Grant Thornton

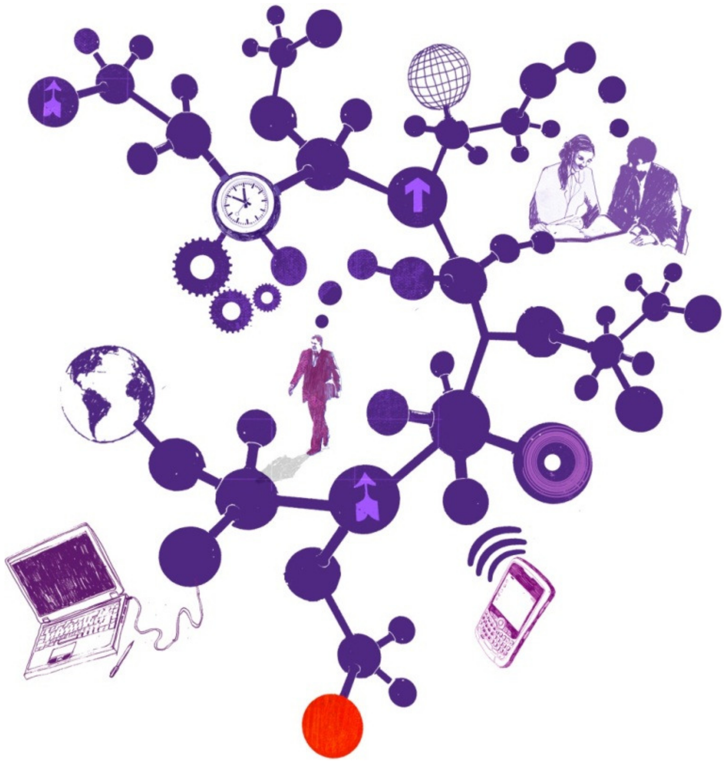
APPENDIX C

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Review of the Council's Arrangements for Securing Financial Resilience for Maidstone Borough Council

Year ended 31 March 2013

16th September 2013



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Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow.

Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2013/14 and beyond, its current arrangements for achieving financial resilience are adequate.

We have used a red/amber/green (RAG) rating with the following definitions.

Green	**Arrangements meet or exceed adequate standards**. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and/or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	**High risk**: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920'. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12.

This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013/14.

The next spending review period will be for a single financial year, 2015-16. The timing of the announcement is yet to be confirmed, but is anticipated during the first half of 2013.

Financial austerity is expected to continue until at least 2017.

Local Context

The Council received a grant settlement of £5,703,074 for 2012/13, representing a reduction of 12.6% on the 2011/12 adjusted grant base.

The Council's formula grant funding has been reduced by more than £2m or 26% over the two-year period 2011/12 to 2012/13. From April 2013 the formula grant system has been replaced by the business rates retention system. If the Council's actual business rate income is less than the baseline set by the government then it has to meet a share of the shortfall. The Council's latest estimate is that income from business rates in 2013/14 will reach the baseline, although this is still subject to considerable uncertainty.

The Council has now received details of its indicative funding assessment for 2015/16 following the government's spending review in June 2013. The Council faces a reduction of £274,000 or around 13% for 2015/16 compared to its indicative funding assessment for 2014/15.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	• Benchmarked key indicators of financial performance indicate that, in general terms, the Council is following recent trends of its statistical nearest neighbour comparator group for most indicators. • Overall, the Council's levels of available reserves are sufficient to cover known future financial risks. • The Council's 2012-13 net General Fund revenue outturn underspent by £2.7m , during a year when significant financial challenges have been faced. • The Council continues to demonstrate a robust approach to financial management, and it will be important to maintain this focus during the MTFP period.	Green
Strategic Financial Planning	• The Council is required to make savings of £5.9m between 2011 and 2015. Savings have been identified through a public consultation exercise in which local residents were invited to determine the most important aspects of the Council's discretionary services, enabling resources to be allocated and prioritised accordingly. • Proposed savings of £2.6m for the period up to 2016/17, including £988k for 2013/14 were approved by Cabinet as part of the budget setting process in February 2013. • Further work is required to ensure that plans are in place to provide efficiency and savings to meet the budget requirement for the period beyond 2014/15. There are significant financial challenges facing all councils over this period, including the impact of reforms to the welfare system and business rates retention which came into effect on 1st April 2013.	Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	• The Council has a well established approach to financial governance that has delivered solid results in recent financial years. • Significant reductions to the financial resources available to the Council have taken place in recent years, and in response to this the council has embarked upon a programme of service reviews in order to consider how services are delivered, and how resources can be prioritised. • The Council should consider if there is a need to better understand the financial trainine requirements for members with cabinet or governance roles. This is in the context of the generationally significant financial challenges facing the sector.	Green
Financial Control	• The Council has a robust approach to financial and performance management, with a history of meeting its budgets. Financial systems are subject to annual reviews by both internal and external audit, and management have responded positively to recommendations arising from past reviews. • The Covalent system has been used to monitor performance against financial and other targets for a number of years, and is seen as an effective assurance mechanism which prompts corrective action where necessary. • The Council have sound procedures in place for financial monitoring, in order to ensure effective budgetary control and oversight of spending. This includes regular reports to the Corporate Leadership Team and Cabinet.	Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	• The Council should continue to maintain appropriate levels of reserves and monitor the Council's liquidity to ensure that financial resilience is maintained.	Director of Regeneration & Communities Head of Finance and Resources	On going	
Strategic Financial Planning	• In the context of the generationally significant financial challenges facing the sector, the Council should consider if there is a need to better understand the finacial skill and experience requirements for members with cabinet or governance roles. • The Council will need to ensure that the MTFP remains responsive, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan.	Director of Regeneration & Communities Head of Finance and Resources	March 2014 On going	

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Financial Governance	• The Council needs to continue to ensure that there are robust governance arrangements in place for partnership working, and that the arrangements entered into will continue to support delivery of corporate priorities and objectives. • Commercialisation plans under the Localism Act will require careful consideration in terms of the potential risks and opportunities, and the impact of the schemes adopted will need to be incorporated in medium term financial planning.	Director of Regeneration & Communities Head of Finance and Resources	Autumn 2013 On going	
Financial Control	• The Council should continue to monitor the impact of the reduction in funding and changes arising from the Comprehensive Spending Review • Financial capacity within the Finance Team is stretched, with a comparatively low proportion of suitably qualified accountancy staff. This is acknowledged by the Authority and action is being taken to strengthen the finance function	Director of Regeneration & Communities Head of Finance and Resources	On going March 2014	

Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves - Balances to DSG allocations

We have used the Audit Commission's statistical nearest neighbours benchmarking group comprising the following authorities*:*

Braintree District Council
Cherwell District Council
Wychavon District Council
Test Valley Borough Council
Chelmsford City Council
Warwick District Council
Tonbridge and Malling Borough Council
Mid Sussex District Council
Basingstoke and Deane Borough Council
Stafford Borough Council
Lichfield District Council
Colchester Borough Council
Ashford Borough Council
Harrogate Borough Council
Huntingdonshire District Council

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	• Maidstone's working capital ratio has increased from 1.58 in 2008 to 2.03 in 2013. This leaves the Council just outside of the preferred ratio of 2:1. •While the council is maintaining a positive working capital ratio and continues to have sufficient levels of current assets to cover its liabilities, the Council's working capital ratio sits at the lower end of the benchmark group and will need to be carefully monitored in future years, particularly in light of the council's plans to borrow for the purposes of property investment, which will place increasing pressure on liquidity.	Amber
Borrowing	• In 2012/13, the ratio of long term borrowing to long term assets was 0.03. In other words, the Council's long term borrowing represents approximately 3% of its long term assets. • In comparison to other authorities in this benchmarked group, Maidstone has a lower than average long term borrowing to long term assets ratio, and was debt free prior to 2009/10 when it entered into a service concession arrangement with Serco to fund a major refurbishment of Maidstone Leisure Centre. • The Council's plans to borrow up to £6m for the purposes of property investment will impact on this ratio, and it is therefore recommended that this is kept under review in future years.	Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Workforce	• The Council's sickness absence levels have fluctuated over the past three years, with a decrease of 1.8 per FTE (23%) during 2010/11 and an increase back to 2009/10 levels during 2011/12 . • Absence levels during 2012/13 of 7.84 per FTE fall just short of the Council's target of 7.5 per FTE, but are significantly below the Local Government average of 9.7. • The Council has a well regarded workforce management database, outputs of which form part of the performance monitoring process. • Given the on going organisational change which the council faces, it will be important for management to maintain a robust approach to sickness absence monitoring in order for the downward trend in absence levels to improve.	Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budgets: revenue & capital	• The Council have a history of meeting its revenue budgets, with a reported underspend of £5.8m on the 2012/13 General Fund net revenue budget, based on provisional outturn figures. £4.4m of this relates to capital financing which was not utilised during 2012/13. This will be carried forward to 2013/14 to fund the Council's future capital programme. • The provisional outturn against the Council's 2012/13 capital programme is £5,008k, compared with the revised estimate of £4,568k agreed in February 2013. Expenditure can be entirely funded from available resources, with £4.4m resources identified from revenue budgets to be carried forward to 2013/14 or later years (as previously mentioned), in line with the council's policy of utilising its capital resources first. At the end of the year, slippage totalling £373k was reported, which is the net effect of slippage to and from 2013/14 relating to advanced funding for King Street Multi-storey car park and High Street Regeneration work required in 2012/13. • This is in the context of the Council delivering over £3m in savings since the Comprehensive Spending Review in 2010 and overall indicates very effective financial performance for the year.	Green
Reserve Balances	• CIPFA's guidance on reserves specifies that the level of the general fund balance should follow the S151 officer's advice to the council, which should be based on local circumstances. The Council's policy on working balances is that these should be held at a minimum level of £2.3m, which is 11.8% of net revenue expenditure. • At 31st March 2013, the overall level of balances is provisionally expected to be £12.6m. However, this includes amounts carried forward for planned use in 2013/14. Taking this into account, the overall balances at 31st March 2014 are expected to be £5,548, including uncommitted balances of £3.346m. Whilst this represents a significant overall decrease, levels of balances remain £1.046m above the working minimum set by Cabinet in February 2012. • The balance usable capital receipts reserve has decreased significantly in recent years as it has been used to finance capital expenditure.	Green

Strategic Financial Planning

Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	The main issues that the Council should have taken into account in agreeing its MTFP and particularly the 2013/14 revenue & capital budgets; How it has evaluated them & dealt with them or proposes to deal with them	Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions	Covers the assumptions made in setting its MTFP and particularly the 2013/14 revenue & capital budgets, referring to nationally expected assumptions where appropriate Key assumptions should include income-generating activities, inflation, managing assets effectively to help deliver strategic priorities and service need (including any significant deterioration in value which has not been recognised or is not being addressed), assessment of strategic priorities and effectiveness of current priorities, including benchmarking other authorities, savings plan level and impact	Green
Scope of the MTFP and links to annual planning	Whether the proposals in the MTFP & the budget for 2013/14 are adequately reflected in information, estates and workforce strategies and vice versa	Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Review processes	Whether and if so how the MTFP is kept under review in the light of changing events	Green
Responsiveness of the Plan	Whether the Council has explored alternatives before deciding what MTFP to agree (both upside and downside, including working through the values and likelihoods in order to enable the calculation of a total expected value), whether the Council has employed realistic scenario planning; whether the Council has challenged delivery methods and alternative options, whether the Council has considered the main risks appropriately including managing risks over an appropriate timescale (but limited to the context of the MTFP: for "general risk management" see *Financial Control*), & the Council's mitigation strategies	Green

Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	How the Cabinet/Executive is made aware of financial matters (but for whether the information is adequate, timely, complete, and reliable see Budget reporting & Adequacy of other Committee/Cabinet Reporting): consider whether the financial instructions & standing orders cover financial management responsibilities, whether members and officers are adequately financially aware, understanding and awareness of the main risks which face the Council (including for instance whether there are outstanding legal or regulatory proceedings that might impact on financial stability, or reliance on particular income source)	Green
Executive and Member Engagement	This is about whether Directors and Members involve themselves and other stakeholders, and is not about understanding – see Understanding – and not about what information they see – see Budget reporting & Adequacy of other Committee/Cabinet Reporting: consider presence of S151 Officer in the leadership team, whether members and officers challenge robustly and lead effectively – especially on the Audit Committee (or equivalent). & whether there is adequate internal & external engagement in the budget setting process	Green
Overview for controls over key cost categories	Consider how the Council controls its key cost categories in terms of how they are reported.	Green

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Budget reporting: revenue and capital	Consider the budgetary information used by Cabinet/Executive & its Committees: high-level summary for year to date, issues affecting the current & forecast outturn positions, forecast year-end outcome: is this at a level of detail that enables the Cabinet/Executive & Committees to make effective decisions – not too complex but not too consolidated either	
Adequacy of other Committee/ Cabinet Reporting	Consider the other financial information used by Cabinet/Executive & its Committees: issues affecting the current & forecast outturn positions, cash flow position & forecast to year end, balance sheet current & forecast at year end, savings plan position & forecast to year end, a discussion of the main financial risks especially those affecting year-end outturn, the use of "trigger data" that shows drift from plans quickly, to enable prompt action, capital and borrowing, forward-looking information to help promote longer-term financial thinking, such as rolling cash flow & position forecasts that ignore the year end, is it complete, accurate, reliable, & timely (and if not are Cabinet/Executive members aware of that fact & taking it into account in their decision-making), whether there is evidence that the Cabinet/Executive or Committees are taking suitable action	Green

Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is a an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	Consider the process in place for budget preparation: does it appear capable of ensuring a reliable achievable budget; also whether the process involves the consideration of alternatives before the final version is agreed & approved; also the process for re-forecasting including level of detail & frequency; also the process for monitoring: does it seem capable of managing budgets frequently enough & at an appropriate level, rather than just reporting on them; also does it appear that assets are being managed effectively; also whether cash is being managed appropriately in terms of market conditions and counterparty and interest rate risks	Green
Performance against Savings Plans	The process in place to prepare the annual savings programme:: how projects are identified and valued, the level of detail & reliability achieved, the effect on service delivery in the short & long term How the Council has approached the problem of having enough schemes in place to meet the target even if there is slippage: "headroom" in the plan (i.e. extra projects already identified and worked-up so that the total programme value exceeds the total target value), or reducing the gross project value to expected values according to perceived risk that will identify any potential target shortfall, or availability of reserves Consider the Council's history of savings plan delivery as unless they are doing something different that may indicate an inability to deliver currently & into the future The robustness of the processes in place to monitor & report on in-year progress against plan: does this adequately cover progress to date & expected outcomes by year-end, including a discussion of the relevant factors and risks, does it show evidence of an adequate project management structure where responsibilities & outcomes are identified, & those responsible for monitoring have the clout to be able to affect outcomes, is there evidence that the Council is proactively managing delivery rather than just reporting on it	Green
Key Financial Accounting Systems	Consider: Internal Audit reviews of critical financial systems over the last year; also consider whether accounting systems are appropriate to the business and its future requirements, also consider evidence for the accuracy and reliability of accounting systems	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	• The 2011/12 financial statements audit identified a number of issues which were felt to be a partial consequence of insufficient resources within the finance team. The 2012/13 audit has noted an overall improvement in the quality of working papers, but resources remain stretched. • Finance staff involved in the accounts preparation process are qualified accountants and as such are judged to possess the skills and competences to fulfil the requirements of their job roles. However, it was noted during 2011/12 that there was insufficient capacity within the finance team for a thorough review of the draft financial statements to be undertaken prior to the audit, and a number of errors were identified as a result. The 2012/13 audit resulted in a reduced number of accounts adjustments in total, however the number of adjustments to disclosure notes was still high for this authority type.	Amber
Internal audit arrangements	• Internal audit is provided by the Mid Kent Audit Partnership. A review of the service against the CIPFA Code of Practice for internal audit was undertaken during February 2013 and it was concluded that the service complies with the applicable professional standards. • The work programme for 2012/13 provided adequate coverage of the key financial systems and delivery of the plan was complete by 31st March 2013, other than a small number of reviews which had been rescheduled for April 2013. • The internal audit final report did not identify any significant control weakness that needed to be brought to the attention of the Audit Committee.	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
External audit arrangements	During 2011/12, the Council's external auditors issued an unqualified opinion on the financial statements and an unqualified VFM conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. The conclusions from the ISA260 report noted that the Council will need to ensure that: • adequate checks of capital accounting entries are undertaken as part of the accounts closedown process; • arrangements for obtaining asset valuations from the Council's external valuer are reviewed prior to preparation of the 2012/13 accounts; • an up to date list of the artefacts held in Maidstone Museum is established; • steps are taken to improve the quality of the draft financial statements and supporting working papers; • the finance team have an up to date knowledge of developments in financial reporting requirements • an annual review of the Local Code of Corporate Governance is undertaken in line with the policies set out in the Annual Governance Statement and; • the Council's website is updated with the most recent version of major Council policy documents and other publications. Follow up of these recommendations during the 2012/13 audit indicated that officers had responded to the recommendations set out in this report and have made satisfactory progress in implementing recommendations across the areas identified. Our 2012/13 Audit Findings Report will be presented to the Audit Committee on 16th September 2013, and does not indicate any major areas of concern. We anticipate issuing an unqualified audit opinion and VFM conclusion by the statutpry deadline of 30th September 2013.	Green
Assurance framework/risk management	• The Council updated its strategic risk register in November 2012. This exercise was conducted with members of the Corporate Leadership Team and facilitated by Zurich. The six risks identified as part of this exercise were prioritised according to their likelihood and impact, and assigned to a named senior officer as the risk owner to take overall responsibility for ensuring that the risk is effectively managed. The register also maps each risk identified to the Council's corporate objectives, and the scoring system incorporates RAG ratings according to the scores given. • The strategic risk register is subject to regular review, and risk management features as a standard consideration for all reports to the Corporate Leadership Team and Members. The Audit Committee is charged with monitoring the effective development and operation of risk management. • The number of risks identified and reported is appropriately pitched to allow the Cabinet and Audit Committee to keep these under adequate review • Identification of risks at an operational level is incorporated into the annual service planning process. This process also incorporates the formulation of strategies and actions to address the risks identified.	Green

Appendix - Key indicators of financial performance

Key Indicators of Financial Performance

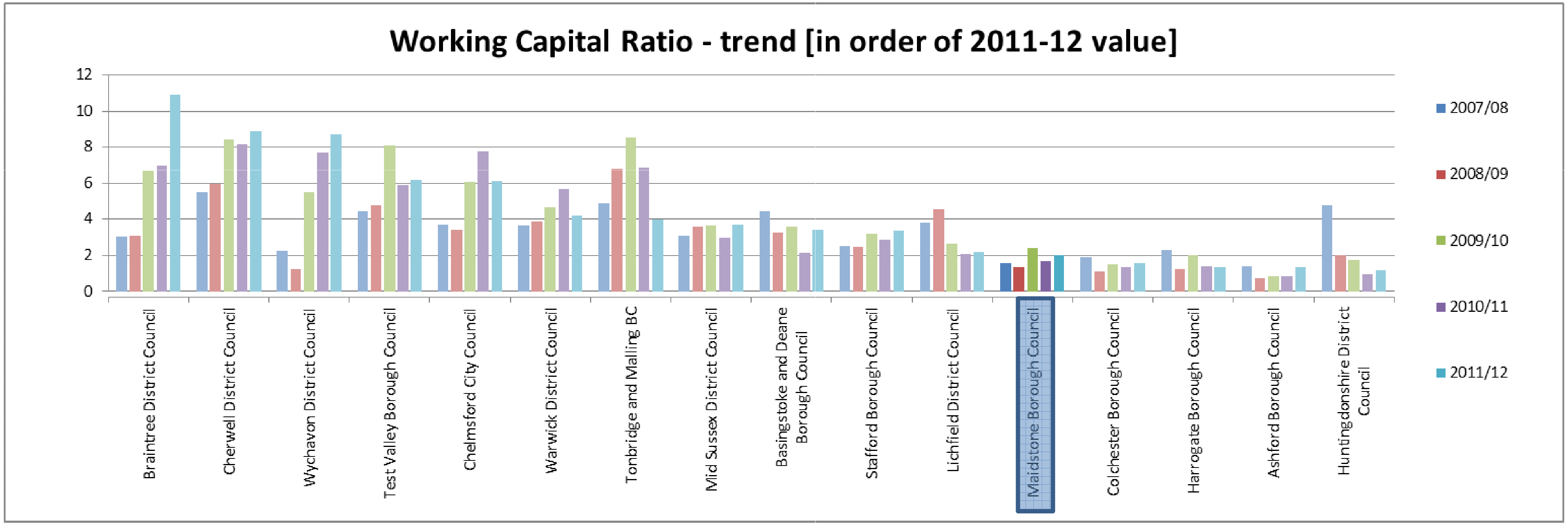
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable , whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

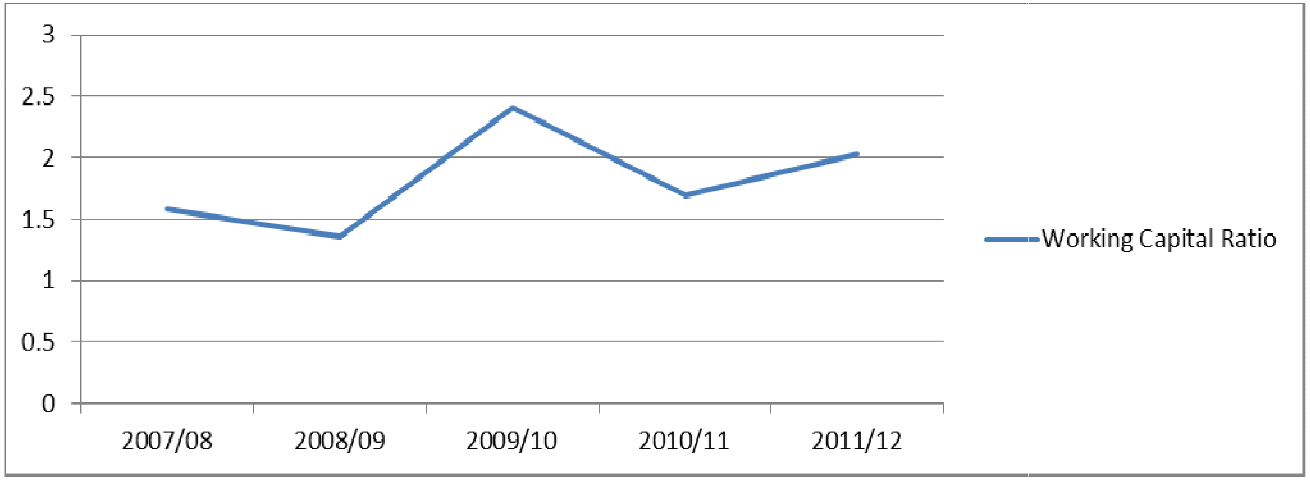
Maidstone's working capital ratio has increased from 1.58 in 2008 to 2.03 in 2013. This leaves the Council just outside of the preferred ratio of 2:1. While the council is maintaining a positive working capital ratio and continues to have sufficient levels of current assets to cover its liabilities, working capital will need to be carefully monitored in future years, particularly in light of the council's plans to borrow for the purposes of property investment, which will place increasing pressure on liquidity.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Working Capital - Trend



Source: Audit Commission's Technical Directory

The Council has adopted CIPFA's Code of Practice on Treasury Management to ensure the security of Council's funds.

The prudent approach to Treasury Management has contributed to the Council's consistent positive working capital ratio in recent years.

During 2012/13 the Council has not borrowed for cash flow or financing purposes.

The 2013/14 Treasury Management Strategy sets out the amended authorised limit for external borrowing of £6m. This long term borrowing would be used to finance the Council's planned commercialisation projects as previously stated. The effect of this has the potential place pressure on working capital and will require careful monitoring.

Key Indicators of Financial Performance

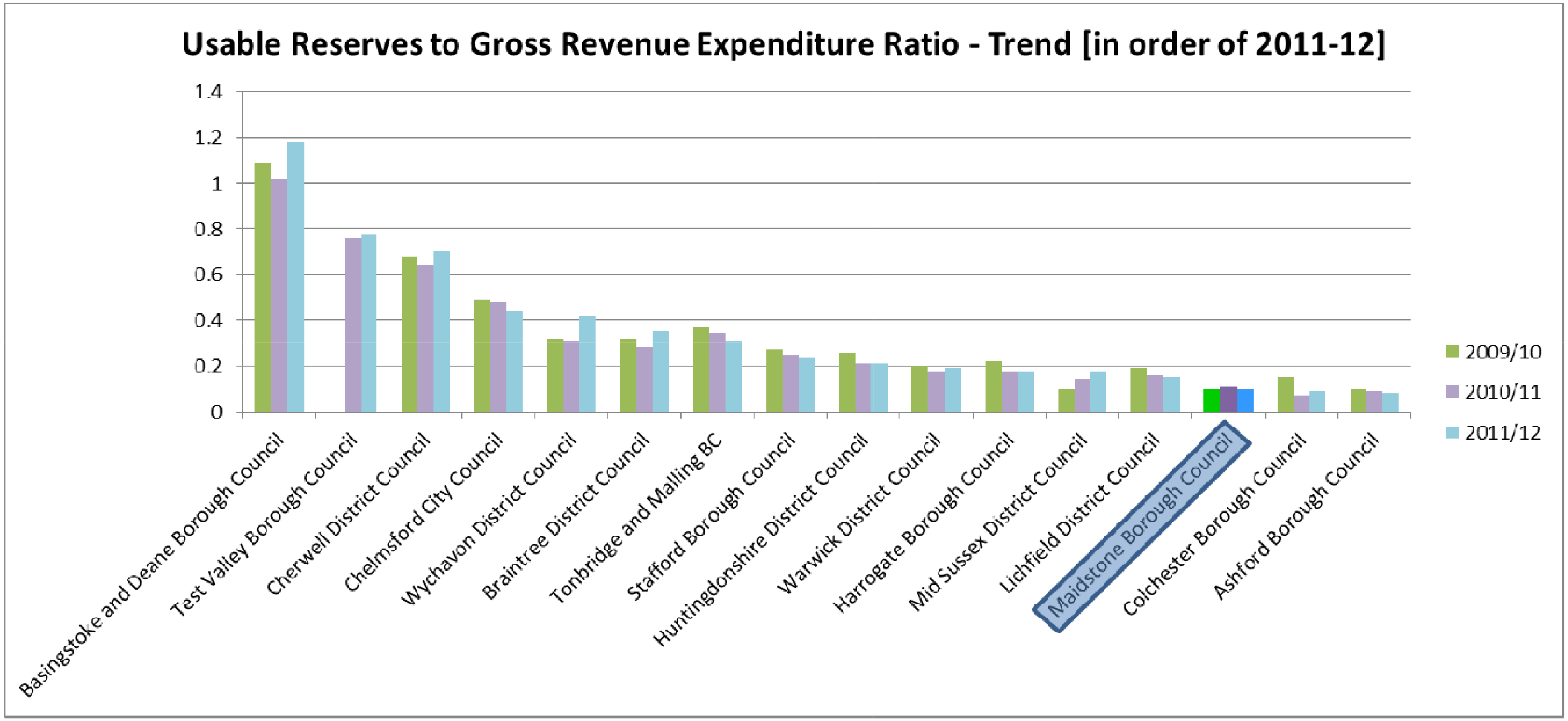
Useable Reserves - Benchmarked

Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings

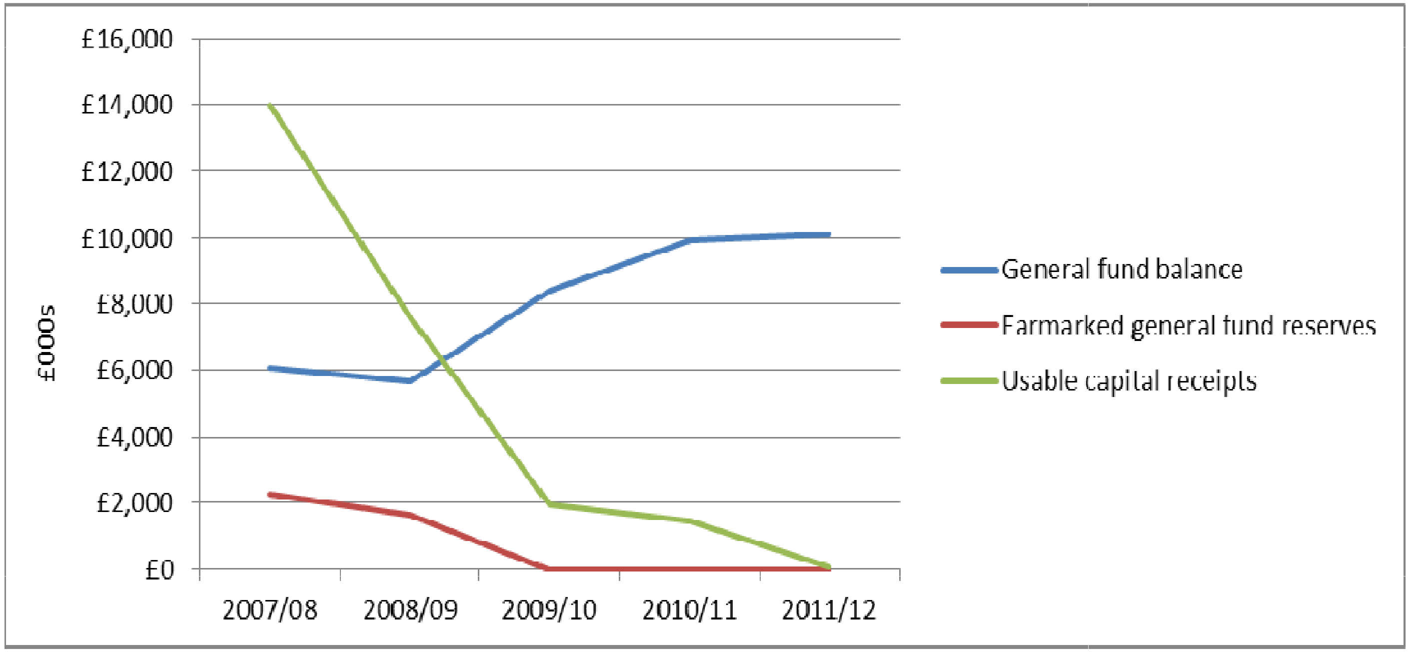
Between 2009 and 2012, the council's useable reserves have remained at a fairly constant level, although a reduction in balances is expected from 1st April 2014. The ratio of total reserves to expenditure is currently 0.1. This is relatively low in comparison to the benchmark group and will need to be carefully monitored in order to ensure that useable reserves remain within acceptable levels. Further analysis is set out on the following slides.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Useable Reserves - Trend by Type



Source: Audit Commission Financial Ratios Profile

The main trend is the fall in the balance on the usable capital receipts reserve as it has been used to finance capital expenditure.

The Council reduced its earmarked general fund reserves to zero during 2009/10, and no transfers to earmarked reserves have been made since this date.

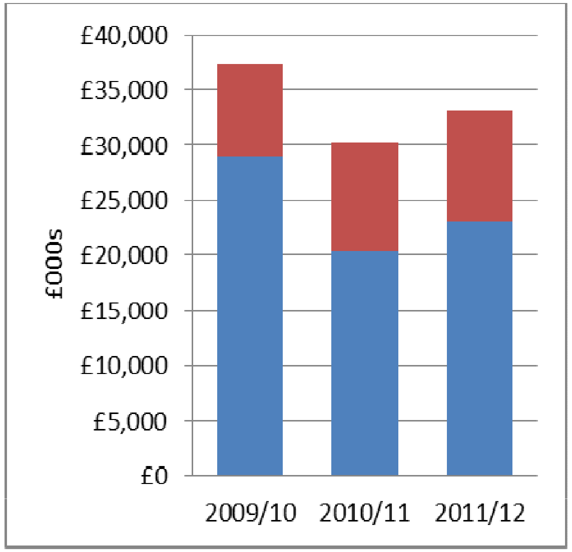
CIPFA's guidance on reserves specifies that the level of the general fund balance should follow the S151 officer's advice to the council, which should be based on local circumstances. The Council's policy on working balances is that these should be held at a minimum level of £2.3m, which is 11.8% of net revenue expenditure.

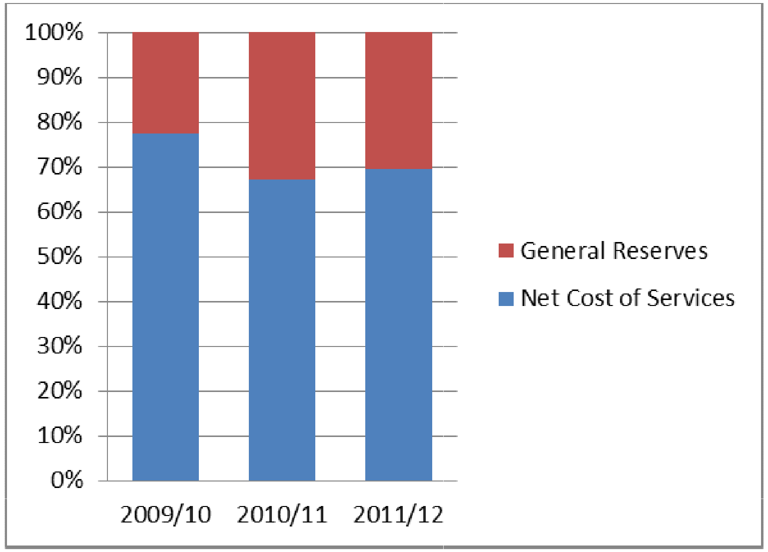
At 31st March 2014, uncommitted reserves are expected to be £3,346k, which is £1.046m above the minimum level set by the S151 Officer. The reduction is partly explained by £5,519k carried forward from 2012/13 and used in 2013/14.

Key Indicators of Financial Performance

Reserves

The graphs below show the level of general reserves against the net cost of services balance. The first graph shows this in actual terms, the second in percentage terms.





Source: Audit Commission Financial Ratios Profile

The graphs show an overall decrease of 21% (£5.9m) in the net cost of services figure over this three year period.

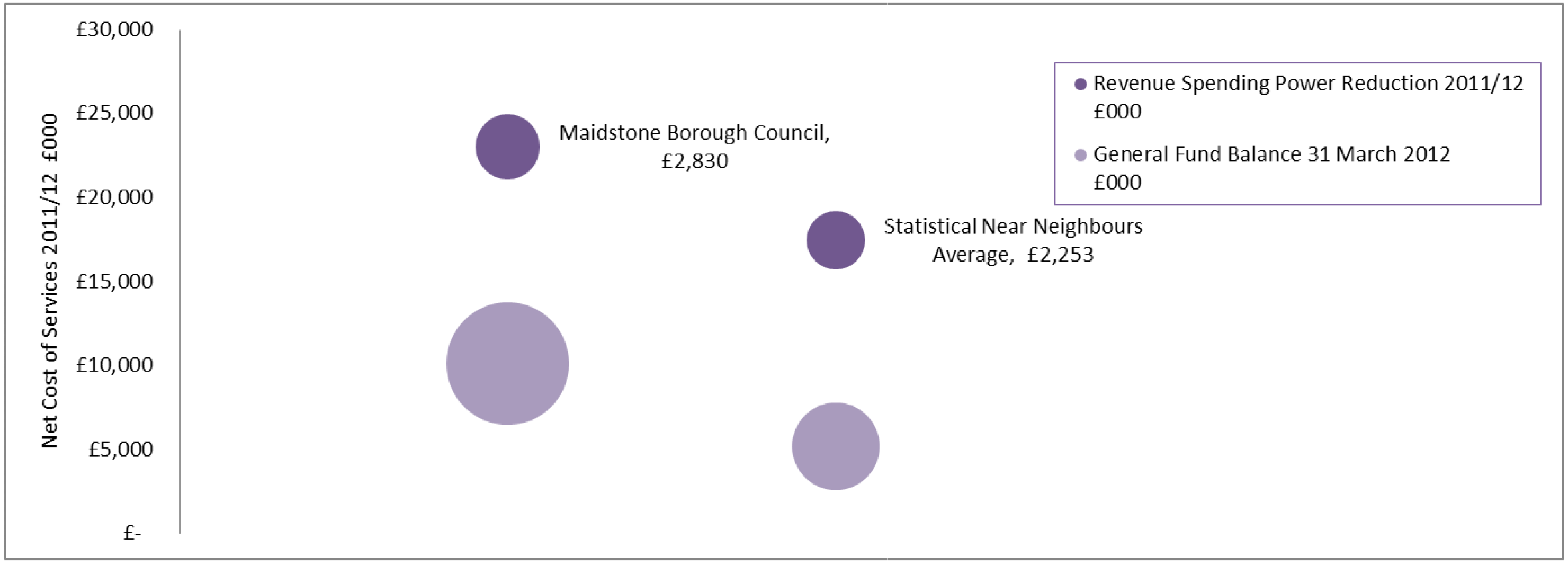
This has contributed to the increase in general fund reserves as a proportion of net cost of services (from 22% in 2009/10 to 31% in 2011/12.

At 31st March 2013, the overall level of balances is provisionally expected to be £12.6m. However, this includes amounts carried forward for planned use in 2013/14. Taking this into account, the overall balances at 31st March 2014 are expected to be £5,548, including uncommitted balances of £3.346m.

Whilst this represents a significant overall decrease, levels of balances remain £1.046m above the working minimum set by Cabinet in February 2012.

Key Indicators of Financial Performance

Reserves: Spending Power Reduction 2011/12 vs. General Fund Reserves



Source: Audit Commission Financial Ratios Profile

This chart shows the reduction in revenue spending power in the size of the top circles. This represents the reduction from 2010/11 to 2011/12 in the council's income from government grants, council tax, and national non-domestic rates and shows that for Maidstone, the reduction in spending power has been above the average for the benchmark group. Expressed as a percentage of the net cost of services, this equates to a 12.3% reduction in spending for Maidstone, compared with 12.9% for its group of statistical near neighbours.

The lower circles show the size of the council's and the group average general fund balances. (This is also shown by the circle's position on the y-axis.) This shows that the council's general fund balance at 31st March 2012 was higher than the average for the benchmark group, despite significant reductions in income.

Key Indicators of Financial Performance

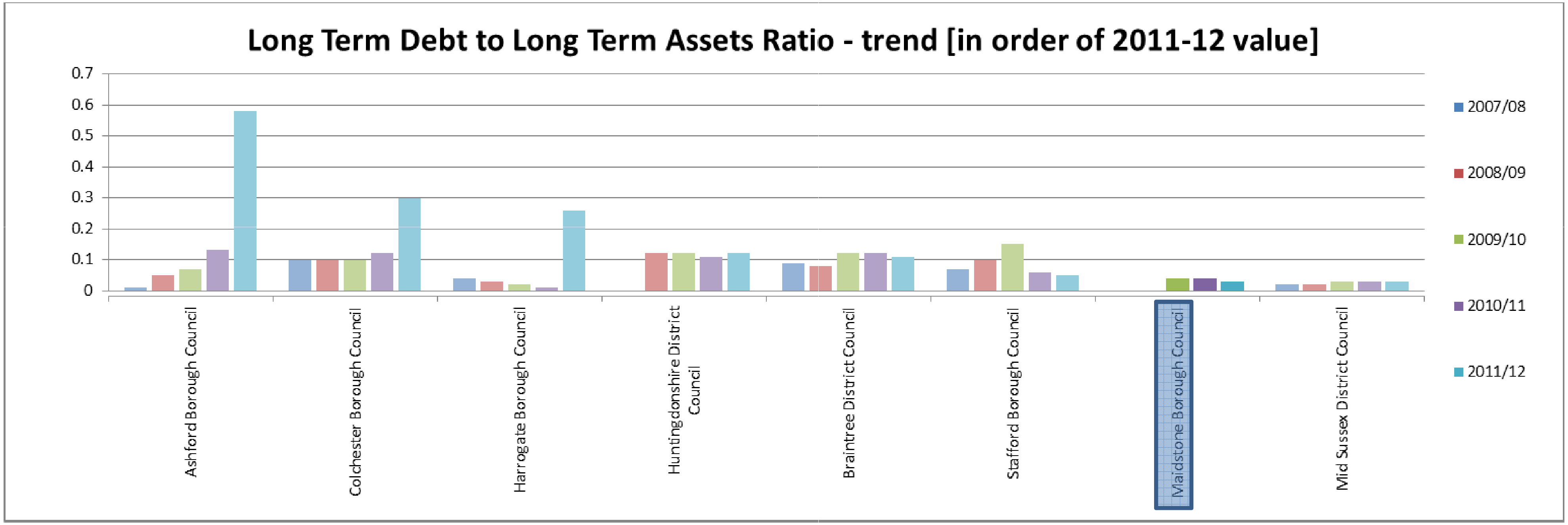
Long-term borrowing to Long-term assets - Benchmarked

Definition

This ratio shows long tem borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

The most recent ratio of 0.03 shows that the Council's long term borrowing represents approximately 3% of its long term assets - i.e. long term borrowing does not exceed its long term assets. In comparison to other authorities in this benchmarked group, Maidstone has a lower than average long term borrowing to long term assets ratio, and was debt free prior to 2009/10 when it entered into entered into a service concession arrangement with Serco to fund a major refurbishment of Maidstone Leisure Centre.



Source: Audit Commission's Technical Directory

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