 Under the Localism Act 2011 Maidstone Borough Council is responsible for dealing with any complaints made under the various Codes of Conduct throughout the Maidstone area.
- 2.5 The Constitution stipulates that oversight of Code of Conduct complaints is part of the remit of the Audit, Governance and Standards Committee.
- 2.6 As part of the Committee's oversight function it is agreed that the Monitoring Officer will provide reports on complaints to the Audit, Governance & Standards Committee. It should be noted that the Localism Act 2011 repealed the requirement to publish decision notices; therefore in providing the update to the Committee the names of the complainant and the Councillor complained about are both kept confidential in accordance with the Data Protection Act 2018.
- 2.7 Since the last report to this Committee on 16 March 2020 3 existing Parish Council complaints have been concluded as follows:
- Allegation related to a disclosable pecuniary interest.  
Informal resolution completed with written apology and training and policy suggestions to the Parish Council.
  - Allegation of bullying and bringing office in to disrepute.  
Informal resolution completed with written apology and training and policy suggestions to the Parish Council.
  - Allegation of bullying and bringing office into disrepute.  
Local assessment criteria applied so no further action taken. Complaint rejected.

There have been 3 new Parish Council complaints as follows:

- Allegation of bullying, conduct bringing disrepute and preventing access to information.  
Informal resolution completed by offering further training to the Parish Clerk and Chairman.
  - Allegation of intimidation, compromising integrity, conduct bringing disrepute and preventing access to information.  
The complaint is currently under consideration.
  - Allegation of breach of confidentiality, improper use of information and conduct bringing disrepute.  
The complaint is currently under consideration.
- 2.8 There has been 1 complaint made against a Borough Councillor being an allegation of conflict of interest and conduct bringing office into disrepute. No breach of the Code was established.



### **3. AVAILABLE OPTIONS**

- 3.1 The Committee could decide that they no longer wish to receive the updates on complaints under the Code of Conduct. This is not recommended as it is part of the Committee's general oversight function.
- 3.2 That the Committee note the update on complaints received under the Members' Code of Conduct.

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

- 4.1 Option 3.2 that the Committee note the update on complaints received under the Members' Code of Conduct is recommended as it is important that the Committee continue to oversee the complaints received.

### **5. RISK**

- 5.1 This report is presented for information only and has no risk management implications.

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

- 6.1 Members of the Audit, Governance & Standards Committee and the Independent Person will be consulted on individual complaints, as and when necessary, in accordance with the relevant complaints procedure.

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

- 7.1 As the report is for information only no further action will be taken.

### **8. REPORT APPENDICES**

None.

# Agenda Item 13

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

**14 September 2020**

### **Audit, Governance & Standards Committee Annual Report 2019/20**

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

#### **Executive Summary**

Based on the activity during the year, the Audit, Governance and Standards Committee can demonstrate it has appropriately and effectively fulfilled its duties during 2019/20. The report details how the Audit, Governance & Standards Committee has effectively discharged those duties and set out the achievements of the Committee during the year.

#### **Purpose of Report**

The purpose of this report is to outline where the Committee has gained assurance during the year, particularly over areas of governance, risk management, Standards, and internal control. The production and presentation of an annual report is required by the Committee's Terms of Reference.

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

1. That the Audit, Governance & Standards Committee Annual Report for 2019/20 (Appendix A) is agreed.
2. That the report is taken to a meeting of the Full Council to demonstrate how the Committee has discharged its duties.

#### **Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	14 September 2020

## Audit, Governance & Standards Committee Annual Report 2019/20

### 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

The Audit, Governance & Standards Committee must obtain assurance on the control environment of the Council. The internal control environment comprises the whole network of systems and controls established to manage the Council and meet its objectives. It includes financial and other controls, and arrangements for ensuring the Council achieves value for money from its activities.

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities &amp; cross-cutting objectives</b>	The report supports the good governance, internal control and risk management of Maidstone Borough Council and so contributes broadly to achievement of its corporate priorities.	Deputy Head of Audit Partnership
<b>Risk Management</b>	The report introduces no risks that require separate description in the Council's risk registers, nor materially impacts any currently described.	Deputy Head of Audit Partnership
<b>Financial</b>	There are no additional costs or savings associated with this proposal.	Deputy Head of Audit Partnership
<b>Staffing</b>	There are no staffing implications associated with this proposal.	Deputy Head of Audit Partnership
<b>Legal</b>	There are no legal implications identified in the report. The report demonstrates that measures are in place to ensure good governance arrangements which enable the Council to meet statutory requirements.	Team Leader, (Corporate Governance), MKLS
<b>Privacy and Data Protection</b>	There are no direct privacy or data protection implications associated with this report.	Team Leader, (Corporate Governance), MKLS
<b>Equalities</b>	There are no direct equalities implications associated with the decision.	Equalities and Corporate Policy Officer
<b>Public Health</b>	There are no direct public health implications associated with the decision.	Deputy Head of Audit Partnership
<b>Crime and Disorder</b>	There are no direct crime and disorder implications associated with the decision.	Deputy Head of Audit Partnership
<b>Procurement</b>	There are no direct procurement implications associated with the decision.	Deputy Head of Audit Partnership

## **2. INTRODUCTION AND BACKGROUND**

- 2.1 The Audit, Governance & Standards Committee is required to monitor audit activity (internal and external), review and comment on the effectiveness of the Council's regulatory framework and review and approve the Council's annual statements of accounts and scrutinise associated strategy and policy. This report sets out how this has been achieved during 2019/20.
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## **3. AVAILABLE OPTIONS**

- 3.1 The production and presentation of an annual report is required by the Committee's terms of reference. Therefore, no other alternative options can be recommended.
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## **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 This report provides the Council with assurance that important governance, risk and standards issues are monitored and addressed.
- 4.2 Our recommendation is for the Committee to agree the Audit, Governance & Standards Committee Annual Report (Appendix A), subject to any comments and amendments. In accordance with the Terms of Reference, that the Chairman of the Audit, Governance & Standards Committee then provides the report to a meeting of full Council setting out how the committee has discharged its duties.
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## **5. RISK**

- 5.1 The risks associated with this decision, including the risks if the Council does not act as recommended, have been considered in line with the Council's Risk Management Framework. We are satisfied that the risks associated are within the Council's risk appetite and will be managed as per the Policy.

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

- 6.1 This report was compiled through consultation between Officers and the Chairman of the Audit, Governance & Standards Committee.

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

- 7.1 The report will be presented to Full Council in accordance with this Committee's Terms of Reference.
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## **8. REPORT APPENDICES**

The following document is published with this report and forms part of the report:

- Appendix A: Audit, Governance & Standards Committee Annual Report 2019/20
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## **9. BACKGROUND PAPERS**

None

# **Audit, Governance & Standards Committee**

## **Annual Report**

**2019/20**



# Purpose of the Committee

The Audit Committee operates in accordance with the [Audit Committees, Practical Guidance for Local Authorities](#). This guidance was updated in 2018 and is published by the Chartered Institute of Public Finance (CIPFA). This guidance defines the purpose of an Audit Committee as:

*Audit Committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.*

*The purpose of an Audit Committee is to provide those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.*

At Maidstone, the role of the Audit Committee extends further than this. In 2015 the Committee was expanded to incorporate some functions previously undertaken by the Standards Committee. Specifically, this expanded role means that we also consider Member conduct and complaints. The functions of the Committee is aligned to the guidance to provide independent assurance over the Council's internal control environment, governance, and risk management. In addition to helping the Council maintain strong public financial management.

Key activities include:

- To promote and maintain high standards of Councillor and Office conduct within the Council
- Adopting and reviewing the Council's Annual Governance Statement and related actions
- To provide independent assurance over the adequacy of financial and risk management and the overall control environment
- To oversee the financial reporting regime and annual financial statements

The Committee is independent from management and other Committees, this is important as it ensures that duties can be discharged in line with the agreed Terms of Reference (attached as an appendix to this report). This includes rights of access and reporting lines direct to statutory officers, the Head of Audit Partnership and appointed external auditors where appropriate.

The Committee is not a substitute for the management function of internal audit, risk management, governance, or any other sources of assurance. The role of the Committee is to examine these functions and to offer views and recommendations on the way in which these functions are managed and conducted.

The production and presentation of an annual report is required by the Committee's Terms of Reference. The purpose of this report is to outline where the Committee has gained assurance during the year, particularly over areas of governance, risk management, Standards, and internal control.

# Membership & Meetings

In accordance with the Constitution, the Audit, Governance and Standards Committee comprises 9 Members (plus 2 non-voting Parish Councillors appointed by the Council for a three-year term of office).

**Councillor Harvey** was elected as Chair of the Committee on the 21 May 2019, to be supported by **Councillor Adkinson** as Vice-Chair for the Municipal Year 2019/20.

The Council have satisfied themselves that the members of the Committee are competent and have recent and relevant experience.

The Committee met 6 times in 2019/20:

- [21 May 2019](#) *(please note this meeting is to elect a Chair and Vice-Chair for the Committee)*
- [30 July 2019](#)
- [16 September 2019](#)
- [18 November 2019](#)
- [13 January 2020](#)
- [16 March 2020](#)

The Committee is supported throughout the year by senior officers and managers of the Council who are regularly present. Including the Director of Finance & Business Improvement (Section 151), the Head of Audit Partnership and Audit Managers, Head of Policy, Communications & Governance, and Legal Services. Throughout the year, the Chair and Vice-Chair have met with the Director of Finance & Business Improvement and the Head of Audit Partnership, allowing opportunity to discuss any issues in more detail directly.

In addition, the Council's External Auditors (Grant Thornton) attended each meeting of the Audit Committee during 2019/20.

All the Audit, Governance & Standards Committee agenda papers and minutes are published on the Council's [website](#), along with video recordings of the meetings.




# Activity

Over the course of the year the Committee considered, examined, and made decisions on the following areas within its Terms of Reference (the frequency of standing items are flagged below):

## Internal Audit Activity

Internal Audit Annual Opinion for 2018/19 

Internal Audit Charter 

Internal Audit Interim Report 


Declarations of Interest Audit Review

Internal Audit & Assurance Plan for 2010/21 


## Finance Activity


Final Statement of Accounts for 2018/19 

Budget Strategy Risk Assessment 

Treasury Management Annual Review for 2018/19 

Treasury Management Mid-Year review 2019/20 

Treasury Management, Investment & Capital Strategies for 2020/21 


Updated Capital Strategy 

Annual Accounts 2018/19 Update


Redmond Review – Call for Views

Anti-Money Laundering Policy & Guidance

## External Audit Activity

Fee Letter for 2019/20 

Annual Audit Letter 

Audit Progress Report and Sector Update 

Housing Benefit Grant Claim 

External Audit Plan 2019/20 

## Governance & Standards Activity


Annual Governance Statement for 2018/19 & Action Plan 

Annual Governance Statement & update for 2019/20 


Annual Complaints Report for 2018/19 

Complaints Received Under the Members' Code of Conduct 

Update to the Covert Surveillance and Access to Communications Policy


Annual Risk Management Report 

Counter Fraud & Corruption Policy

Fraud & Compliance Team Annual Update 

Contract Management Update 

Maidstone Property Holdings Ltd Governance

General Data Protection Regulations (GDPR) Action Plan 

KEY: Annual 

Quarterly 

Periodically 

# Sources of Assurance

In drawing our conclusion this year, we have gained assurance from the following sources:

## **The work undertaken by our Internal Audit Partnership**

- The Council received an unqualified Annual Opinion from the Head of Audit Partnership. This opinion considers the overall adequacy of the internal control, governance, and risk management arrangements for the Council
- Throughout the year we have been regularly informed of the outcomes of internal audit work and audit findings. The Committee has not only received overall summaries of work and the performance of the internal audit plan, but has also considered specific projects and findings in greater detail where appropriate (Contract Management, Declarations of Interest and Subsidiary Company Governance)
- The annual audit and assurance plan considered key risks for the coming year, including alignment to the Councils Corporate Risks. The plan provided assurance over the skills, expertise, and resources within the internal audit partnership to deliver the plan and respond to the audit needs of the Council.

## **Finance and Governance information**

- The Committee reviewed and provided challenge on the annual accounts prior to approval and publication and receives financial updates throughout the year. Specifically, budget risks are updated, reported, and scrutinised quarterly.
- The Annual Governance Statement supported the overall conclusion of the Head of Audit Annual Opinion, with actions identified for improvements. The Committee has been kept up to date on progress to implement these actions and provided challenge to ensure outcomes are being delivered.
- Annually the Committee review key strategy documents and specific policies, this year has been particularly busy including the update and adoption of 2 new policies for Counter Fraud and Anti-Money Laundering. Key strategies reviewed include risk management, treasury management and investments.
- The annual risk management report provides an update on the effectiveness of the Council's risk framework and the controls in place to manage corporate and operational risks.
- Specific assurances were sought by the Committee on data management, including continued monitoring of compliance with GDPR and changes to related policies.

## **The work of our External Auditors – Grant Thornton**

- The External Auditors presented an unqualified opinion for the Councils financial statements and value for money conclusion for 2018/19. The Committee provided effective challenge to the External Auditors throughout the year during their regular updates.

# Dealing with complaints about Council Members

The Localism Act 2011 obliges Councils to have both a Code of Conduct and a procedure for dealing with allegations that a member has breached that Code of Conduct. The Act further provides that the District/Borough Council for the area is responsible for dealing with complaints against all the Parish and Town Councillors for its area as well as dealing with complaints against Borough Councillors.

Full Council, at its meeting on 5 July 2012, resolved to adopt the 'Kent Procedures' for dealing with Member Complaints. Under the procedures, authority is delegated to the Monitoring Officer to make an initial assessment of the complaint (in consultation with the Independent Person appointed under the provisions of the Localism Act 2011) and, if appropriate, the Monitoring Officer will seek to resolve the complaint informally. If it is decided the complaint should be investigated, then following that investigation a Sub- Committee of the Audit, Governance and Standards Committee will determine the complaint.

The Localism Act 2011 sets out the role of the Independent Person in any procedures designed for investigating allegations that a member has breached the Code of Conduct. The Independent Person's views must be sought and considered prior to a decision being made following an investigation into a complaint. The Independent Person's views may also be sought at other times during the process. The appointment of the Council's Independent Person, Ms Barbara Varney, was extended in July 2020 for 1 year, by the Democracy Committee.

During the year ending 31 March 2020, **5** new Member complaints were received. None of the complaints related to Borough Councillors with the remaining complaints relating to parish councillors.

- **3** failed to meet the local assessment criteria
- **2** were resolved through informal resolution

## Conclusion

Based on the activity during the year, the Audit, Governance and Standards Committee can demonstrate it has appropriately and effectively fulfilled its duties during 2019/20. The Committee has continued to work in partnership with the Council's Internal Auditors, Finance Team, Senior Officers and appointed External Auditors to provide independent assurance to the Council on a wide range of risk, governance, internal control and conducts related issues.

## Terms of Reference & Responsibilities

### Audit Activity

- a) To consider the Head of Internal Audit Partnership's annual report and opinion, and a summary of Internal Audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- b) To consider reports dealing with the management and performance of Internal Audit Services, including consideration and endorsement of the Strategic Internal Audit Plan and any report on agreed recommendations not implemented within a reasonable timescale; and the Internal Audit Charter.
- c) To consider the External Auditor's Annual Audit Letter, relevant reports, and any other report or recommendation to those charged with governance; and ensure that the Council has satisfactorily addressed all issues raised. To comment on the scope and depth of external audit work and to ensure it gives value for money.
- d) To review and approve the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Policy and Resources Committee or Council.
- e) Consider and review the effectiveness of the Treasury Management Strategy, Investment Strategy, Medium Term Financial Strategy, Annual Report and Mid-Year review and make recommendations to the Policy and Resources Committee and Council.
- f) Recommend and monitor the effectiveness of the Council's Counter-Fraud and Corruption Strategy.

### Governance

- a) To maintain a financial overview of the operation of Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.
- b) In conjunction with Policy and Resources Committee to monitor the effective development and operation of risk management and corporate governance in the Council to ensure that strategically the risk management and corporate governance arrangements protect the Council.
- c) To monitor Council policies on 'Raising Concerns at Work' (Whistleblowing) and the 'Anti-fraud and corruption' strategy.
- d) To oversee the production of the authority's Annual Governance Statement and to agree its adoption.
- e) The Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice and high standards of ethics and probity. This Committee will receive the annual review of the Local Code of Corporate Governance and may make recommendations to Policy and Resources Committee for proposed amendments, as necessary.
- f) To consider whether safeguards are in place to secure the Council's compliance with its own and other published standards and controls.

## Standards

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

# Agenda Item 14

## Audit, Governance & Standards Committee

14 September  
2020

### Updated 2020/21 Internal Audit & Assurance Plan

<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

#### Executive Summary

An update to the Internal Audit & Assurance Plan for 2020/21 following significant changes to the Council's risks and priorities during the Covid-19 Pandemic.

#### Purpose of Report

Decision

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

1. That the updates to the 2020/21 Internal Audit & Assurance Plan be approved.
2. That the approach for keeping the plan current through the year be noted.
3. That the Head of Audit Partnership's conclusion that he has updated the plan with independence and objectivity free from undue influence be noted.

#### Timetable

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	14 September 2020

## Updated 2020/21 Internal Audit & Assurance Plan

### 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	The audit plan supports all Council work and the wider corporate priorities around delivery of objectives (including cross-cutting objectives.)	Head of Audit Partnership  2 September 2020
<b>Risk Management</b>	<p>The audit plan draws on the Council's risk management to assess and order topics for inclusion. Also, our audit findings seek to address control weaknesses that manage risk.</p> <p>For this plan update we have had specific regard to risks arising or changed since the Covid-19 Pandemic.</p>	
<b>Financial</b>	The plan works within agreed resources. Specifically, the plan recognises the impact of a continuing vacancy in the partnership.	
<b>Staffing</b>	There are no staffing implications associated with the decision.	Team Leader (Corporate Governance), MKLS  2 September 2020
<b>Legal</b>	<p>The Council is required by Regulation to operate an internal audit service, including agreeing a plan at least annually. Therefore, the Council must approve a plan to maintain regulatory conformance. Approving the plan keeps the Council's conformance with managing an internal audit service working to proper Standards.</p> <p>The Council's Constitution gives the Audit, Governance and Standards Committee responsibility for considering reports dealing with the management and performance of Internal Audit Services.</p>	
<b>Privacy and Data Protection</b>	We collect and store information during our audit work examining the Council. We use that information under our collaboration agreement which, in turn, is under applicable laws and regulations.	
<b>Equalities</b>	There are no direct equalities implications associated with the decision.	
<b>Public Health</b>	There are no direct public health implications associated with the decision.	

<b>Crime and Disorder</b>	There are no direct crime and disorder implications associated with the decision.	
<b>Procurement</b>	There are no direct procurement implications associated with the decision.	

## **2. INTRODUCTION AND BACKGROUND**

- 2.1 On 16 March 2020 this Committee approved Mid Kent Audit's Annual Internal Audit & Assurance Plan 2020/21. Since then the Council's risks and priorities have changed substantially during the Covid-19 Pandemic.
- 2.2 The Public Sector Internal Audit Standards (the "Standards") direct that we produce a risk based plan 'at least' each year. Given the changed risks we have felt obliged to revisit the plan in March because of changed circumstances. The attached paper summarises those changes.

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## **3. AVAILABLE OPTIONS**

- 3.1 The Committee could opt to restate its wish to deliver the 2020/21 plan as it stood. We would not recommend that option as it will need us to undertake work we no longer believe represents a priority and ignore new priorities. That would make an effective Head of Audit Opinion at year end difficult to deliver.

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

- 4.1 We recommend the Committee approves the changed plan, with our outline approach for keeping currency as risks and priorities change.

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

- 5.1 We have consulted officers at Head of Service and Director level in changing the plan. The outline approach also fits with previous messages to the Committee on how we compile and oversee audit programmes.

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

- 6.1 We have already begun work on some common matters of the 2020/21 Internal Audit & Assurance Plan. On approval we will also begin work on the changed matters, working towards a Head of Audit opinion next June.
- 6.2 We will update Members on plan progress later in 2020.



## **7. REPORT APPENDICES**

- *Appendix 1: Changed Internal Audit & Assurance Plan 2020/21*
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## **8. BACKGROUND PAPERS**

None.

## **APPENDIX 1**

## **Changed Internal Audit & Assurance Plan 2020/21**

### **About the Plan and Planning**

1. The [\*Public Sector Internal Audit Standards\*](#) (the “Standards”) set out how we must approach audit planning. Specifically, the Standards say that we “must establish risk-based plans to determine the priorities of internal audit, consistent with the organisation’s goals”. The Standards note this must support the annual opinion but there is no direction for an annual plan. On the contrary, the Standards expect Heads of Audit should adapt plans to reflect developing risks.
2. There can be little doubt the Covid-19 emergency has significantly altered the authority’s risks and priorities for 20/21. We summarised in our Annual Report a few of the ways that this impacted the audit team specifically, most obviously in diverting audit time towards the emergency response.
3. Given the scale of change, we wanted to bring the plan back to Members so they could see changes since the Spring. Our aim is providing visibility on the changes and reassuring Members that we have (and will continue to) keep the plan flexible.

### **4. Risk Sources and Information**

5. In preparing this plan we consulted widely within the audit profession. This included leveraging our sector groups for information, including the newly formed Institute of Internal Audit Local Government Forum and the Local Authority Chief Auditors’ Network. We also conducted research on published audit plans across various authorities, paying attention to changes that would be relevant in Mid Kent.
6. We also consulted senior managers across the Council on changes to their risks and priorities. This plan reflects the result of these risks, which we will keep under review.

### **7. Audit Resources**

8. Within Mid Kent Audit, Covid-19 has had various impacts on the 1,810 available days across the partnership for the audit year 2020/21. The most significant impacts, at partnership level:
  - 190 days of 2019/20 work displaced into 2020/21 by early redeployment.
  - 70 days of redeployment in the 2020/21 audit year.
  - 175 days resulting from holding a vacancy while councils consider their longer term resource positions, and seeking to bring forward 2020/21 year end to avoid risk of overspill into 2021/22.

# MID KENT AUDIT

9. The table below shows how this impacts audit time at Maidstone Borough Council

ORIGINAL: DAYS IN 20/21 PLAN	LESS: IN-YEAR REDEPLOYMENT	LESS: PRIOR YEAR WORK BFWD	LESS: VACANCY & YEAR-END	FINAL: REMAINING DAYS
520	(20)	(50)	(40)	410
285			Risk Based Audit	218
135			Governance	112
100			Consultancy	80

10. Although this represents a loss of time, we have tried to concentrate this on consultancy and governance roles. This may mean that some desirable tasks such as introducing software to track risk will experience delay.

## Substantive Plan Changes

11. The table below shows planned changes to audit engagements.

Engagement Title	Priority & Change	Change Comments
Community Infrastructure Levy	Medium Removed	Concentrating audit time on s106
Planning Administration	Medium Removed	Significant fall in application numbers lowers audit risk
Traffic Regulation Orders	Medium Removed	Significant fall in traffic in early part of the year lowers audit risk.
Community Hub Support	High Added	New high profile and spend service delivered at start of the year. Audit will aim to provide assurance on controls within the Hub.
Remote IT Access	High Added	Significant increase in remote access demands with homeworking. Audit will examine arrangements for managing access and keeping systems accessed remotely secure.

12. We list below the unchanged engagements on the plan. We are not currently expecting headline changes to these engagements. However we will enquire at planning stage on specific Covid-19 impact, adapting our approach in response. This may result in further changes as the year progresses.

# MID KENT AUDIT

## Retained Plan Audit Engagements 2020/21

High Priority Engagements	Medium Priority Engagements
Section 106 Agreements	Homeless Outreach
Development Management	Residential Property Management
Project Management Governance	Accounts Receivable
Capital Project Management	Grounds Maintenance
Public Consultations	Garden Waste
Homelessness Duties	Electoral Registration
Climate Change	Property Acquisition & Disposal
Bailiff Service	Property Management
IT Back-Up	Subsidiary Company Governance
Air Quality	Commissioning
	Local Plan Project Governance
	IT Asset Management
	Pay & Display
	Housing Benefit Overpayments

13. Our original plan in the Spring expected 100% completion of high priority engagements and 50% of medium priority. Despite our reduced resources we still aim to review all high priority engagements, but will now only review 20% of medium. All engagements noted will remain in our audit universe and be eligible for consideration in future audit plans based on the prevailing risk. Our aim remains to cover the entire audit universe at least once in a five to six year cycle.

### Conclusion

14. We will continue to keep the plan under review through the year. I remain able to assure the Committee that we have enough resources to deliver the plan and that we have compiled the plan free from undue influence. We will update Members on progress against the plan later in the year, and keep it under review.

# Agenda Item 15

## AUDIT, GOVERNANCE & STANDARDS COMMITTEE

**14 September  
2020**

### Annual Accounts 2019/20

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

#### Executive Summary

This report updates the Statement of Accounts 2019/20 that were submitted for approval to the Committee on 29 July 2020. The updated document reflects amendments made following further audit work that was undertaken after the last meeting.

#### Purpose of Report

The Committee is asked to approve the amended final 2019/20 statement of accounts (Appendix 1).

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

1. That the amended audited Statement of Accounts attached at Appendix 1 is approved.
2. That in the event of any further non-material changes being required to the Statement of Accounts, approval be delegated to the Director of Finance and Business Improvement, in consultation with the Chair and Vice Chair of this committee.

#### Timetable

<b>Meeting</b>	<b>Date</b>
Audit, Governance & Standards Committee	14 September 2020

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims in demonstrating accountability and value for money.	Director of Finance and Business Improvement
<b>Cross Cutting Objectives</b>	There is no specific implication, however sound financial management does support the delivery of the Council's cross cutting objectives.	Director of Finance and Business Improvement
<b>Risk Management</b>	This is detailed within section 5.	Director of Finance and Business Improvement
<b>Financial</b>	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2020, and details the council's assets, liabilities and reserves at this date.	Director of Finance and Business Improvement
<b>Staffing</b>	No implications identified.	Director of Finance and Business Improvement
<b>Legal</b>	Under section 151 of the Local Government Act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information. It is a function of the Audit, Governance and Standards Committee to review and approve the annual statement of accounts and to consider if appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Policy and Resources Committee or Council.	Team Leader (Corporate Governance), MKLS
<b>Privacy and Data Protection</b>	There are no specific privacy or data protection issues to address.	Team Leader (Corporate Governance),

		MKLS
<b>Equalities</b>	No implications identified.	Director of Finance and Business Improvement
<b>Public Health</b>	No implications identified.	Director of Finance and Business Improvement
<b>Crime and Disorder</b>	No implications identified.	Director of Finance and Business Improvement
<b>Procurement</b>	No implications identified.	Director of Finance and Business Improvement

## 2. INTRODUCTION AND BACKGROUND

2.1 The Council is required to have its audited Statement of Accounts approved by the Audit, Governance and Standards Committee by 30 November 2020 in accordance with the amended Accounts & Audit Regulations.

2.2 The Statement of Accounts consists of:

**Narrative Report** – this summarises the Council’s performance over the financial year 2019/20 and highlights the most significant elements of the financial statements.

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

**Movement in Reserves Statement** – this is a financial statement which details the balances the council held in reserves at 31 March 20, analysed into usable reserves (such as the general fund, earmarked balances and capital receipts reserve) and unusable reserves (such as the pensions



reserve, revaluation reserve and capital adjustment account).

**Balance Sheet** – this can be seen as a 'snapshot' of the authority's financial position at a specific point in time, showing what it owns and owes at 31 March 2020.

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

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

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

- 2.3 The council's financial statements must comply with CIPFA's Code of Practice on Local Authority Accounting, which is based on International Financial Reporting Standards (IFRS). Both frameworks require a number of complex and detailed disclosures which accompany the main financial statements.
- 2.4 Due to the impact of the Covid-19 pandemic on local authorities the Government amended the deadlines for the publication and approval of the accounts. The date for publication was amended from 31 May 2020 to 31 August 2020, and the date for formal approval amended from 31 July 2020 to 30 November 2020.
- 2.5 However, the decision was taken to seek earlier approval as this will enable a greater focus on the upcoming budget cycle which will take on more significance than usual given the financial pressures that the Council will now need to address.
- 2.6 Members will recall that the external audit had not been completed at the time of the last Committee meeting. Their subsequent work did identify some adjustments that needed to be made to the capital figures in the Statement.
- 2.7 The audited version of the Statement proposed for approval at this meeting is attached at Appendix 1.
- 2.8 The significant changes from the Statement of Accounts submitted to the last meeting can be summarised as follows:
  - Brunswick Street car park should have been written out of the Property, Plant & Equipment balance following the disposal of the site for development of housing. The net value of the car park was £0.273m.

- The car park at the Lockmeadow complex is now included as a separate asset as part of Property, Plant & Equipment. It had previously been included within the overall valuation of the complex. The car park has been valued at £2.825m. The Balance Sheet figures for 2018/19 have been restated to reflect this, along with a number of other notes.
- 2.9 As was referenced at the last Committee meeting, at the date of drafting this report there remains some work in progress by the auditors in the following areas:
- seeking assurance around the pensions figures provided by the actuary
  - completion of testing of asset valuations
  - checking the final accounts document including amendments
- 2.10 An update on these items will be provided to committee members on or before the meeting on 14 September.
- 2.11 It is possible that in finalising this work, further changes to the accounts may be required. The committee is therefore asked to delegate approval of any non-material changes to the Director of Finance and Business Improvement, in consultation with the Chair and Vice Chair of the committee. This would enable such changes to be made to the financial statements without seeking re-approval from the committee in November. In the event that material changes are required, it may be necessary to bring back the Statement of Accounts for further approval by the committee at its meeting in November. This would still allow sufficient time for the statutory deadlines for approving the financial statements for 2019/20 to be met.
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### **3. AVAILABLE OPTIONS**

- 3.1 The recommendation being made to the Committee is to approve the amended Statement of Accounts for 2019/20, taking into consideration the work of the external auditor.
- 3.2 If the Committee chose not to approve the Statement of Accounts, this would result in the Council failing to meet its statutory responsibilities under the Accounts and Audit Regulations.
- 3.3 The Committee is also asked to delegate approval of any further non-material changes to the accounts to the Director of Finance and Business Improvement, in consultation with the Chair and Vice Chair of the committee. This delegation would only be exercised if non-material adjustments to the accounts were identified following the committee meeting on 14 September.
- 3.4 The committee could choose not to delegate this responsibility. The impact of this would be a potential delay in finalising the 2019/20 audit, and the accounts would need to be brought back to the committee's November meeting for re-approval.
-

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

- 4.1 The formal approval of the Statement of Accounts is a statutory requirement. It is anticipated that the external auditor's opinion will conclude that the financial statements:
- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
  - have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
  - have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.
- 4.2 On this basis, it is considered appropriate for the Committee to approve the audited Statement of Accounts for 2019/20.
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## **5. RISK**

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

- 6.1 Members of the public have legal rights to inspect, ask questions about and challenge items in the Council's accounts. Details of this have been published on the Council's website and the statutory period ended on 17 August. No enquiries were received in relation to this.
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## **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 The external auditor is required to issue the audit opinion by 30 November.
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## **8. REPORT APPENDICES**

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

- Appendix 1: Audited Statement of Accounts 2019/20
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## **9. BACKGROUND PAPERS**

None



## STATEMENT OF ACCOUNTS 2019/20

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

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

The Council is required to:

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

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

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

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

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

The Director of Finance & Business Improvement has also:

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

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31<sup>st</sup> March 2020.

**Signed:**



Mark Green, Director of Finance & Business Improvement

**Date: 4<sup>th</sup> September 2020**

## PRIMARY STATEMENTS

### COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

For the years ending 31<sup>st</sup> March 2019 & 2020

2018/19 (Restated)				2019/20		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Committee (See note below)	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
58,391	(52,352)	6,039	Policy & Resources	53,508	(45,833)	7,675
20,064	(6,972)	13,092	Communities, Housing & Environment	21,374	(11,808)	9,566
9,646	(2,705)	6,941	Economic, Regeneration & Leisure	6,279	(2,280)	3,999
6,874	(7,075)	(201)	Strategic Planning & Infrastructure	8,112	(6,816)	1,296
<b>94,974</b>	<b>(69,104)</b>	<b>25,870</b>	<b>Cost Of Services</b>	<b>89,273</b>	<b>(66,738)</b>	<b>22,535</b>
		1,229	Other Operating Expenditure (Note 9)	2,052	(355)	1,698
		169	Financing and Investment Income and Expenditure (Note 10)	1,807	(2,474)	(666)
		(28,821)	Taxation and Non-Specific Grant Income and Expenditure (Note 11)		(27,747)	(27,747)
		<b>(1,553)</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>(4,179)</b>
			<b>Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services</b>			
		(7,832)	(Surplus) or deficit on revaluation of property, plant & equipment assets			(7,617)
		(9,438)	Remeasurement of the Net Defined Benefit Liability			(2,068)
		<b>(17,271)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(9,685)</b>
		<b>(18,824)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(13,864)</b>

### Note – Change of Committee Structure

The Council committee structure changed in 2019/20 to reflect the priorities set out in the newly adopted Strategic Plan. As part of the restructure, the Heritage, Culture and Leisure Committee was decommissioned, and the Economic Regeneration and Leisure Committee was created. A number of budget heads were also reallocated to the Communities, Housing & Environment Committee. The comparative figures for 2018/19 have therefore been restated to reflect this. The figures that appeared in the 2018/19 Statement of Accounts were as follows:

<b>Committee</b>	<b>Gross Expenditure £000</b>	<b>2018/19 Gross Income £000</b>	<b>Net Expenditure £000</b>
Policy & Resources	62,187	(52,890)	9,297
Communities, Housing & Environment	15,817	(4,786)	11,031
Heritage, Culture & Leisure	10,096	(4,353)	5,743
Strategic Planning, Sustainability & Transportation	6,874	(7,075)	(201)
<b>Cost Of Services</b>	<b>94,974</b>	<b>(69,104)</b>	<b>25,870</b>
Other Operating Expenditure (Note 9)	1,927	(698)	1,230
Financing and Investment Income and Expenditure (Note 10)	2,040	(1,871)	170
Taxation and Non-Specific Grant Income and Expenditure (Note 11)		1	(28,821)
<b>(Surplus) or Deficit on Provision of Services</b>			<b>(1,553)</b>



## MOVEMENT IN RESERVES STATEMENT

For the years ending 31<sup>st</sup> March 2019 & 2020

Current Year	General Fund Balance Unallocated £000	Earmarked GF Balances Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000	
Balance at 1st April 2019 (Restated)	9,228	5,828	598	15,657	35,062	50,718
Movement in Reserves during 2019/20						
Total Comprehensive Income and Expenditure	4,179	0	0	4,179	9,685	13,864
Adjustments between accounting basis & funding basis under regulation (Note 6)	(2,286)	0	(49)	(2,335)	2,335	0
Movements between Reserves	(2,302)	1,992	0	(310)	310	(0)
Increase or Decrease in 2019/20	(409)	1,992	(49)	1,534	12,330	13,864
Balance at 31st March 2020	8,818	7,820	549	17,193	47,390	64,582

Comparative Year	General Fund Balance £000	Earmarked GF Balances Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves (Restated) £000	Total Reserves £000	
Balance at 1st April 2018	9,627	2,899	523	13,049	18,843	31,892
Movement in Reserves during 2018/19						
Total Comprehensive Income and Expenditure	1,558		0	1,558	17,269	18,827
Adjustments between accounting basis & funding basis under regulation (Note 6)	2,381	(1,404)	75	1,052	(1,052)	0
Movements between Reserves	(4,333)	4,333				0
Increase or Decrease in 2018/19	(394)	2,929	75	2,610	16,217	18,827
Balance at 31st March 2019 (Restated)	9,228	5,828	598	15,657	35,062	50,719

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

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

The balance at 31<sup>st</sup> March 2019 has been restated to reflect the addition of the Lockmeadow Car Park as a separate asset on the Balance Sheet, as part of Property, Plant & Equipment. The value of the adjustment is £2.825m.

**BALANCE SHEET****As at 31<sup>st</sup> March 2019 & 2020**

<b>31st March 2019 (Restated) £000</b>	<b>Notes</b>	<b>31st March 2020 £000</b>
85,863	Property, Plant & Equipment	127,025
23,014	Investment Property	23,270
10,393	Heritage Assets	10,393
564	Intangible Assets	653
2,000	Long Term Investments	0
83	Long Term Debtors	62
<b>121,917</b>	<b>Long Term Assets</b>	<b>161,403</b>
2,000	Short Term Investments	0
97	Inventories	166
19,654	Short Term Debtors	17,138
11,184	Cash & Cash Equivalents	10,687
<b>32,935</b>	<b>Current Assets</b>	<b>27,991</b>
0	Short Term Borrowing	11,000
22,347	Short Term Creditors	29,377
1,559	Provisions	1,164
521	Deferred Liability	517
4,723	Capital Grants Receipts in Advance	5,656
<b>29,150</b>	<b>Current Liabilities</b>	<b>47,714</b>
707	Provisions	1,226
259	Other Provisions	174
2,536	Deferred Liability	2,020
71,481	Other Long Term Liabilities	73,677
<b>74,983</b>	<b>Long Term Liabilities</b>	<b>77,098</b>
<b>50,719</b>	<b>Net Assets</b>	<b>64,582</b>
15,659	Usable Reserves	17,192
35,060	Unusable Reserves	47,390
<b>50,719</b>	<b>Total Reserves</b>	<b>64,582</b>

The balance at 31<sup>st</sup> March 2019 has been restated to reflect the addition of the Lockmeadow Car Park as a separate asset on the Balance Sheet, as part of Property, Plant & Equipment. The value of the adjustment is £2.825m.

**CASHFLOW STATEMENT**

<b>2018/19</b>			<b>2019/20</b>
<b>£000</b>		<b>Notes</b>	<b>£000</b>
(1,553)	Net (surplus) or deficit on the provision of services		(4,179)
(8,612)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	<b>35</b>	(10,064)
2,179	Adjustments for items included in the net surplus or deficit on the provision of services that are investing & financing activities	<b>36</b>	6,099
(7,988)	<b>Net cash flows from Operating activities</b>		(8,144)
5,431	Investing Activities	<b>37</b>	26,808
1,616	Financing Activities	<b>38</b>	(18,168)
(941)	<b>Net increase or decrease in cash &amp; cash equivalents</b>		496
(10,244)	Cash & cash equivalents at the beginning of the reporting period		(11,184)
<b>(11,184)</b>	<b>Cash &amp; cash equivalents at the end of the reporting period</b>		<b>(10,687)</b>

## NOTES TO THE ACCOUNTS

### 1 – EXPENDITURE & FUNDING ANALYSIS

For the years ending 31<sup>st</sup> March 2019 & 2020

2018/19 (Restated)			2019/20		
Net Expenditure Chargeable to the General Fund £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income & Expenditure Statement £000	Net Expenditure Chargeable to the General Fund £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income & Expenditure Statement £000
6,774	(735)	6,039	11,333	(3,657)	7,675
8,960	4,132	13,092	8,943	623	9,566
1,778	5,163	6,941	1,889	2,109	3,999
(444)	243	(201)	(473)	1,769	1,296
<b>17,068</b>	<b>8,803</b>	<b>25,870</b>	<b>21,692</b>	<b>845</b>	<b>22,535</b>
(16,239)	(11,184)	(27,423)	(28,700)	1,983	(26,717)
<b>829</b>	<b>(2,381)</b>	<b>(1,553)</b>	<b>(7,010)</b>	<b>2,828</b>	<b>(4,182)</b>
		12,526			15,056
		(977)			2,597
		<b>15,056</b>			<b>16,641</b>
		<b>Closing General Fund Balance at 31st March</b>			

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

## NOTE TO THE EXPENDITURE & FUNDING ANALYSIS

Adjustments between Funding & Accounting Basis 2019/20				
Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	Adjustments for Capital Purposes (Note i) £000	Net Change for Pensions Adjustments (Note ii) £000	Other Differences (Note iii) £000	Total Adjustments £000
Policy & Resources	1,481	1,673	(7,081)	(3,927)
Communities, Housing & Environment	(1,877)		2,501	623
Economic, Regeneration & Leisure	1,842		267	2,109
Strategic Planning & Infrastructure	105		1,664	1,769
<b>Net Cost of Services</b>	<b>1,551</b>	<b>1,673</b>	<b>(2,649)</b>	<b>575</b>
Other income and expenditure from the Expenditure & Funding Analysis	(1,551)	(1,673)	4,937	1,713
<b>Difference between General Fund surplus or deficit and Comprehensive Income &amp; Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(0)</b>	<b>0</b>	<b>2,288</b>	<b>2,288</b>

Adjustments between Funding & Accounting Basis 2018/19				
Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	Adjustments for Capital Purposes (Note i) £000	Net Change for Pensions Adjustments (Note ii) £000	Other Differences (Note iii) £000	Total Adjustments £000
Policy & Resources	908	1,366	(3,009)	(735)
Communities, Housing & Environment	1,835		2,296	4,132
Economic Regeneration & Leisure	4,670		493	5,163
Strategic Planning & Infrastructure	(1,506)		1,749	243
<b>Net Cost of Services</b>	<b>5,908</b>	<b>1,366</b>	<b>1,529</b>	<b>8,802</b>
Other income and expenditure from the Expenditure & Funding Analysis	(5,908)	(1,366)	(3,910)	(11,184)
<b>Difference between General Fund surplus or deficit and Comprehensive Income &amp; Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>(0)</b>	<b>0</b>	<b>(2,381)</b>	<b>(2,381)</b>

### Note – Change of Committee Structure

The Council committee structure changed in 2019/20 to reflect the priorities set out in the newly adopted Strategic Plan. As part of the restructure, the Heritage, Culture and Leisure Committee was decommissioned, and the Economic Regeneration and Leisure Committee was created. A number of budget heads were also reallocated to the Communities, Housing & Environment Committee. The comparative figures for 2018/19 have therefore been restated to reflect this. The figures that appeared in the 2018/19 Statement of Accounts were as follows:

### Expenditure and Funding Analysis

Committee	2018/19		Net Expenditure in the Comprehensive Income & Expenditure Statement £000
	Net Expenditure Chargeable to the General Fund £000	Adjustments between the Funding and Accounting Basis £000	
Policy & Resources	7,517	1,780	9,297
Communities, Housing & Environment	8,052	2,979	11,031
Heritage, Culture & Leisure	1,942	3,800	5,742
Strategic Planning, Sustainability & Transportation	(444)	243	(201)
<b>Net Cost Of Services</b>	<b>17,067</b>	<b>8,802</b>	<b>25,870</b>
Other Income & Expenditure	(16,239)	(11,184)	(27,423)
<b>(Surplus) or Deficit</b>	<b>828</b>	<b>(2,382)</b>	<b>(1,553)</b>

### Note to the Expenditure & Funding Analysis

Adjustments between Funding & Accounting Basis 2018/19				
Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	Adjustments for Capital Purposes (Note i) £000	Net Change for Pensions Adjustments (Note ii) £000	Other Differences (Note iii) £000	Total Adjustments £000
Policy & Resources	3,175	1,366	(2,761)	1,780
Communities, Housing & Environment	1,856		1,123	2,979
Heritage, Culture & Leisure	2,382		1,418	3,800
Strategic Planning, Sustainability & Transportation	(1,506)		1,749	243
<b>Net Cost of Services</b>	<b>5,907</b>	<b>1,366</b>	<b>1,529</b>	<b>8,802</b>
Other income and expenditure from the Expenditure & Funding Analysis	(5,908)	(1,366)	(3,910)	(11,184)
<b>Difference between General Fund surplus or deficit and Comprehensive Income &amp; Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>0</b>	<b>(2,381)</b>	<b>(2,382)</b>

**Note i – Adjustments for Capital Purposes**

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

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

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

**Note iii – Other Differences**

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

**EXPENDITURE AND INCOME ANALYSED BY NATURE**

	2018/19 £000	2019/20 £000
<b>Expenditure</b>		
Employee Benefit Expenses	22,062	24,354
Other Services Expenses	88,771	84,723
Depreciation, Amortisation, Impairment	7,119	4,294
Interest Payments	110	135
Precepts & Levies	1,811	1,936
Gain/(Loss) on the Disposal of Assets	(1,446)	(2,980)
<b>Total Expenditure</b>	<b>118,427</b>	<b>112,462</b>
<b>Income</b>		
Fees, Charges & Other Service Income	(24,170)	(27,239)
Interest & Investment Income	(220)	(217)
Income from Council Tax & NDR	(45,552)	(43,821)
Government Grants & Contributions	(50,037)	(45,364)
<b>Total Income</b>	<b>(119,980)</b>	<b>(116,641)</b>
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>(1,553)</b>	<b>(4,179)</b>

The increase in employee benefit expenses arises in part from additional pension costs following the McCloud case and subsequent ruling relating to age discrimination within pension schemes. Further detail regarding this is provided within note 31.



## 2 - ACCOUNTING POLICIES

### General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31st March 2020. 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 2019/20, supported by International Financial Reporting Standards (IFRS).

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

- Going concern
- Primacy of legislative requirements

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

### Revenue Recognition

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Accruals are recognised where the value exceeds £10,000.

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

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

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

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

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

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

### **Overheads & Support Services**

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

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

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

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

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

## **Value Added Tax**

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

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

## **ROUNDING**

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

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

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

- There is a high degree of uncertainty about future levels of funding for local government. However the Council has determined that this uncertainty is not yet sufficient to provide an indication of the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- A comprehensive review of all property leases was undertaken at the end of 2017/18 to determine whether they should be classified as an operating lease (which are off-Balance Sheet), or a finance lease (which is on-Balance Sheet). The result of this review was that the Council currently has no property leases which need to be classified as finance leases.
- A review of the contract for waste collection has determined that the contractual arrangements do not meet the requirements of IFRIC 4.
- It has been determined that an arrangement between the Council and the managing contractor of the Leisure Centre is classified as a service concession arrangement. Under the terms of the arrangement the Council makes regular payments over a 15 year period to cover the costs of major refurbishment works which have been undertaken by the contractor.
- A judgement has been made as to which of the council's assets fall under the category of Heritage Assets, and the appropriate basis for valuation and disclosure. The outcome of this judgement is reflected in the Heritage Assets note.
- A review of operational assets not revalued this year has been undertaken to determine whether or not there could have been a material movement in the asset values. Using guidance from the external valuer, it has been concluded that the assets are materially fairly stated.

- As a wholly owned subsidiary of the council, Maidstone Property Holdings Limited falls within the group boundary on the grounds of control and significant influence in line with the Code. However the Council's interests in aggregate are not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. For this reason, group accounts are not deemed necessary within these statements.
- The Council has determined that it does not need to prepare group accounts to include Cobtree Manor Estate Trust, on the grounds that the Council neither controls, jointly controls, nor has significant influence over the Trust. Councillors who sit on the Cobtree Manor Estate Charity Committee act on behalf of the Trust in their decision making, rather than in the interests of Maidstone Borough Council. The objectives of the Trust derive from a separate trust, the Cobtree Charity Trust, and cannot be influenced by the Council's objectives. The Council does not control the Trust in its capacity as an investor, it is not exposed to variable returns from its involvement with the Trust, and the Trust does not provide any services which the council would otherwise be obliged to provide. The council provides services to the Trust in terms of the day to day administration of its affairs and grounds maintenance of Cobtree Manor Park. The Council recharges the cost of providing these services to Cobtree Manor Park, but does not seek to generate a surplus from the arrangement.
- In the latter part of the year 2019/20 the Covid-19 pandemic had a profound impact across service areas, businesses and the wider community testing the Council's business continuity planning arrangements. It will, in all likelihood, also have a significant adverse impact on the Council's finances and, in turn, reserve balances. This is discussed in more detail in the Narrative Report.

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

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

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

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

The items in the Council's financial statements at 31<sup>st</sup> March 2020 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Balance	Source of Uncertainty	Effect if actual results differ from assumptions
<b>Property valuations</b>	<p>Property valuations are based on market prices and are periodically reviewed to ensure that the Council does not materially misstate its non-current assets and investment properties.</p> <p>The Council's external valuers provided valuations for the Council's entire investment portfolio and a proportion of its operational portfolio. The remaining balance of operational properties was also reviewed to ensure values were reflective of current appropriate values.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a</p>	<p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and / or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement (CIES). If the value of the Council's property portfolio were to reduce by 10%, this would result in a change of approximately £6.5m.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and / or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p>

Balance	Source of Uncertainty	Effect if actual results differ from assumptions
	<p>judgement.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p> <p>The estimated remaining useful life of all operational assets is reviewed annually based on the advice from the Council external valuers.</p>	
<b>Depreciation</b>	Assets are depreciated over useful lives which are based on the level of repairs and maintenance that will be incurred in relation to individual assets. If current spending on repairs and maintenance were to be reduced, this could affect a change to useful lives assigned to the assets.	Depreciation charges for operational buildings will change in direct relation to changes in estimated fair value. Furthermore, if the useful life of assets is reduced the annual depreciation charge increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £0.6m for every year that useful lives had to be reduced.

Balance	Source of Uncertainty	Effect if actual results differ from assumptions
<b>Pensions Liability</b>	<p>Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund investments. The Council has engaged Barnett Waddingham as its consulting actuary to provide expert advice about the assumptions to be applied. The ongoing impact of the Covid19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and infrastructure allocations as at 31 March 2020 are difficult to value according to preferred accounting policy.</p>	<p>A 0.1% increase in the discount rate will reduce the net pension liability by £3.4m;</p> <ul style="list-style-type: none"> <li>• A 0.1% increase in the assumed level of pension increases will increase the net pension liability by £3.2m;</li> <li>• An increase of one year in longevity will increase the net pension liability by £7.6m.</li> </ul>
<b>Arrears</b>	<p>At 31st March 2020 the Council had a balance of sundry debtors for £13.9m. A review of significant balances suggested that an impairment allowance for bad debts of £4.1m was appropriate. The allowance has been increased this year given the increased risk of non-payment arising from Covid 19 lockdown measures. Uncertainty remains as to whether or not such an allowance is sufficient.</p>	<p>If collection rates were to deteriorate, a 50% increase in the level of impairment required for doubtful debts would require an additional £2m to be set aside as an allowance.</p>

Balance	Source of Uncertainty	Effect if actual results differ from assumptions
<b>Non-Domestic Rates Appeals</b>	<p>The Collection Fund is liable for potential losses arising from appeals against the rateable value of business premises. A provision of £5.324m has therefore been created to recognise current and backdated appeals. The council's share of the provision of £2.130m 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.</p> <p>There is uncertainty regarding the value of potential losses against the 2017 valuation list. A provision of 2.1p per pound of rateable value is reflected in the above total.</p>	If the yield losses from successful appeals were to increase by 10%, an additional provision of £0.532m would be required overall, and the council's share of the provision would increase by £0.213m.
<b>Brexit</b>	The UK stopped being a member of the European Union (EU) at 23:00 GMT on 31 January 2020. However, significant uncertainty remains concerning the UK's future relationship with the EU. Current assumptions underlying asset valuations and pensions liability assume no significant impact from Brexit.	Depending on the circumstances of Britain's departure from the EU, it is possible that asset values may fall and/or that assumptions underlying the assessment of pensions liabilities may alter.



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

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

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

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

None of the above standards, when adopted, are expected to have a material impact on the Council's financial statements.

IFRS 16 Leases – Agreed to defer the implementation for one year. This will mean the effective date for implementation is now 1 April 2021. It is not currently possible to estimate the impact of these changes.

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

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

### **General Fund Balance**

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

### **Capital Receipts Reserve**

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

### **Capital Grants Unapplied**

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

2019/20	Usable Reserves	
	General Fund balance £000	Capital Receipts Reserve £000
<b>Adjustments to the Revenue Resources</b>		
Amounts by which income and expenditure included in the Comprehensive Income & Expenditure Statement are different from the year calculated in accordance with statutory requirements:		
Pensions Costs (transferred to (or from) the Pensions Reserve)	4,264	
Council Tax and NDR (transfers to or from the Collection Fund Adjustment Account)	(910)	
Holiday Pay (transferred to the Accumulated Absences Account)	(5)	
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	5,316	
<b>Total Adjustments to Revenue Resources</b>	<b>8,665</b>	<b>0</b>
<b>Adjustments between Revenue and Capital Resources</b>		
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,384)	1,963
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(520)	
Capital expenditure finance from revenue balances (transfer to the Capital Adjustment Account)	(4,636)	
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(6,540)</b>	<b>1,963</b>
<b>Adjustments to Capital Resources</b>		
Use of the Capital Receipts Reserve to finance capital expenditure		(2,012)
Application of capital grants to finance capital expenditure	(4,411)	
<b>Total Adjustments to Capital Resources</b>	<b>(4,411)</b>	<b>(2,012)</b>
<b>Total Adjustments</b>	<b>(2,286)</b>	<b>(49)</b>

2018/19 Comparative Figures	Usable Reserves	
	General Fund balance £000	Capital Receipts Reserve £000
<b>Adjustments to the Revenue Resources</b>		
Amounts by which income and expenditure included in the Comprehensive Income & Expenditure Statement are different from the year calculated in accordance with statutory requirements:		
Pensions Costs (transferred to (or from) the Pensions Reserve)	3,301	
Council Tax and NDR (transfers to or from the Collection Fund Adjustment Account)	(1,101)	
Holiday Pay (transferred to the Accumulated Absences Account)	(5)	
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	6,521	
<b>Total Adjustments to Revenue Resources</b>	<b>8,717</b>	<b>0</b>
<b>Adjustments between Revenue and Capital Resources</b>		
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(698)	816
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(521)	
Capital expenditure finance from revenue balances (transfer to the Capital Adjustment Account)	(3,749)	
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(4,968)</b>	<b>816</b>
<b>Adjustments to Capital Resources</b>		
Use of the Capital Receipts Reserve to finance capital expenditure		(741)
Application of capital grants to finance capital expenditure	(1,367)	
<b>Total Adjustments to Capital Resources</b>	<b>(1,367)</b>	<b>(741)</b>
<b>Total Adjustments</b>	<b>2,380</b>	<b>75</b>

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

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

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

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

## 7 – EARMARKED RESERVES

Within the General Fund balance of £16.838m at the end of the year the Council maintains a number of Earmarked Reserves for specific purposes as follows:

	31st March 2019 £000	Contributions to/from Balances £000	31st March 2020 £000
Local Plan Review	200	109	309
Neighbourhood Planning	64	11	75
Planning Appeals	300	(14)	286
Trading Accounts	31		32
Civil Parking Enforcement	419	(254)	164
Future Capital Expenditure	431		431
Future Funding Pressures	0	1,589	1,589
Homelessness Prevention & Temporary Accommodation	700	(19)	681
Business Rates Growth	3,682	205	3,887
Occupational Health & Safety	0	31	31
Lockmeadow Complex	0	335	335
<b>Total Earmarked Reserves</b>	<b>5,828</b>	<b>1,993</b>	<b>7,820</b>
Unallocated Balances	9,228	(409)	8,819
<b>Total General Fund Reserves</b>	<b>15,056</b>	<b>1,583</b>	<b>16,638</b>

### Description of Earmarked Reserves:

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

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

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

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

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

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

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

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

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

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

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

### **Accounting Policy - Reserves**

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

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

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

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

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

**9 - OTHER OPERATING EXPENDITURE**

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

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Parish Council precepts	1,666	1,936
Levies	109	116
(Gains)/losses on the disposal of non-current assets	(839)	(355)
	<b>936</b>	<b>1,698</b>

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

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

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Interest payable and similar charges	105	134
Net Interest on the Net Defined Benefit Liability	1,935	1,673
Interest receivable and similar income	(221)	(217)
Income & Expenditure in relation to investment properties and changes in their fair value	(1,649)	(2,256)
	<b>169</b>	<b>(666)</b>

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

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

<b>Credited to Taxation &amp; Non Specific Grant Income</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Council tax income	17,354	18,180
Income from Retained Business Rates	26,971	21,918
Tariff Payable	(18,602)	(19,028)
Levy Payable	(120)	(110)
Non-ringfenced Government Grants	3,218	6,788
<b>Total</b>	<b>28,821</b>	<b>27,747</b>
<b>Credited to Services</b>		
Housing Benefit Subsidy	45,834	38,958
Non-Domestic Rates - Cost of Collection	206	205
Council Tax Administration	150	148
Other Grants	591	1,695
<b>Total</b>	<b>46,782</b>	<b>41,005</b>

In 2019/20 Income from Retained Business Rates has benefited from the Council's participation in the Kent Business Rates Pool, as explained in note 2 to the Collection Fund Statement.

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

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

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

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

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

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

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

## 12 - MEMBERS' ALLOWANCES

The amount of Members Allowances paid during 2019/20 totalled £359,506 (£355,578 in 2018/19).

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

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

## 13 – OFFICERS REMUNERATION

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

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



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

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

The Director of Mid-Kent Services is jointly funded with Swale and Tunbridge Wells Borough Councils, each making equal contributions. Therefore, Maidstone's share of the salary is one-third of the value above (£36,000).

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

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

<b>Remuneration Banding</b>	<b>2018/19 No. of Employees</b>	<b>2019/20 No. of Employees</b>
£50,000 - £54,999	5	8
£55,000 - £59,999	7	5
£60,000 - £64,999	4	5
£65,000 - £69,999	3	3
£70,000 - £74,999	1	2
£75,000 - £79,999	0	2
£80,000 - £84,999	3	2
£85,000 - £89,999	0	1
£90,000 - £94,999	0	0

### Exit Packages

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

Exit Package Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
							£000	£000
£0 - £20,000	0	4	0	2	0	6	0	36
£20,001 - £40,000	1	0	0	0	0	0	0	0
£40,001 - £80,000	0	1	2	0	2	1	121	24
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
<b>Total</b>	<b>1</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>7</b>	<b>121</b>	<b>60</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 UK LLP.

	2018/19 £000	2019/20 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	38	46
Rebate from Public Sector Audit Appointments Ltd.	0	(5)
Fees payable for the certification of grant claims and returns during the year	20	22
<b>Total</b>	<b>58</b>	<b>63</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:

	2018/19 £000	2019/20 £000
<b>Balance at start of year:</b>	4,080	4,723
Grants Received	2,010	5,439
Funding used for capital expenditure	(1,367)	(4,507)
<b>Balance at end of year:</b>	<b>4,723</b>	<b>5,656</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, and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 1 – the Expenditure & Funding Analysis.

## **Members and Senior Officers**

Members of the Council have direct control over the Council's financial and operating policies. The total of Members' Allowances paid in 2019/20 is shown in Note 12.

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

The Director of Regeneration and Place and Head of Housing and Community Services are both Directors of Maidstone Property Holdings Ltd, which is a wholly owned subsidiary of the Council. The Balance Sheet as at 31st March 2020, reflects £169,094 (2018/19, £75,313) which is payable from Maidstone Property Holdings to Maidstone Borough Council, relating to income and expenditure for the 2019/20 financial year.

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

<b>Movements in 2019/20</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 2019	4,352	67,912	13,898	1,544	4,825	3,436	8,545	<b>104,514</b>
Additions	517	23,681	1,128	869	92	265	11,198	<b>37,750</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	5,291	0	0	0	0	0	<b>5,291</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(261)	0	0	0	0	0	<b>(261)</b>
Derecognition of assets	0	(351)	(857)	(662)	(458)	0	(16)	<b>(2,344)</b>
Other movements in cost or valuation	204	1,172	2,787	0	0	0	(3,308)	<b>855</b>
At 31st March 2020	<b>5,073</b>	<b>97,444</b>	<b>16,956</b>	<b>1,751</b>	<b>4,459</b>	<b>3,701</b>	<b>16,419</b>	<b>145,805</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1st April 2019	(3,375)	(4,007)	(6,889)	(1,106)	(3,269)	0	0	<b>(18,646)</b>
Depreciation charge	(263)	(2,208)	(985)	(296)	(407)	0	0	<b>(4,159)</b>
Depreciation written out to the Revaluation Reserve	0	2,343	0	0	0	0	0	<b>2,343</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0	<b>0</b>
Derecognition of assets	0	0	697	609	378	0	0	<b>1,684</b>
At 31st March 2020	<b>(3,638)</b>	<b>(3,872)</b>	<b>(7,177)</b>	<b>(793)</b>	<b>(3,298)</b>	<b>0</b>	<b>0</b>	<b>(18,778)</b>
<b>Net Book Value</b>								
<b>At 31st March 2020</b>	<b>1,435</b>	<b>93,572</b>	<b>9,779</b>	<b>958</b>	<b>1,161</b>	<b>3,701</b>	<b>16,419</b>	<b>127,025</b>
At 31st March 2019	979	63,900	7,010	439	1,556	3,433	8,545	<b>85,863</b>

<b>Movements in 2018/19 (Restated)</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 2018	4,321	53,253	14,465	1,724	4,802	3,241	4,454	<b>86,260</b>
Additions	33	8,114	300	216	69	222	4,091	<b>13,045</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	7,828	0	0	0	0	0	<b>7,828</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	1,467	0	0	0	0	0	<b>1,467</b>
Rerecognition of Assets	0	(40)	(902)	(359)	(46)	(30)	0	<b>(1,377)</b>
Other movements in cost or valuation	0	(2,714)	36	(36)	0	0	0	<b>(2,714)</b>
At 31st March 2019	4,354	67,908	13,899	1,545	4,825	3,433	8,545	<b>104,509</b>
<b>Accumulated Depreciation &amp; Impairment</b>								
At 1st April 2018	(3,147)	(3,298)	(6,907)	(1,174)	(2,899)	0	0	<b>(17,425)</b>
Depreciation charge	(228)	(3,423)	(868)	(209)	(410)	0	0	<b>(5,138)</b>
Depreciation written out to the Revaluation Reserve	0	2,381	0	0	0	0	0	<b>2,381</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	333	0	0	0	0	0	<b>333</b>
Derecognition of Assets	0	0	886	277	40	0	0	<b>1,203</b>
At 31st March 2019	(3,375)	(4,007)	(6,889)	(1,106)	(3,269)	0	0	<b>(18,646)</b>
<b>Net Book Value</b>								
<b>At 31st March 2019</b>	<b>979</b>	<b>63,900</b>	<b>7,010</b>	<b>439</b>	<b>1,556</b>	<b>3,433</b>	<b>8,545</b>	<b>85,863</b>
At 31st March 2018	1,174	49,954	7,558	550	1,903	3,241	4,454	<b>68,835</b>

The balance at 31<sup>st</sup> March 2019 has been restated to reflect the addition of the Lockmeadow Car Park as a separate asset on the Balance Sheet, as part of Land & Buildings. The value of the adjustment is £2.825m.

Additions for 2019/20 include the acquisition of a number of properties, the most significant of which are as follows:

- The Lockmeadow Entertainment Complex in Maidstone.
- A further 11 houses in Maidstone to provide temporary accommodation for homeless families.

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 2019/20	Car Parks	Cemetery & Crematorium	Depots, Workshops & Toolsheds	Entertainment Complex	Halls & Pavilions	Housing	Land	Leisure Centres & Pools	Markets	Museums & Galleries	Parks & Open Spaces	Public Conveniences	Residential / Commercial	Theatres	Town Hall	Total Land & Buildings
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuations</b>																
At 1st April 2019	16,564	2,182	1,855	0	3,435	9,174	197	8,561	1,059	12,303	748	1,680	4,808	4,285	1,057	<b>67,908</b>
Additions		101	8	19,717	34	3,051		36		93			17	26	26	<b>23,110</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve		(81)		1,656		385	88	(541)	3,487	70			99	709	0	<b>5,870</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services		(36)	97			(377)				(1)					66	<b>(252)</b>
Derecognition of Assets														(60)		<b>(60)</b>
Other movements in cost or valuation	(290)			1,135									37			<b>882</b>
At 31st March 2020	16,274	2,166	1,960	22,508	3,469	12,232	285	8,056	4,546	12,465	748	1,680	4,961	4,960	1,150	97,459
<b>Accumulated Depreciation &amp; Impairment</b>																
At 1st April 2019	12	(269)	(75)		(427)	(1,271)	(39)	(68)	(63)	(679)	(18)	(304)	(878)	118	(49)	<b>(4,010)</b>
Depreciation charge		(20)	(13)	(150)	(361)	(966)		(50)	(13)	(79)	(75)	(101)	(345)	(30)	(6)	<b>(2,208)</b>
Depreciation written out to the Revaluation Reserve		266	106				730	66	61	680			503	(117)	48	<b>2,343</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services																<b>0</b>
Other movements in cost or valuation																<b>0</b>
At 31st March 2020	12	(23)	17	(150)	(788)	(1,506)	(39)	(51)	(15)	(78)	(93)	(405)	(720)	(29)	(7)	<b>(3,875)</b>
<b>Net Book Value</b>																
<b>At 31st March 2020</b>	<b>16,286</b>	<b>2,143</b>	<b>1,978</b>	<b>22,358</b>	<b>2,681</b>	<b>10,726</b>	<b>246</b>	<b>8,005</b>	<b>4,531</b>	<b>12,387</b>	<b>655</b>	<b>1,275</b>	<b>4,240</b>	<b>4,931</b>	<b>1,143</b>	<b>93,584</b>
At 31st March 2019	16,576	1,913	1,779	0	3,009	7,903	158	8,492	996	11,623	730	1,376	3,930	4,403	1,008	63,901

Analysis of Land & Buildings Movements 2018/19	Car Parks	Cemetery & Crematorium	Depots, Workshops & Toolsheds	Entertainment Complex	Halls & Pavilions	Housing	Land	Leisure Centres & Pools	Markets	Museums & Galleries	Parks & Open Spaces	Public Conveniences	Residential / Commercial	Theatres	Town Hall	Total Land & Buildings
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuations</b>																
At 1st April 2018	7,401	1,639	1,833	0	3,424	5,173	197	8,100	1,050	12,295	643	1,680	4,808	3,960	1,050	<b>53,253</b>
Additions	2,838	557	22		11	4,435	0	0	9	22	0	0	0	212	7	<b>8,113</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	4,769	0	0		0	0	0	2,307	0	0	319	0	0	434	0	<b>7,829</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the																
Provision of Services	1556168	0	0		0	(89)	0	0	0	0	0	0	0	0	0	<b>1,467</b>
Derecognition of Assets	0	(14)	0		0	(12)	0	0	0	(14)	0	0	0	0	0	<b>(40)</b>
<b>Other movements in cost or valuation</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(333)</b>	<b>0</b>	<b>(1,846)</b>	<b>0</b>	<b>0</b>	<b>(214)</b>	<b>0</b>	<b>0</b>	<b>(321)</b>	<b>0</b>	<b>(2,714)</b>
At 31st March 2019	16,564	2,182	1,855	0	3,435	9,174	197	8,561	1,059	12,303	748	1,680	4,808	4,285	1,057	67,908
<b>Accumulated Depreciation &amp; Impairment</b>																
At 1st April 2018	12	(202)	15	0	(65)	(652)	(39)	(1,515)	(10)	(97)	(118)	(203)	(389)	(28)	(8)	<b>(3,298)</b>
Depreciation charge	0	(67)	(91)		(361)	(952)	0	(398)	(53)	(583)	(113)	(101)	(489)	(176)	(41)	<b>(3,423)</b>
Depreciation written out to the Revaluation Reserve	0	0	0		0	0	0	1,845	0	0	214	0	0	322	0	<b>2,381</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the																
Provision of Services	0	0	0	0	0	333	0	0	0	0	0	0	0	0		<b>334</b>
<b>Other movements in cost or valuation</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
At 31st March 2019	12	(269)	(75)	0	(427)	(1,271)	(39)	(68)	(63)	(679)	(18)	(304)	(878)	118	(49)	<b>(4,007)</b>
<b>Net Book Value</b>																
<b>At 31st March 2019</b>	<b>16,576</b>	<b>1,913</b>	<b>1,779</b>	<b>0</b>	<b>3,009</b>	<b>7,903</b>	<b>158</b>	<b>8,492</b>	<b>996</b>	<b>11,623</b>	<b>730</b>	<b>1,376</b>	<b>3,930</b>	<b>4,403</b>	<b>1,008</b>	<b>63,901</b>
At 31st March 2018	7,413	1,437	1,848	0	3,359	4,522	158	6,585	1,040	12,198	525	1,477	4,419	3,932	1,042	49,954



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

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

### Capital Commitments

As at 31<sup>st</sup> March 2020 the Council had the following capital commitments:

Project	£000
Union Street housing development *	1,913
Brunswick Street housing development *	2,917
Springfield Mill housing development	1,011
Kent Medical Campus - Innovation Centre *	5,401
Lockmeadow refurbishments	3,500

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

### Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant & Equipment required to be measured at current value is revalued at least every 5 years. All valuations were carried out externally by Harrisons Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of RICS. The latest revaluations were carried out as at 30<sup>th</sup> November 2019 in accordance with the requirements of the Code of Practice and are considered to be materially accurate at the Balance Sheet date.

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

	Infrastructure Assets	Community Assets	Land & Buildings	Plant, Machinery & Equipment	Vehicles	IT & Office Equipment	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	5,073	3,701	419	16,956	1,751	4,460	16,417	48,777
Valued at current value as at:								
31st March 2016			0					0
31st March 2017			1,674					1,674
31st March 2018			9,208					9,208
31st March 2019			17,628					17,628
31st March 2020			65,986					65,986
<b>Total Cost or Valuation</b>	<b>5,073</b>	<b>3,701</b>	<b>94,915</b>	<b>16,956</b>	<b>1,751</b>	<b>4,460</b>	<b>16,417</b>	<b>143,273</b>

### Accounting Policy – Property, Plant & Equipment

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

#### Recognition

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

#### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

## **Impairment**

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

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

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

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

## Depreciation

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

Depreciation is calculated on the following bases:

- Buildings – straight-line allocation over the useful life of the property as estimated by a suitably qualified officer. The useful lives range from 4 to 50 years.
- Vehicles, Plant, Furniture & Equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- Infrastructure - straight-line allocation over 20 years.

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

## 18 - INVESTMENT PROPERTIES

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

	2018/19 £000	2019/20 £000
Rental income from investment property	(1,551)	(2,315)
Direct operating expenses arising from investment property	263	940
<b>Net gain/(loss)</b>	<b>(1,287)</b>	<b>(1,375)</b>

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

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Balance at start of the year	19,976	23,014
Additions	2,439	14
Transfers	0	(854)
Net gains/losses from fair value adjustments	599	1,096
<b>Balance at end of year</b>	<b>23,014</b>	<b>23,270</b>

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

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

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

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

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The

gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### Accounting Policy – Fair Value Measurement

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

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

<b>Cost or Valuation</b>	<b>Museum Exhibits £000</b>	<b>War Memorials £000</b>	<b>Statues &amp; Sculptures £000</b>	<b>Other Items £000</b>	<b>Total Assets £000</b>
1st April 2019	9,090	480	515	308	10,393
Additions					0
Disposals					0
<b>31st March 2020</b>	<b>9,090</b>	<b>480</b>	<b>515</b>	<b>308</b>	<b>10,393</b>
1st April 2018	9,090	480	515	308	10,393
Additions					0
Disposals					0
<b>31st March 2019</b>	<b>9,090</b>	<b>480</b>	<b>515</b>	<b>308</b>	<b>10,393</b>

## **Museum Exhibits**

The exhibits are held in two main locations, the Maidstone Museum & 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 Master's Tower and the Quarterdeck has been classified as a heritage asset. However due to the age and nature of the buildings it is not possible to ascertain an accurate valuation.

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

## **Accounting Policy – Heritage Assets**

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

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

- Replacement Cost
- Purchase Cost
- Insurance Valuation

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

## 20 - FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

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

	Long-term		Short-Term	
	31st March 2019 £000	31st March 2020 £000	31st March 2019 £000	31st March 2020 £000
<b>Treasury Investments</b>				
Financial assets at amortised cost	2,000	0	13,014	11,025
<b>Debtors</b>				
Financial assets at amortised cost	83	62	11,897	10,630
<b>Loans</b>				
Financial liabilities at amortised cost	0	0	0	11,000
<b>Creditors</b>				
Financial liabilities at amortised cost	0	0	10,407	13,926
<b>Other Long Term Liabilities</b>				
Finance Lease Liabilities at amortised cost	2,527	2,020	520	517

On the face of the Balance Sheet Financial Assets at Amortised Cost where the business model for the Council is to collect contractual cash flows. £2m of Treasury Investments are in local authorities with £9.025m invested in AAA rated Money Market Funds. The Council has no long-term treasury funds invested at the year end. Debtors includes two service loans to third parties, Kent Savers £25k and One Maidstone £36k (Business Improvement District Levy). The Council has long-term creditors, and the fair value of trade and other receivables is taken to be the invoiced or billed amount.



The Council has taken out short term loans with other local authorities of £11m. £7m was required to fund the purchase of the Lockmeadow Leisure Complex which enables the Council to gain control of the area for possible future regeneration, the remaining £4m was for funding other areas of the Council's capital programme.

Other Long-Term Liabilities relates to the services concession arrange the Council Serco, the managing contractor of Maidstone Leisure Centre. Details of this arrangement are discussed within 28 – Private Finance Initiatives & Similar Contracts.

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

### Income & Expense

	Long-term		Short-Term	
	31st March	31st March	31st March	31st March
	2019	2020	2019	2020
	£000	£000	£000	£000
<b>Income:</b>				
Financial assets at amortised cost	19	0	201	208
Other Interest	0	0	0	9
<b>Total</b>	<b>19</b>	<b>0</b>	<b>201</b>	<b>217</b>
<b>Expenditure:</b>				
Financial liabilities at amortised cost	0	0	0	24
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>24</b>

### Adoption of IFRS 9

The adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting came into effect for financial year 2018/19. The effects of reclassification of financial assets following the adaptation of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting are shown in the table below: IFRS 9 requires an authority to review its financial assets for impairment due to the risk of non settlement. As stated in the previous section, the Council has two service loans which are classified as solely payments of principal and interest and the business model is to collect contractual cash flows which is classified under the definition of the code paragraph 7.1.5 and are valued at amortised cost. These require assessment to determine the credit risk since initial recognition, however materiality comes into effect as per the Code. These loans being at very low values (£36k and £25k) are below the materiality threshold for the Council, therefore no impairment is required.

## **Accounting Policy – Financial Instruments**

### **Financial Liabilities:**

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

### **Financial Assets:**

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

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

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

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

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

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

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

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

## Fair Value

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

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

All valuations on Council's investments uses level 2.

The accounts are required to show the fair value of the financial assets held by the Council. Fair value is defined as the amount for which an asset could be exchanged assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

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

	31st March 2019		Fair Value	31st March 2020	
	Book Value	Fair Value	Level	Book Value	Fair Value
	£000	£000		£000	£000
<b>Financial Assets</b>					
Long Term Investments	2,019	2,018	2	0	0
Short Term Investments (less than 1 yr)	13,050	13,050	2	11,056	11,056
<b>Financial Liabilities</b>					

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

The Council could be exposed to risk in relation to exposure to interest rate movements in its investment and debt portfolios. This risk is managed through the Annual Treasury Management Strategy which draws together 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. Exposure is managed by use of Prudential Indicators, which set limits on the proportion of investments held at fixed and variable rates. These indicators are monitored on a daily basis. The main exposure to risk in this area is the use of investment Call Accounts and Money Market Funds which are linked to Base Rate. However, the risk is considered to be small as these accounts are generally only used for the short term investment of funds for cash flow purposes, and funds can be withdrawn on a daily basis.

The 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.

### **Treasury Management Strategy 2019/20**

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

- to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate;
- to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered. Greater use of Local Authority investments will be sought due to the high security of the borrower which enables investment over a longer period where funds are not required immediately.

### **Credit Risk**

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

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

As at 31<sup>st</sup> March 2020 investments were held with the following institutions:

	<b>31st March 2019 £000</b>	<b>31st March 2020 £000</b>
AAA rated Institutions	0	5,025
AA+ rated Institutions	0	0
AA rated Institutions	0	0
AA- rated Institutions	0	3,000
A+ rated Institutions	0	1,000
A rated Institutions	14	0
A- rated Institutions	0	0
BBB+ rated Institutions	0	0
Unrated Local Authorities	15,000	2,000
UK Government	0	0
<b>Total</b>	<b>15,014</b>	<b>11,025</b>

### Liquidity Risk

Liquidity risk arises from the Council having insufficient resources to meet its on-going commitments. The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has ready access to borrowings from the money market, other local authorities and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. A borrowing provision of £4m exists for short term cash flow purposes. However, provision has also been made with the current Treasury Management Strategy to have an authorised debt limit of £24m to fund on-going schemes in the event of projected capital receipts not being realised.

### Refinancing and Maturity Risk

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

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

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

longer term investments to provide stability of maturities and returns in relation to the longer term cash flow needs.

### Market Risk – Interest Rate Risk

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

The risk exposure is summarised in the table below.

	<b>31st March 2019 £000</b>	<b>31st March 2020 £000</b>
Notice accounts/Money market funds	14	9,025
Fixed term deposits with other local authorities	15,000	2,000
<b>Total</b>	<b>15,014</b>	<b>11,025</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 to control the Authority's exposure to interest rate risk. An upper limit is set on the one-year revenue impact of a 1% rise or fall in interest rates.

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.

## 22 – DEBTORS

### Short Term Debtors

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Central government bodies	5,385	1,299
Other local authorities	3,303	6,903
Other entities and individuals	15,228	13,887
<b>Total</b>	<b>23,915</b>	<b>22,090</b>

### Allowance for Bad Debts

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Excess Charges Impairment Allowance	630	817
Sundry Bad Debts Impairment Allowance	3,628	4,134
<b>Total</b>	<b>4,258</b>	<b>4,952</b>

The figure on the balance sheet represents Debtors less Provision for Bad Debts, which totals £20.981m.

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

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Council Tax payers	1,050	1,204
Business Rate payers	1,603	1,470
Capital debtors	23	560
General debtors	10,933	8,937
Payments in Advance	678	575
Other miscellaneous amounts	941	1,141
<b>Total</b>	<b>15,229</b>	<b>13,887</b>

## 23 - CASH & CASH EQUIVALENTS

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

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Cash held by the Council	12	3
Bank current accounts	157	(341)
Short-term deposits	11,014	11,025
<b>Total</b>	<b>11,183</b>	<b>10,687</b>

### Accounting Policy – Cash & Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Currently, due to the requirement of funding for its liabilities, all Council investments are classified as cash and cash equivalents.

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

## 24 – CREDITORS

### Short Term

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Central government bodies	657	4,960
Other local authorities	8,812	4,820
Other entities and individuals	12,878	19,598
<b>Total</b>	<b>22,347</b>	<b>29,377</b>

The movement in the balances for Central Government and other local authorities is a reflection of movements in the debtor and creditor balances relating to the collection fund.

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

Other entities and individuals are broken down as follows:



	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
General creditors	2,886	2,423
Capital creditors	1,583	1,379
Council tax payers	180	193
Business Rate payers	408	220
Receipts in advance	1,716	5,259
Deposits	5,937	9,839
Retentions	168	285
<b>Total</b>	<b>12,878</b>	<b>19,598</b>

## 25 - PROVISIONS

### Provision for Appeals

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Business Rates Appeals - Current	1,179	774
Business Rates Appeals - Backdated	707	1,355
Planning Appeals	380	261
<b>Total</b>	<b>2,266</b>	<b>2,391</b>

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

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

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

### Accounting Policy – Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each year – where it becomes less probable that a transfer of economic benefits will

now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant area.

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

## 26 - TRUST FUNDS

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

The assets and liabilities of the Trust as at 31<sup>st</sup> March 2020 are summarised in the following table. The figures for 2018/19 are the audited figures, which differ from those in the 2018/19 Statement of Accounts, as the audit took place after that was published.

	2018/19 £000	2019/20 £000
<b>Fixed Assets:</b>		
Tangible Assets	2,830	2,824
Investment Property	1,630	1,010
Investments	863	670
	<b>5,322</b>	<b>4,505</b>
Current Assets	149	247
Current Liabilities	74	73
Creditors: Amounts falling due after more than one year	232	232
<b>Total assets less current liabilities</b>	<b>5,165</b>	<b>4,448</b>
<b>Total Charitable Funds</b>	<b>5,165</b>	<b>4,448</b>

Gross expenditure in 2019/20 totalled £365,876 (£691,614 in 2018/19). Gross income in 2019/20 totalled £463,350 (£752,564 in 2018/19).

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

## 27 - PRIVATE FINANCE INITIATIVES & SIMILAR CONTRACTS

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

The Council entered into an agreement during 2009/10 with Serco, the managing contractor of Maidstone Leisure Centre, to undertake a major

refurbishment of the centre. Under the terms of the agreement Serco have initially funded the cost of the works through a loan, and the Council are then repaying this loan over a 15 year term, by equal monthly instalments. The principal element of this loan is reflected on the Balance Sheet and will be written down annually by the amount of principal repaid. Interest paid on the loan is charged to the Comprehensive Income & Expenditure Statement.

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

### Payments

	2018/19 £000	2019/20 £000
Balance outstanding at start of year	3,578	3,057
Repayment of principal	(521)	(520)
<b>Balance outstanding at end of year</b>	<b>3,057</b>	<b>2,537</b>

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

### Accounting Policy – Deferred Liability

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

### Accounting Policy – Minimum Revenue Provision

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

The Council has no borrowing but has identified that it has contractual arrangements that are classified as finance leases under the requirements of

IFRIC 4. The repayments under these leases therefore need to be treated as a borrowing arrangement. The MRP amount that is set aside is equivalent to the value of the annual principal repayments on the contracts.

## 28 – CAPITAL RECEIPTS RESERVE

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

	<b>31st March 2019 £000</b>	<b>31st March 2020 £000</b>
<b>Balance at 1st April</b>	<b>523</b>	<b>597</b>
Capital Receipts Received	815	1,963
Capital Receipts Applied	(741)	(2,012)
<b>Balance at 31st March</b>	<b>597</b>	<b>549</b>

## 29 - UNUSABLE RESERVES

	<b>31st March 2019 (Restated) £000</b>	<b>31st March 2020 £000</b>
Revaluation Reserve	39,593	47,065
Capital Adjustment Account	68,058	74,197
Deferred Capital Receipts Reserve	5	8
Pensions Reserve	(71,481)	(73,677)
Collection Fund Adjustment Account	(935)	(26)
Accumulated Absences Account	(179)	(174)
<b>Total Unusable Reserves</b>	<b>35,060</b>	<b>47,393</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 2019 (Restated) £000</b>	<b>31st March 2020 £000</b>
<b>Balance at 1st April</b>	<b>29,120</b>	<b>39,593</b>
Upward revaluation of assets	10,657	7,618
Difference between fair value depreciation and historical cost depreciation	(184)	(144)
<b>Balance at 31st March</b>	<b>39,593</b>	<b>47,065</b>

The balance at 31<sup>st</sup> March 2019 has been restated to reflect the addition of the Lockmeadow Car Park as a separate asset on the Balance Sheet, as part of Property, Plant & Equipment. The value of the adjustment is £2.825m.

#### **b) Capital Adjustment Account**

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

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

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

	<b>31st March 2019 £000</b>	<b>31st March 2020 £000</b>
<b>Balance at 1st April</b>	<b>66,726</b>	<b>68,058</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
Charges for depreciation of non-current assets	(5,138)	(4,160)
Amortisation of intangible assets	(124)	(135)
Revaluation Gains/Losses on Property, Plant & Equipment	(115)	(578)
Revenue expenditure funded from capital under statute	(3,247)	(1,799)
Write-off of non-enhancing capital expenditure	(75)	(58)
	<b>(8,699)</b>	<b>(6,729)</b>
Adjusting amounts written out of the Revaluation Reserve	1,651	(117)
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(7,048)</b>	<b>(6,846)</b>
Capital financing applied in the year:		
Sums set aside for Debt Repayment	521	520
Use of the Capital Receipts Reserve to finance new capital expenditure	741	2,012
Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	1,367	4,411
Capital expenditure charged against the General Fund balance	5,153	4,946
	<b>7,728</b>	<b>11,888</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	599	1,096
<b>Balance at 31st March</b>	<b>68,058</b>	<b>74,197</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.

	2018/19 £000	2019/20 £000
Opening balance at 1 April	77,618	71,481
Remeasurements of the net defined liability	(9,438)	(2,068)
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	6,865	9,036
Employer's pensions contributions	(3,564)	(4,772)
<b>Closing balance at 31 March</b>	<b>71,481</b>	<b>73,677</b>

### d) Collection Fund Adjustment Account

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

	<b>31st March 2019 £000</b>	<b>31st March 2020 £000</b>
<b>Balance at 1st April</b>	2,037	935
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	205	346
- Non-domestic Rates	(1,307)	(1,256)
<b>Balance at 31st March</b>	<b>935</b>	<b>26</b>

### 30 - 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>2018/19 £000</b>	<b>2019/20 £000</b>
<b>Opening Capital Finance Requirement</b>	<b>3,227</b>	<b>12,114</b>
<b>Capital Investment</b>		
Property, Plant & Equipment	10,165	37,695
Non-enhancing capital expenditure	76	56
Investment Properties	2,443	10
Intangible Assets	217	222
Revenue Expenditure Funded from Capital Under Statute	3,247	1,799
	<b>16,148</b>	<b>39,782</b>
<b>Sources of Finance</b>		
Capital receipts	(741)	(2,012)
Government grants & other contributions	(1,367)	(4,721)
New Homes Bonus	(4,623)	(3,881)
Other Revenue Contributions	(530)	(755)
	<b>(7,262)</b>	<b>(11,368)</b>
Increase in Capital Financing Requirement	8,887	28,414
<b>Closing Capital Finance Requirement</b>	<b>12,114</b>	<b>40,527</b>



Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. In this instance the funding will come from internal borrowing using existing cash balances, in accordance with the agreed Treasury Management Strategy for 2019/20.

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

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

## **31 - DEFINED BENEFIT PENSION SCHEMES**

### **Participation in Pension Schemes**

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

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

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

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

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

	2018/19 £000	2019/20 £000
<b>Comprehensive Income &amp; Expenditure Statement (CI&amp;ES)</b>		
Cost of Services:		
Service cost comprising:		
- Current service cost	4,913	6,233
- Past service costs including curtailments	17	1,130
Financing and Investment Income & Expenditure:		
- Net interest expense	1,935	1,673
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>6,865</b>	<b>9,036</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)	5,508	(11,199)
- Actuarial gains and losses arising on changes in financial assumptions	(6,661)	16,436
- Actuarial gains and losses arising on changes in demographic assumptions	10,591	2,631
- Experience gains and losses on defined benefit obligation	0	(4,952)
- Other actuarial gains and losses	0	(848)
<b>Total Post Employment Benefit Charged to the CI&amp;ES</b>	<b>16,303</b>	<b>11,104</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	6,865	9,036
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers' contributions payable to the scheme	(3,564)	(4,772)
	<b>3,301</b>	<b>4,264</b>

## Curtailments

No employees were permitted to take unreduced early retirement that they would not otherwise have been entitled to over the past year. (2018/19, two former employees became entitled as a cost of £17,000).

## 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 (2018/19 £nil).

## McCloud Case

An allowance has been made for the recent Court of Appeal judgement in relation to the McCloud case which related to age discrimination within pension schemes. On 27 June 2019 the Supreme Court denied the Government's request for an appeal, and on 15 July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS. The estimated impact on the total liabilities at 31 March 2020 has been allowed for as a past service cost and has resulted in an increase in the service cost and defined benefit obligation as at 31 March 2020.

## 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:

	2018/19 £000	2019/20 £000
Present value of funded obligation	183,242	175,391
Fair value of plan assets	(113,698)	(103,305)
<b>Contributions by scheme participants</b>	<b>69,544</b>	<b>72,086</b>
Present value of unfunded obligation	1,937	1,591
<b>Net liability arising from defined benefit obligation</b>	<b>71,481</b>	<b>73,677</b>

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

	2018/19 £000	2019/20 £000
Opening fair value of Scheme assets	106,524	113,698
Interest on assets	2,703	2,716
Return on assets less interest	5,561	(11,133)
Administration expenses	(53)	(66)
Contributions by employer including unfunded	3,547	3,642
Contributions paid by scheme participants	885	939
Estimated benefits paid plus unfunded net of transfers in	(5,469)	(5,643)
Other actuarial gains/(losses)	0	(848)
<b>Closing fair value of Scheme assets</b>	<b>113,698</b>	<b>103,305</b>

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

	2018/19 £000	2019/20 £000
Opening balance at 1 April	184,142	185,179
Current Service cost	4,896	5,103
Interest cost	4,638	4,389
Change in financial assumptions	6,661	(16,436)
Changes in demographic assumptions	(10,591)	(2,631)
Experience loss/(gain) on defined benefit obligation	0	4,952
Past service costs, including curtailments	17	1,130
Estimated benefits paid net of transfers in	(5,314)	(5,491)
Contributions by Scheme participants	885	939
Unfunded pension payments	(155)	(152)
<b>Closing balance at 31 March</b>	<b>185,179</b>	<b>176,982</b>

The estimated impact of the recent McCloud judgement has been included as a past service cost. The estimated impact of the total liabilities as at 31<sup>st</sup> March 2020 is £1.130m (or 0.7% as a percentage of total liabilities).

## Local Government Pension Scheme Assets

	31st March 2019		31st March 2020	
	£000	%	£000	%
Equities	77,963	68%	63,552	61%
Gilts	748	1%	803	1%
Other Bonds	10,353	9%	13,465	13%
Property	13,656	12%	14,056	14%
Cash	1,984	2%	2,704	3%
Absolute return fund	8,994	8%	8,725	8%
<b>Total</b>	<b>113,698</b>	<b>100%</b>	<b>103,305</b>	<b>100%</b>

## Basis for Estimating Assets and Liabilities

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

The scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the Kent County Council Pension Fund are based on the full valuation of the scheme as at 31<sup>st</sup> March 2019.

The principal assumptions used by the actuary have been:

	2018/19	2019/20
<b>Long-term expected rate of return of assets in the scheme</b>		
<b>Mortality Assumptions</b>		
Longevity at 65 for current pensioners		
- Men	22.0	21.8
- Women	24.0	23.7
Longevity at 65 for future pensioners		
- Men	23.7	23.2
- Women	25.8	25.2
<b>Financial Assumptions</b>		
RPI increases	3.40%	2.75%
CPI increases	2.40%	1.95%
Salary increases	3.90%	3.85%
Pension increases	2.40%	2.35%
Discount Rate	2.40%	2.55%

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

## Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have

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

<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	173,540	176,892	180,496
- Projected Service Cost	4,686	4,818	4,954
Adjustment to long-term salary increase	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	177,356	176,982	176,612
- Projected Service Cost	4,820	4,818	4,816
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	180,133	176,982	173,893
- Projected Service Cost	4,952	4,818	4,687
Adjustment to life expectancy assumptions	+1 Year	None	-1 Year
- Present Value of Total Obligation	184,567	176,982	169,736
- Projected Service Cost	4,965	4,818	4,675

## Scheme History

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Present value of defined benefit obligation in the Local Government Pension Scheme	(149,896)	(183,756)	(182,032)	(183,242)	(175,391)
Fair value of assets in the Local Government Pension Scheme	87,447	104,482	106,524	113,698	103,305
Present value of unfunded obligation	(2,192)	(2,260)	(2,110)	(1,937)	(1,591)
<b>Surplus/(Deficit) in the scheme</b>	<b>(64,641)</b>	<b>(81,534)</b>	<b>(77,618)</b>	<b>(71,481)</b>	<b>(73,677)</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 £73.677m 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 2021 are £3.555m

## **Accounting Policy – Employee Benefits**

### **Benefits Payable During Employment**

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

### **Post-Employment Benefits**

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

- The liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate specified by the actuaries (based on the indicative rate of return on high quality corporate bonds.)
- The assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property – market value
- The change in net pensions liability is analysed into the following components:

- Service cost which comprises:
  - Current service cost – the increase in liabilities as a result of years of service earned in the current year – allocated in the Comprehensive Income & Expenditure Statement to the services for which the employees worked.
  - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement.
  - Net interest on the net defined benefit liability, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing & Investment Income & Expenditure line of the Comprehensive Income & Expenditure Statement.
- Re-measurements comprising:
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. This charged to the Pensions Reserve as Other Comprehensive Income & Expenditure.
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability. This charged to the Pensions Reserve as Other Comprehensive Income & Expenditure.
- Contributions paid to the Kent County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Contributions to the pension scheme are determined by the Fund's actuary on a triennial basis. The most recent actuarial valuation to determine contributions was on 31 March 2019.

### **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to



arise as a result of an award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## 32 – LEASES

### Finance Leases – Council as Lessee

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

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

	<b>31st March 2019 £000</b>	<b>31st March 2020 £000</b>
Not more than 1 year	642	559
Later than 1 year and not later than 5 years	2,527	2,030
Later than 5 years	0	0
	<b>3,169</b>	<b>2,589</b>

### Accounting Policy - Leases

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

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

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

## 34 – EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Director of Finance & Business Improvement on 18<sup>th</sup> June 2020. 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 2020 the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### Covid-19 Pandemic

The impact of the pandemic on the period covered by the Statement of Accounts was limited, with lockdown measures only taking effect on 24 March 2020, right at the end of the period. However, there will be a very significant financial

impact in the new financial year, both from additional costs incurred by the Council in

responding to the pandemic, and from a reduction in income across almost all the Council's revenue streams, including Council Tax, Business Rates, and fees and charges for the services that we provide.

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

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

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

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

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

	2018/19 £000	2019/20 £000
Depreciation	(5,138)	(4,160)
Revaluation Gains & Losses	1,351	(565)
Amortisation of Intangible Assets	(124)	(135)
Movement in Creditors	(6,837)	(2,908)
Movement in Debtors	4,579	861
Movement in Inventories	(13)	69
Movement in Pension Liabilities	(3,301)	(4,264)
Other Non-Cash items	872	1,038
	<b>(8,610)</b>	<b>(10,064)</b>

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

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Capital Grants credited to surplus or deficit on the provision of services	1,367	5,440
Proceeds from sale of Property, Plant & Equipment	812	659
	<b>2,180</b>	<b>6,099</b>

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

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Purchase of property, plant & equipment, investment property and intangible assets	11,677	38,246
Purchase of short-term and long-term investments	3,000	0
Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(816)	(934)
Proceeds from short-term and long-term investments	(6,000)	(4,000)
Other payments for investing activities	48	0
Other receipts for investing activities (Grants)	(2,478)	(6,503)
<b>Net cash flows from investing activities</b>	<b>5,430</b>	<b>26,808</b>

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

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Cash receipts of short- and long-term borrowing	0	(11,000)
Repayments of short & long-term borrowing	521	520
Other payments for financing activities	1,095	(7,688)
<b>Net cash flows from financing activities</b>	<b>1,616</b>	<b>(18,168)</b>

## COLLECTION FUND STATEMENT &amp; NOTES

2018/19 £000		2019/20 £000
<b>INCOME</b>		
109,505	Income From Council Tax	117,579
61,636	Income From Business Rates (Note 2)	60,304
<b>171,141</b>	<b>Total Income</b>	<b>177,883</b>
<b>EXPENDITURE</b>		
	Precepts and Demands - Council Tax	
76,387	Kent County Council	82,402
10,436	Kent Police & Crime Commissioner	12,227
17,447	Maidstone Borough Council	18,503
4,661	Kent Fire & Rescue Authority	4,933
	Shares of Business Rates	
	Central Government	25,411
33,407	Kent County Council	6,808
22,649	Maidstone Borough Council	21,843
566	Kent Fire & Rescue Authority	546
1,508	Transitional Protection Payments - Business Rates	985
33	Disregarded Amounts - Business Rates	173
	Impairment of Debts - Council Tax	
195	Write offs of uncollectable amounts	260
1,639	Additional / (Reduced) Impairment of Aged Debt	1,401
	Impairment of Debts/Appeals - Business Rates	
427	Write offs of uncollectable amounts	823
708	Additional / (Reduced) Impairment of Aged Debt	119
(519)	Losses on appeal	(746)
(531)	Additional / (Reduced) Provision For Appeals	1,354
206	Cost of Collection Allowance - Business Rates	205
<b>169,219</b>	<b>Total Expenditure</b>	<b>177,249</b>
1,922	Surplus/(Deficit) For Year	634
(3,040)	Surplus/(Deficit) Brought Forward From Previous Years	(1,118)
<b>2,340</b>	<b>Surplus/(Deficit) on Council Tax</b>	<b>193</b>
<b>(3,458)</b>	<b>Surplus/(Deficit) on Business Rates</b>	<b>(678)</b>
<b>(1,118)</b>	<b>Surplus/(Deficit) as at 31st March 2020</b>	<b>(484)</b>

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement

shows the transactions of this council in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates. Respective shares of Balance Sheet items are consolidated into the accounts of billing and precepting authorities.

## Notes to the Collection Fund

### Note 1 – Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating, for this specific purpose, 1st April 1991 values. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, the Kent Police & Crime Commissioner, Kent Fire & Rescue Authority and this Council for the forthcoming year and dividing this by the Council Tax base which is the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts: 62,033.4 for 2019/20 (60,921.6 for 2018/19) (see table below.) This basic amount of Council Tax for a Band D property, £1,830.79 for 2019/20 (£1,735.24 for 2018/19), 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)	0	5/9	0.0
Band A	2,540	6/9	1,693.5
Band B	6,283	7/9	4,887.0
Band C	15,400	8/9	13,689.1
Band D	16,186	9/9	16,186.3
Band E	8,824	11/9	10,785.1
Band F	5,202	13/9	7,513.5
Band G	3,845	15/9	6,408.1
Band H	337	18/9	674.8
Other	0		196.1
			<b>62,033.4</b>

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

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

- Standard Multiplier 50.4p / £ Rateable Value (49.3p in 2018/19)
- Small Business Multiplier 49.1p / £ Rateable Value (48.0p in 2018/19)

The rateable value at 31st March 2020 was £147.123 (£145.864m at 31st March 2019).

For 2019/20, it was calculated that the Council would receive £21.843m in business rates (£22.649m in 2018/19).

A system of Tariff and Top-Up payments operates on the localised shares distributed to local government bodies. A significant proportion of Maidstone's retained share (£19.028m in 2019/20, £18.602m in 2018/19) is subsequently 'top-sliced' and returned to the Government for redistribution across local government.

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

Since April 2013, the Council has participated in a pooled arrangement with Kent County Council, Kent Fire and Rescue Authority and nine other district councils in Kent in order to minimise the levy payment due to Central Government and thereby maximise the retention of locally generated Business Rates.

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

## **GLOSSARY OF TERMS**

### **ACCOUNTING POLICIES**

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

### **ACCOUNTS**

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

### **ASSETS HELD FOR SALE**

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

### **BALANCE SHEET**

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

### **BALANCES**

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

### **CAPITAL EXPENDITURE**

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

### **CAPITAL FINANCING**

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



## **CAPITAL RECEIPTS**

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

## **COLLECTION FUND**

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

## **CREDITORS**

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

## **DEBTORS**

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

## **DEPRECIATION**

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

## **GENERAL FUND**

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

## **HERITAGE ASSETS**

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

## **INTANGIBLE ASSETS**

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

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

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

## **INVESTMENT PROPERTIES**

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

## **PROPERTY, PLANT & EQUIPMENT**

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

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

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

## **REVENUE SUPPORT GRANT**

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

## **REVENUE ACCOUNT**

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

## **SUPPORT SERVICES**

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

## **USABLE CAPITAL RECEIPTS**

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

## **UNUSABLE RESERVES**

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

## **USABLE RESERVES**

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

**INDEPENDENT AUDITOR'S REPORT**

To follow

# Agenda Item 16

## AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

**14 September  
2020**

### Budget Strategy – Risk Assessment Update

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

#### Executive Summary

As reported at the last meeting of the Committee, Covid-19 has had a major impact on the Council's financial position. The position has not changed significantly since July 2020, except that the likelihood of a rapid economic recovery appears to have receded still further. There is an increased risk of a disruptive transition to new trading arrangements with the EU on 31 December.

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

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

#### Timetable

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	14 September 2020

## Budget Strategy – Risk Assessment Update

### 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

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

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	
<b>Privacy and Data Protection</b>	No implications.	Director of Finance and Business Improvement
<b>Equalities</b>	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance and Business Improvement
<b>Public Health</b>	None identified.	Director of Finance and Business Improvement
<b>Crime and Disorder</b>	None identified.	Director of Finance and Business Improvement
<b>Procurement</b>	None identified.	Director of Finance and Business Improvement

## 2. INTRODUCTION AND BACKGROUND

- 2.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.

## **Delivering the revenue budget**

2.2 The Council set a balanced revenue budget for 2020/21 at its meeting on 26<sup>th</sup> February 2020. The Council's past record indicated that there was a reasonable level of assurance that performance would be in line with budget, subject to normal operating risks such as:

- failure to contain expenditure within agreed budgets
- failure to deliver planned savings
- shortfall in fees and charges against budgeted income
- failure of commercial initiatives (eg property investment, income generating activities in parks)
- costs of litigation.

2.3 Since then, the position has changed completely. As a result of the Covid-19 pandemic, the Council has:

- incurred substantial additional expenditure, in particular as a result of accommodating homeless people and establishing a community hub
- suffered a reduction in Council Tax and Business Tax receipts
- lost substantial income in areas such as parking.

The result is that a deficit of £8.563 million is projected before taking account of any mitigations. Full details were set out in a report to the Policy and Resources Committee meeting of 21<sup>st</sup> July.

2.4 The deficit is only partially mitigated by government grant, so it is expected that there will be a drawing in the region of £4 million on the Council's reserves to bridge the gap. On current projections, this will bring the Council's unallocated reserves down to just over £4 million. This is still above the Council's specified minimum reserves level of £2 million but leaves little flexibility in the event, for example, of a second lockdown.

2.5 The starting point for this report, which looks at future risks to the Council's budget, is the projected outturn for 2020/21 as adjusted by drawing on reserves.

2.6 It could be argued that the increased level of risk highlighted by the Covid-19 pandemic justifies increasing the existing specified minimum level of reserves. The appropriate level of reserves is a matter of judgement, but in developing a new Medium Term Financial Strategy, consideration will be given to increasing the required minimum level of reserves to £4 million.

## **Medium Term Financial Strategy and 2021/22 Budget**

2.7 Work is currently under way updating the MTFs and developing 2021/22 budget proposals. Projections indicate that, given neutral forecasts, the Council will face a £3 million budget gap in 2021/22. This poses a major challenge and it is unlikely that the whole of the gap can be filled in one year, which means further drawings on reserves as savings are developed and implemented.

- 2.8 The position is further complicated by the lack of clarity about future funding of local government. A new funding settlement had been promised following the end of the four year settlement that came to an end in 2019/20. This was postponed for one year, owing to Brexit, and is now likely to be postponed for a further year because of Covid-19.
- 2.9 At the time of writing this report, it appears that the unprecedented increase in government borrowing arising from Covid-19, and the uncertain prospects for economic recovery, mean that public finances will be under pressure for some time. This increases the impact from uncertainty about the financial framework within which the Council will work in the future.

### **Delivering the capital budget**

- 2.10 The capital programme plays a vital part in delivering the Council's corporate objectives. The Council has borrowed to fund the capital programme, for the first time, this year. The availability of funding is therefore important.
- 2.11 The cost of the capital programme is spread over the lifetime of investments, so it has not been as directly affected by Covid-19 related pressures. However, there are revenue consequences to the capital programme. The cost of borrowing is factored into the revenue budget, along with a Minimum Revenue Provision which spreads the cost of loan repayment over the lifetime of an asset.
- 2.12 The capital programme for 2020/21 has been reviewed in the light of the Covid-19 pandemic. The majority of projects in the current programme are either already under way, are required for health and safety reasons, or must be carried out to meet contractual commitments. However, it is proposed that a number of projects are deferred to 2021/22, which will have the effect of reducing the in-year revenue costs of capital expenditure.

### **External factors**

- 2.13 The Covid-19 pandemic shows how vulnerable the Council is to external factors. In common with many organisations, the Council did not previously take account of risks (eg global warming, pandemics) which can be foreseen in broad terms, but where the timing and nature of their impact is completely uncertain. It is now accepted for the purposes of corporate risk management that we cannot ignore such risks. The corporate risk register therefore now includes new risks relating to (a) major emergencies such as a new pandemic and (b) a resurgence of the current Covid-19 pandemic.
- 2.14 The other major external risk is potential adverse financial outcomes from a disorderly Brexit. Whilst the UK has now left the EU, future trading arrangements with the EU are still to be agreed and there remains a risk of disruption if this has not happened by the government's deadline of 31 December 2020. This will affect the Council in two ways: directly, owing to disruption at the Channel ports having a knock-on effect in the rest of Kent; and indirectly, because of the overall impact on the economy. With the 31 December deadline approaching, little progress has been made in



negotiations with the EU and the risk of a disruptive transition has increased.

2.15 The Budget Risk Register has been reviewed in light of developments since it was last reported to members. A summary of the changes to the risk register is set out below.

	Risk	Factor considered	Implications for risk profile
N	Adverse financial consequences from a disorderly Brexit	The UK left the EU on 31 January 2020 but there remains a risk of disruption if new trading arrangements are not agreed by 31 December 2020.	Impact – major (increased) Likelihood – probable (increased)
H	Adverse impact from changes in local government funding	The likelihood of a further one-year funding settlement for local government in 21/22 means that the Council continues to lack the assurance needed for robust long term financial planning.	Impact – major (increased) Likelihood – probable (increased)

2.16 Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register. Additionally, at the Committee's request, the possible monetary impact of the risks has been indicated. Note that it is very difficult to quantify the financial impact of risks in precise terms. The information is provided simply to give an indication of the order of the risks' financial magnitude. The information is also set out in the form of a bar chart.

2.17 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

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### **3. AVAILABLE OPTIONS**

3.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact the Council's service planning and/or be reflected in the developing Medium Term Financial Strategy.

3.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.

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

4.1 Option 2 – It is recommended that the Committee notes the risk assessment.

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## **5. RISK**

- 5.1 Risk is addressed throughout this report so no further commentary is required here.
- 

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

- 6.1 Each year the council as part of the development of the MTFS and the budget carries out consultation on the priorities and spending of the council. A Residents' Survey will be completed for the 2021/22 budget and the results will be reported to Service Committees as part of the budget setting process.
- 

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

- 7.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.
- 

## **8. REPORT APPENDICES**

The following document is to be published with this report and forms part of the report:

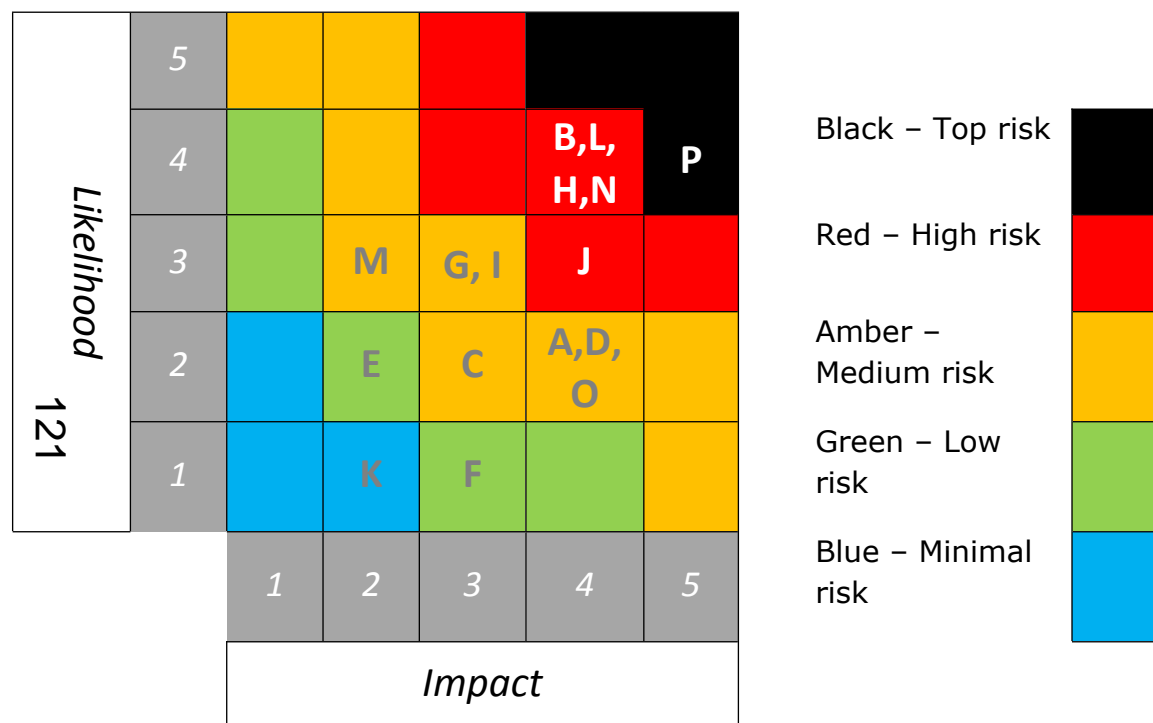
- Appendix A: Budget Strategy Risks
- 

## **9. BACKGROUND PAPERS**

None.

## Budget Strategy Risks

The risk matrix below provides a summary of the key budget risks. The risk register that follows provides more detail.

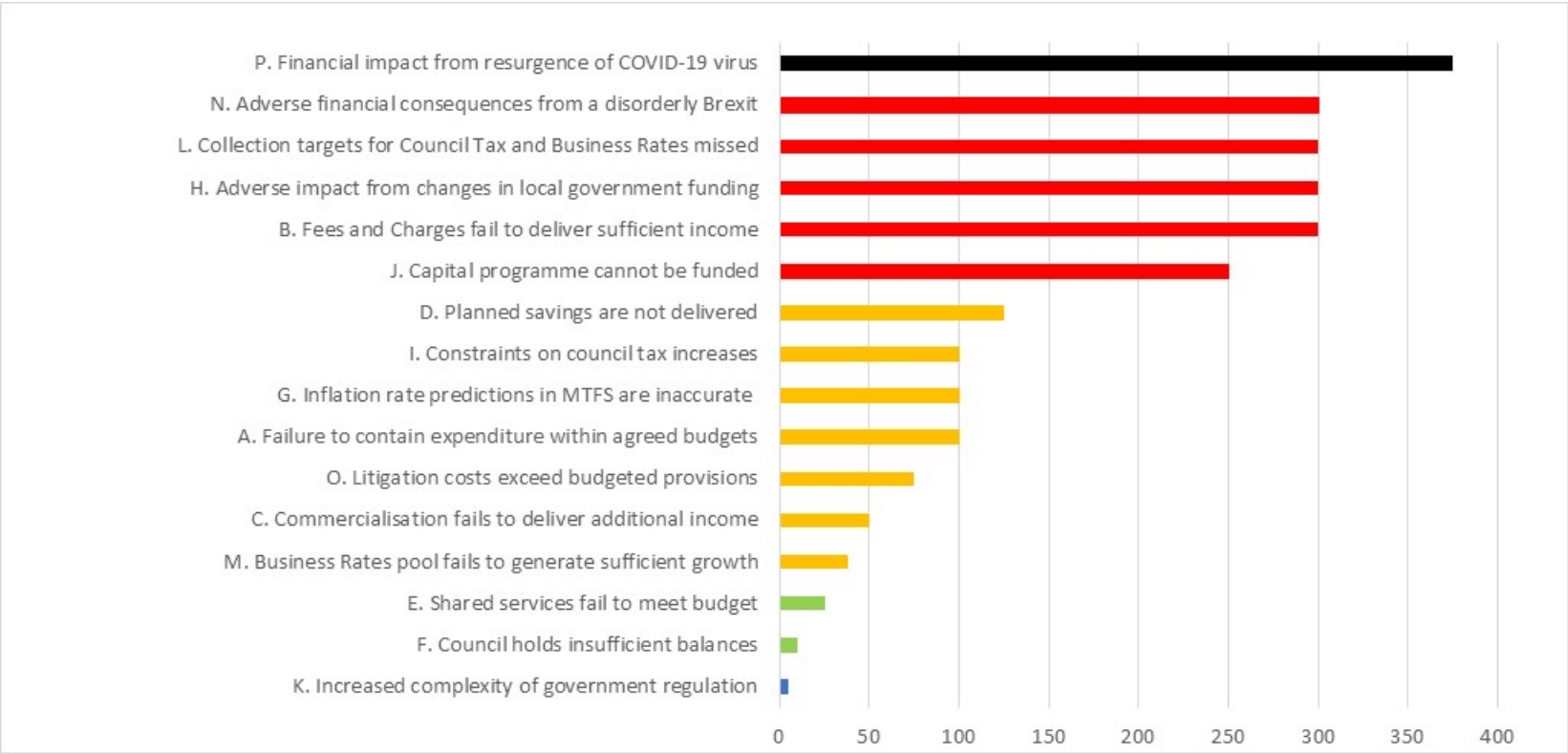


<b>A. Failure to contain expenditure within agreed budgets</b>	<b>I. Constraints on council tax increases</b>
<b>B. Fees and Charges fail to deliver sufficient income</b>	<b>J. Capital programme cannot be funded</b>
<b>C. Commercialisation fails to deliver additional income</b>	<b>K. Increased complexity of government regulation</b>
<b>D. Planned savings are not delivered</b>	<b>L. Collection targets for Council Tax and Business Rates missed</b>
<b>E. Shared services fail to meet budget</b>	<b>M. Business Rates pool fails to generate sufficient growth</b>
<b>F. Council holds insufficient balances</b>	<b>N. Adverse financial consequences from a disorderly Brexit</b>
<b>G. Inflation rate predictions in MTFS are inaccurate</b>	<b>O. Litigation costs exceed budgeted provisions</b>
<b>H. Adverse impact from changes in local government funding</b>	<b>P. Financial impact from a resurgence of Covid-19</b>

The budget risks may be ranked, based on the scores shown below, as follows:

Risk	Ranking	Financial impact (in any one financial year)				
		Lower	Upper	Mid-point	Likelihood	Weighted
		£000	£000	£000	%	£000
P. Financial impact from resurgence of COVID-19 virus	1	250	750	500	75	375
B. Fees and Charges fail to deliver sufficient income	2=	200	600	400	75	300
H. Adverse impact from changes in local government funding	2=	100	900	400	75	300
L. Collection targets for Council Tax and Business Rates missed	2=	200	600	400	75	300
N. Adverse financial consequences from a disorderly Brexit	2=	200	600	400	75	300
12 13 J. Capital programme cannot be funded	6	250	750	500	50	250
D. Planned savings are not delivered	7	250	750	500	25	125
A. Failure to contain expenditure within agreed budgets	8=	200	600	400	25	100
G. Inflation rate predictions in MTFS are inaccurate	8=	100	300	200	50	100
I. Constraints on council tax increases	8=	100	300	200	50	100
O. Litigation costs exceed budgeted provisions	11	100	500	300	25	75
C. Commercialisation fails to deliver additional income	12	100	300	200	25	50
M. Business Rates pool fails to generate sufficient growth	13	50	100	75	50	38
E. Shared services fail to meet budget	14	50	150	100	25	25
F. Council holds insufficient balances	15	100	300	200	5	10
K. Increased complexity of government regulation	16	50	150	100	5	5

Chart - Budget risks



## Budget Strategy Risk Register

The following risk register sets out the key risks to the budget strategy. The register sets out the consequences of each risk and the existing controls in place.

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
124	<b>A</b>  <b>Failure to contain expenditure within agreed budgets</b> The Council overspends overall against its agreed budget for the year	Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.	<ul style="list-style-type: none"> <li>- Embedded and well established budget setting process</li> <li>- Medium Term Financial Strategy</li> <li>- Balanced budget agreed by Council for 2020/21.</li> <li>- Strong controls over expenditure and established process for recovering from overspends</li> </ul>	4	2	8
	<b>B</b>  <b>Fees &amp; Charges fail to deliver sufficient income</b> Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.	The total value of all Council income from fees and charges is around £20 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.	<ul style="list-style-type: none"> <li>- Fees and charges are reviewed each year, paying careful attention to the relevant market conditions</li> <li>- Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income.</li> <li>- Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised.</li> </ul>	4	4	16
	<b>C</b>  <b>Commercialisation fails to deliver additional income</b> The commercialisation strategy, which is now centred on housing and regeneration, does not deliver the expected level of income.	The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy.	<ul style="list-style-type: none"> <li>- The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses.</li> <li>- Individual risks associated with specific projects within commercialisation strategy</li> </ul>	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		Income generation from commercial activities supports the revenue budget and is required in ordered to pay back capital investment.	will be assessed, both as part of the project appraisal process and during the course of delivering the projects.			
D 125	<b>Planned savings are not delivered</b> Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget	The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.  Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.	- The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process.  - Savings proposals are separately identified and monitored in the Council's general ledger.  - The ability to achieve the targeted savings is monitored quarterly in budget monitoring reports to the Corporate Leadership Team and to Service Committees.	4	2	8
E	<b>Shared Services</b> Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.	Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.	The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.	2	2	4
F	<b>Insufficient Balances</b> Minimum balance is insufficient to cover unexpected events OR Minimum balances exceed the real need and resources are held without identified purpose with low investment returns	Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.  The Council would not gain best value from its resources as Investment returns are low in the current market.	- The Council has set a lower limit below which General Fund balances cannot fall of £2 million.  - At the beginning of the 2019/20 financial year usable reserves stood at £15.1 million.	3	1	3

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
G	<p><b>Inflation rate predications in MTFS are inaccurate</b></p> <p>Actual levels are significantly above or below prediction</p>	<p>Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.</p> <p>Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities.</p>	<p>- Allowances for inflation are developed from three key threads:</p> <ul style="list-style-type: none"> <li>○ The advice and knowledge of professional employees</li> <li>○ The data available from national projections</li> <li>○ An assessment of past experience both locally and nationally</li> </ul> <p>- MTFS inflation projections are based on the government's 2% inflation target.</p>	3	3	9
126 H	<p><b>Adverse impact from changes in local government funding</b></p> <p>The financial implications of the new local government funding regime, now unlikely to be introduced until 2022/23, remain unclear.</p>	<p>The Council no longer receives Revenue Support Grant (RSG), but the amount of Business Rates that it retains depends on the funding regime set by central government.</p>	<p>- The Medium Term Financial Strategy to 2024/25 includes an adverse scenario which allows for a significant impact on the Council's resources,</p> <p>- The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.</p>	4	4	16
I	<p><b>Constraints on council tax increases</b></p> <p>The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than the referendum limit.</p>	<p>The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be absorbed by making savings elsewhere.</p>	<p>- The budget for 2020/21 incorporates a Council Tax increase of 2%.</p> <p>- Budget planning is based around the assumption of ongoing 2% increases in subsequent years.</p>	3	3	9
J	<p><b>Capital Programme cannot be funded</b></p> <p>Reduction or total loss of funding sources means that the capital programme cannot be delivered</p>	<p>The main sources of funding are:</p> <ul style="list-style-type: none"> <li>○ Internal borrowing</li> <li>○ PWLB borrowing</li> <li>○ New Homes Bonus</li> </ul>	<p>- Council has been able to fund the capital programme without recourse to borrowing so far,</p>	4	3	12



Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		<ul style="list-style-type: none"> <li>○ Capital Grants</li> <li>○ Developer contributions (£106)</li> </ul> <p>A reduction in this funding will mean that future schemes cannot be delivered.</p>	<p>- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.</p> <p>- Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board but there is a risk that this may be subject to restrictions in future.</p>			
127 <sup>K</sup>	<p><b>Increased complexity of government regulation</b></p> <p>Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at an early stage.</p>	<p>On a number of occasions, most recently with the introduction of GDPR, the financial consequences of government regulation have been significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy.</p> <p>In general these events bring consequences to other agencies and external relationships.</p>	<p>- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents.</p> <p>- Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.</p>	2	1	2
L	<p><b>Business Rates &amp; Council Tax collection</b></p> <p>Council fails to maintain collection targets for business rates and council tax</p>	<p>Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> <p>Business rates amount to around £60 million in 2020/21 and Council Tax due amounts to around £110 million.</p>	<p>- The Council has a good track record of business rates and Council Tax collection.</p> <p>- Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc.</p> <p>- Nonetheless, increasingly difficult trading conditions for some businesses may lead to a deterioration in collection performance.</p>	4	4	16
M	<b>Business Rates pool</b>	Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.	- The pool is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a	2	3	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	Changes to rateable value (RV) or instability of business rates growth within the pool may not generate projected levels of income		<p>whole is projected to be around £10m in 2020/21.</p> <p>- Provisions have been made when projecting business rates income for bad debts and losses on appeal so any loss of income would relate to the excess over the provisions already made.</p>			
N	<b>Adverse financial consequences from a disorderly Brexit.</b> There remains a risk that the UK could leave the EU without a trade agreement in December 2020.	<p>Short term - Increased costs in delivering services, eg arising from traffic congestion</p> <p>Medium term/ long term – Risk of recession, which could lead to a fall in business rates income, increasing pressure on homelessness budgets, and adverse central government funding settlements.</p>	<p>- Thorough preparation for Brexit, with an officer Brexit business continuity planning group to co-ordinate our response and liaise with other Kent authorities</p>	4	4	12
128 O	<b>Litigation costs exceed budgeted provisions.</b> The Council is often engaged in litigation and generally the costs of any award against the Council and associated costs of legal advice can be met from within budgets. However, it is prudent to acknowledge the risk that provisions may not in fact be sufficient to cover all likely costs.	Costs in excess of budget would require a drawing on reserves and the identification of savings in subsequent years in order to replenish the level of reserves.	<p>- Corporate Leadership Team is updated regularly on outstanding legal cases.</p> <p>- Appropriate professional advice is taken at all times.</p>	4	2	8
P	<b>Financial impact from a resurgence of COVID-19</b>  A resurgence of the pandemic would see similar impact to those experienced in the first wave, eg reduction in fees and charges income arising from lower levels of economic activity and the effect of a broad reduction in economic growth on public finances.	In the short term the Council would need to draw on reserves to cover the financial costs, but in the longer term savings would be required to replenish reserves.	<p>- Senior officer group mobilised to address short term impacts</p> <p>- Mitigations to be developed over longer term</p>	5	4	20

# Impact & Likelihood Scales

## RISK IMPACT

Level	Service risk	Reputation Risk	H&S	Legal Risk	Financial Risk	En'ment Risk
Catas-trophic (5)	Ongoing failure to provide an adequate service	Perceived as failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment or significant fines	Uncontrollable financial loss or overspend over £500k	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries		Financial loss or overspend under £10k	Environmental incident with no lasting detrimental effect

## RISK LIKELIHOOD

Type	Probability	Detail description
<b>Almost certain (5)</b>	90%+	Without action is likely to occur; frequent similar occurrences in local government/Council history
<b>Probable (4)</b>	60%-90%	Strong possibility; similar occurrences known often in local government/Council history
<b>Possible (3)</b>	40%-60%	Might occur; similar occurrences experienced in local government/Council history
<b>Unlikely (2)</b>	10%-40%	Not expected; rare but not unheard of occurrence in local government/Council history
<b>Rare (1)</b>	0%-10%	Very unlikely to occur; no recent similar instances in local government/Council history