

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 18 September 2017
Time: 6.30 pm
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Adkinson, Butler, Coulling (Parish Representative), Daley, English (Vice-Chairman), Fissenden, Garland, Harvey, McLoughlin (Chairman) and Perry

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Issued on Friday 8 September 2017

Continued Over/:

Alison Broom

Alison Broom, Chief Executive

PUBLIC SPEAKING

In order to book a slot to speak at this meeting of the Democracy Committee, please contact Debbie Snook on 01622 602030 or by email on debbiesnook@maidstone.gov.uk by 5 p.m. one clear working day before the meeting. If asking a question, you will need to provide the full text in writing. If making a statement, you will need to tell us which agenda item you wish to speak on. Please note that slots will be allocated on a first come, first served basis.

ALTERNATIVE FORMATS

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MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 26 JUNE 2017

Present: Councillor McLoughlin (Chairman) and Councillors Adkinson, M Burton, Butler, Coulling (Parish Council Representative), Daley, English, Harvey and Perry

Also Present: Councillor Prendergast
Mr Darren Wells - Grant Thornton (External Auditor)

6. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillor Garland.

7. NOTIFICATION OF SUBSTITUTE MEMBERS

It was noted that Councillor M Burton was substituting for Councillor Garland.

8. NOTIFICATION OF VISITING MEMBERS

Councillor Prendergast indicated her wish to speak on the report of the Head of Policy, Communications and Governance relating to the Annual Statement of Corporate Governance.

9. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

10. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

11. EXEMPT ITEMS

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

12. MINUTES OF THE MEETING HELD ON 20 MARCH 2017

RESOLVED: That the Minutes of the meeting held on 20 March 2017 be approved as a correct record and signed.

In response to a question, the Director of Finance and Business Improvement confirmed that an update would be provided to the

September meeting of the Committee on the minimum standards to be adhered to by contract managers as a regulatory regime.

13. MINUTES OF THE MEETING HELD ON 23 MAY 2017

RESOLVED: That the Minutes of the meeting held on 23 May 2017 be approved as a correct record and signed.

14. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

15. COMPLAINTS RECEIVED UNDER THE MEMBERS' CODE OF CONDUCT

The Committee considered the report of the Interim Head of Legal Partnership on complaints received under the Members' Code of Conduct during the period 1 January 2017 to 31 May 2017. It was noted that:

- Since the last report to the Committee on 16 January 2017, there had been one new complaint which related to three separate subject Members, all of whom were Parish Councillors. As at 12 June 2017, the complaint was at the initial assessment stage.
- At the time of the last report to the Committee, one complaint was awaiting initial assessment. The complaint was not progressed as it failed the local assessment criteria.

RESOLVED: That the report be noted.

16. ANNUAL STATEMENT OF CORPORATE GOVERNANCE

The Head of Policy, Communications and Governance presented the Annual Governance Statement for 2016/17 and a new Local Code of Corporate Governance for review and approval by the Committee prior to submission to the Policy and Resources Committee for agreement and then sign-off by the Leader of the Council and the Chief Executive. It was noted that:

- The purpose of the Annual Governance Statement was to provide assurance on the Council's governance arrangements. The Statement included a review of the effectiveness of the arrangements in place for 2016/17 and identified areas for action in 2017/18.
- Action taken to address governance issues in 2016/17 included the introduction of a mandatory training module for data protection, new policies and guidance for all staff on information management, the introduction of a new Member Sounding Board to look at communication issues and how Members can be engaged and informed, and resolution of webcasting issues.

- Overall the governance arrangements were sound, but there were areas where improvements could be made, including contract management.
- The purpose of the Local Code of Corporate Governance was to set out the core principles of corporate governance and the arrangements in place to fulfil these responsibilities. A new Local Code of Corporate Governance had been developed to reflect the "Delivering Good Governance Framework" introduced by CIPFA/SOLACE in 2016. The format of the Annual Governance Statement had also been updated.

In response to questions and comments, it was explained that:

- The effectiveness and costs/benefits of Investors in People accreditation was being looked at by the Employment Committee.
- It had been found from audit work that there were weak controls in place for the management of cash at the Mote Park Café, but following implementation of audit recommendations, the controls in place had been re-assessed as "sound".
- Concerns relating to contract management would continue to be addressed in 2017/18.
- The Annual Governance Statement would be amended to provide an explanation as to who the S151 and Monitoring Officers are and their roles and the Local Code of Corporate Governance would be amended to include references to the Parish Charter and the Statement of Community Involvement.
- The Staff Handbook and the Councillor and Officer Codes of Conduct would be circulated to Members.

During the discussion, reference was made to correspondence received by Members from Parish Councils/Parish Councillors, which was considered to contain inappropriate language. It was suggested that consideration be given to offering training to Parish Councils on equalities and Councillor Code of Conduct issues, possibly in conjunction with the Kent Association of Local Councils (KALC). The Head of Policy, Communications and Governance undertook to look into the concerns raised, establish the issues, determine whether they might be addressed by the provision of training, possibly in conjunction with KALC, and keep Members informed.

RESOLVED: That subject to the amendments made in the discussion, as outlined above, the Annual Governance Statement for 2016/17 and the Local Code of Corporate Governance 2017 be approved for submission to the Policy and Resources Committee for agreement and then sign-off by the Leader of the Council and the Chief Executive.

17. ANNUAL INTERNAL AUDIT REPORT & OPINION

The Head of Audit Partnership presented the Internal Audit Annual Report and Opinion 2016/17. Under the Public Sector Internal Audit Standards, the report included:

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

It was noted that the Head of Audit Partnership was satisfied from the audit work completed during 2016/17 that the Council could place assurance on its internal control. The audit work provided assurance that the Council's corporate governance complied in all significant respects with the guidance issued by CIPFA/SOLACE and that risk management was effective. The Head of Audit Partnership had decided independently and without any undue pressure from Officers or Members.

During his presentation, the Head of Audit Partnership advised the Committee that:

- In his previous report presented to the Committee in November 2016, he had raised some concerns on the strength and resilience of some internal controls. The common thread in these controls was the "second line of defence" – controls designed to identify and correct any failures in the Council's direct management before such failures could expose the Council to risk or harm. He had shared these concerns with senior management who had acted in response.
- As the year continued Internal Audit had found some examples of these controls working effectively and some examples of weakness. Whilst, overall, the controls offered 'sound' assurance, he had continued to raise these matters with senior management separately (besides recommendations arising from individual reviews). He had noted that senior management recognised the need to improve, as recorded in the Annual Governance Statement.
- The Audit Service had delivered above the planned number of audit days.
- The audit project review findings 2016/17 included four weak assurance reports covering Health and Safety, Park and Ride, Performance Management and the Hazlitt Theatre. The Officers had accepted and were acting to address recommendations arising from reviews. This included action on reviews previously assessed as 'weak'. Sometimes, as in the case of Business Continuity, progress had allowed the Audit Service to reassess the assurance rating to 'sound'. The report also

referenced the few audit projects that had incurred delays to actions needed to address agreed recommendations.

- The report also provided an update on counter fraud, including whistleblowing, risk management and the Mid-Kent Audit Service.

The Head of Audit Partnership confirmed conformance with Public Sector Internal Audit Standards and highlighted continued improvement in performance results. He added that the Audit Service had achieved this continuing improvement in performance and productivity whilst keeping high levels of satisfaction.

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

- When considering an NFI match, the question of whether the matter was a fraud or mistake turned on the evidence. To continue a prosecution as fraud, an investigation must pass Evidential and Public Interest Tests. The Evidential Test considered whether the weight of evidence suggested a conviction was likely. This included (for a fraud offence) whether there was evidence to prove dishonesty to a criminal standard; a high bar to clear. On satisfying the Evidential Test, the Council would then need to consider whether a prosecution was in the Public Interest. This test included, among other considerations, weighing up the cost of prosecution against likely penalties and the deterrence effect. Without a conviction, the report described positive matches as 'errors'.
- With regard to following up audit recommendations, none remained outstanding from 2015/16. The report also included details on recommendation ratings. Unless there were exceptional circumstances, the Audit Service would not agree to implementation dates more than a year ahead.

The Committee thanked the Head of Audit Partnership for a clear and well-presented report.

RESOLVED:

1. That the Head of Audit Partnership's opinion that the Council's system of internal control, corporate governance and risk management arrangements have operated effectively during 2016/17 be noted.
2. That the work underlying the opinion and the Head of Audit Partnership's assurance that it was completed with sufficient independence and conformance with Public Sector Internal Audit Standards be noted.

Note: Councillor Daley left the meeting after consideration of this item.

18. AUDIT, GOVERNANCE AND STANDARDS COMMITTEE - ANNUAL REPORT 2016/17

The Committee considered the report of the Head of Audit Partnership setting out the Audit, Governance and Standards Committee Annual Report 2016/17. It was noted that:

- The report represented a retrospective review of the activity of the Committee and reflected its terms of reference. It provided assurance that important internal control, governance and risk management issues were being monitored and addressed by the Committee and provided additional assurance to support the Annual Governance Statement.
- The report also included a refreshed programme of development briefings, to be delivered prior to each meeting of the Committee, designed to complement and provide insight into the types of issues that the Committee would be considering over the course of the year.

The Committee asked the Officers to consider whether the proposed briefing on understanding local authority accounts could be brought forward.

RESOLVED:

1. That the Audit, Governance and Standards Committee Annual Report 2016/17 be approved.
2. **To RECOMMEND to the COUNCIL:** That the Audit, Governance and Standards Committee Annual Report 2016/17, which demonstrates how the Committee discharged its duties during 2016/17, provides assurance that important internal control, governance and risk management issues are being monitored and addressed by the Committee and provides additional assurance to support the Annual Governance Statement, be noted.
3. That the proposed programme of Member development briefings be approved subject to the Officers considering whether the proposed briefing on understanding local authority accounts could be brought forward.

19. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Committee considered the report of the Director of Finance and Business Improvement updating the risk assessment of the Budget Strategy.

It was noted that:

- Since the last meeting of the Committee, the General Election and its outcome had resulted in greater uncertainty at a national level. Locally, the final outturn for the Council's financial year 2016/17 was

now known and an assessment of the risks of failing to deliver against the 2017/18 budget had been carried out. The risks included in the Budget Risk Register had been reviewed in light of these developments, and there were two risks which had moved from the "yellow zone" to the "red zone" as follows:

B – Fees and Charges Fail to Deliver Sufficient Income

The previous Government had indicated that it would allow local authorities to increase planning fees by 20%, which would have helped to offset financial pressures. Unfortunately, the legislation which would have allowed the Council to implement these planning fee increases was not enacted before the General Election. Whilst the Government still seemed to be committed to this initiative it was unlikely that it would occur before the autumn.

H – Adverse Impact from Changes in Local Government Funding

2017/18 was the second year of the four year funding settlement for local government announced in 2016. It was intended that the four year settlement would provide certainty for the remaining period of the Government's five year term. From 2020 there would be a new local government funding regime incorporating 100% business rates retention. The early General Election had created uncertainty in the short term. The new Government might not consider it bound to adhere to the pre-announced settlement figures for years three and four of the Funding Settlement. Further, the introduction of 100% business rates retention might be affected as it depended on enabling legislation, the Local Government Finance Bill, which did not complete its passage through Parliament in the final session before the General Election.

- Other risks had reduced slightly; for example, the revenue outturn for 2016/17 was better than expected, with an underspend of £89,000 against the budget, and the initial assessment of the potential for delivering the savings due in 2017/18 was positive.

In response to questions, the Director of Finance and Business Improvement explained that:

- In terms of the risk that the inflation rate predictions underlying the Medium Term Financial Strategy are inaccurate, whilst the Consumer Price Index increase was 2.9% for the year to May 2017 compared to a budget projection of 1.6%, the overall impact for the risk profile was no change.
- It was possible that changes in the Government's priorities could have adverse implications for Local Government funding arrangements.
- Whilst the projected benefit from the Kent Business Rates Pool was set to increase from £5.1m to £7.5m in 2017/18, this was a county-wide shared benefit.

RESOLVED: That the updated risk assessment of the Budget Strategy, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

20. DRAFT STATEMENT OF ACCOUNTS 2016/17

The Committee considered the draft un-audited Statement of Accounts summarising income and expenditure for the financial year to 31 March 2017 together with details of the Council's assets, liabilities and reserves at that date. It was noted that:

- The Council was required to submit a draft copy of the Statement of Accounts to the External Auditors by 30 June in line with the amended Accounts and Audit Regulations 2011. The final audited Statement of Accounts would be submitted to the Committee for approval in September 2017.
- Long term liabilities had increased by £16.9m, predominantly resulting from the increase in the pensions liability following the annual assessment of the fund by actuaries acting on behalf of Kent County Council. There was a corresponding reduction in the value of unusable reserves. Whilst this had a substantial impact on the net worth of the Council as recorded in the Balance Sheet, statutory arrangements in place to fund the deficit meant that the financial position of the Council remained healthy. The deficit was currently being addressed through increased contributions to the fund over the working life of employees, as assessed by the scheme actuary.
- The Officers had made efforts to "de-clutter" the Statement of Accounts in recent years by removing unnecessary and immaterial disclosures. The remaining disclosures were considered necessary in order to comply with accounting standards.
- In terms of Key Performance Indicators, the net contribution generated from commercial activities was down against the budget due in part to the failure of the Mote Park Café to deliver income targets in 2016/17. A recovery strategy had been implemented and the Café was now breaking even.

In response to questions by Members, the Director of Finance and Business Improvement explained that:

- Consideration would be given as to how the Council's main sources of income could be cross referenced in the narrative report to where they show in the main financial statements.
- The Accounts showed that the balance on the general fund and earmarked reserves had decreased by £1.5m to £17.343m at the end of 2016/17, including unallocated balances. The decrease related to the use of New Homes Bonus previously set aside for capital expenditure to fund large acquisitions in 2016/17. The table set out in

note 7 to the Accounts should be amended to show contributions to balances of £2.815m, unallocated balances of £9.329m and a total General Fund Balance of £17.343m as at 31 March 2017. An update on movements in all balances would be included in the first quarter budget monitoring report in September, including movement in balances for New Homes Bonus.

- Current projections indicated that the Council had sufficient cash to fund planned capital expenditure during 2017/18 and following that it would be necessary to borrow to fund capital projects.
- Consideration would be given as to how more detailed information about what infrastructure projects the NHB has been spent on might be included in the Accounts.

The Director of Finance and Business Improvement also confirmed that he would circulate details about the way in which parish precepts are treated, as compared with precepts payable to Kent County Council, the Police and Crime Commissioner and the Fire and Rescue Authority, to all Members of the Committee and the Parish Council representative.

RESOLVED: That subject to the points raised in the discussion, the draft un-audited Statement of Accounts for the year ending 31 March 2017, attached as Appendix A to the report of the Director of Finance and Business Improvement, be approved.

21. TREASURY MANAGEMENT ANNUAL REVIEW 2016/17

The Committee considered the report of the Finance Manager setting out details of the activities of the Treasury Management function for the 2016/17 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. The Finance Manager explained that:

Economic Overview for 2016/17

- Following the EU referendum decision, sharp falls in Sterling exchange rates and rising fuel prices increased inflation to 2.3% in March 2017. The Bank of England cut the bank rate to 0.25% in August 2016 and increased quantitative easing to help stimulate growth in the economy, resulting in lower investment and borrowing rates. Rating agencies had downgraded the UK's sovereign rating to AA due to the uncertainty associated with the referendum decision. None of the banks on the Council's lending lists failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November.

Investment/Borrowing Activity

- During 2016/17, the Council's investment balances had ranged between £14.2m and £40.2m. The average investment balance for the year was £29.2m. The Council held investments totalling £15.86m as at 31

March 2017. Investment income for the year totalled £186k with an average rate of 0.58% against the benchmarked rate of 0.54%.

- All investments during 2016/17 had been short term due to rates not being sufficient to justify the risk of investing funds for longer periods. Funds had also been kept liquid being required to fund the Capital Programme and the daily liabilities of the Council throughout the year.
- The Council had not needed to borrow during 2016/17 except on two occasions for short term cash flow purposes. The total cost of the borrowing was £82.20.
- The Council's Treasury Management activities in 2016/17 had complied with CIPFA's Code of Practice on Treasury Management in Local Authorities and the Council's Treasury Management Strategy.

In response to questions, the Finance Manager explained that:

- The use of property funds had been looked at when they were doing extremely well in terms of capital appreciation and rental income, but it was now considered that, given the fall in returns and the length of time that the funds would be tied up, the Council's funds would be better invested in local infrastructure to achieve a rental income stream.
- Whilst it had been believed that there would be a prudential borrowing requirement of £11.95m in 2016/17, the only borrowing requirements had been for short term cash flow purposes due to slippage in the Capital Programme.

The Committee thanked the Finance Manager for a clear and comprehensive report.

RESOLVED:

1. That the review of the financial year 2016/17 which has been compiled in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities be noted.
2. That no amendments to the current Treasury Management procedures are necessary as a result of the review of activities in 2016/17.

22. EXTERNAL AUDITOR'S PROGRESS REPORT JUNE 2017

Mr Darren Wells presented the report of the External Auditor on the progress to date on the 2016/17 audit. The report also included a summary of emerging national issues and developments of relevance to the local government sector.

The Chairman drew Members' attention to articles and publications available on the Grant Thornton and National Audit Office websites which

they might find useful, including a Grant Thornton publication providing a broad overview of Local Authority Accounts.

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

23. EXTERNAL AUDIT FEE LETTER 2017/18

The Committee considered the report of the Director of Finance and Business Improvement setting out details of the proposed external audit fee for 2017/18. It was noted that the main audit fee for the financial statements audit and value for money conclusion had been set at £50,475, which represented no change from the 2016/17 fee. The fee for grant claim certification work had not yet been set.

In response to questions, the Director of Finance and Business Improvement updated the Committee on the position with regard to the procurement of a new External Auditor. It was noted that the Council's current contract with its External Auditor was due to expire at the end of 2017/18, and the Council would need to appoint a new Auditor before 31 December 2017. The Council had opted-in to an outsourced procurement process under the aegis of the Local Government Association. Grant Thornton had won the biggest of the lots put out to tender, and it was anticipated that details of specific appointments would be announced next month.

RESOLVED: That the proposed audit fee of £50,475 for 2017/18 audit work (financial statements audit and value for money conclusion), to be undertaken by Grant Thornton, be noted.

24. COMMITTEE WORK PROGRAMME 2017/18

RESOLVED: That the Audit, Governance and Standards Committee work programme for 2017/18 be noted.

25. DURATION OF MEETING

6.30 p.m. to 8.25 p.m.

2017/18 WORK PROGRAMME SORTED BY COMMITTEE

Report Title	Work Stream	Committee	Month	Lead	Report Author
Internal Audit Interim Update	Audit	AGS	Nov-17	Rich Clarke	Rich Clarke
External Audit Update Report November 2017	Corporate Finance and Budgets	AGS	Nov-17	Mark Green	Ellie Dunnet
External Auditor's Annual Audit Letter 2016/17	Corporate Finance and Budgets	AGS	Nov-17	Mark Green	Ellie Dunnet
Treasury Management Mid-Year Review 2017/18	Corporate Finance and Budgets	AGS	Nov-17	Ellie Dunnet	John Owen
Annual Governance Statement Update	Corporate Planning	AGS	Nov-17	Angela Woodhouse	Angela Woodhouse
Counter Fraud Standards Update	Updates, Monitoring Reports and Reviews	AGS	Nov-17	Rich Clarke	Rich Clarke
Budget Strategy 2018/19 - Risk Assessment	Corporate Finance and Budgets	AGS	Jan-18	Mark Green	
Treasury Management Strategy 2018/19	Corporate Finance and Budgets	AGS	Jan-18	Ellie Dunnet	John Owen
Audit & Assurance Plan	Audit	AGS	Mar-18	Rich Clarke	Rich Clarke
Audit Charter Update	Audit	AGS	Mar-18	Rich Clarke	Rich Clarke
Risk Management Update	Audit	AGS	Mar-18	Russell Heppleston	Russell Heppleston & Alison Blake
External Audit Update Report March 2018	Corporate Finance and Budgets	AGS	Mar-18	Mark Green	Ellie Dunnet
External Auditor's Audit Plan 2017/18	Corporate Finance and Budgets	AGS	Mar-18	Mark Green	Ellie Dunnet

Audit, Governance and Standards Committee

**18 September
2017**

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

Yes

Contract Management

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service	Georgia Hawkes – Head of Commissioning and Business Improvement
Lead Officer and Report Author	Georgia Hawkes – Head of Commissioning and Business Improvement
Classification	Public
Wards affected	None

This report makes the following recommendations to this Committee:

1. Audit, Governance and Standards Committee notes progress in implementing good practice in contract management.

This report relates to the following corporate priorities:

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

The report relates to both of the corporate priorities as good contract management ensures that outsourced services deliver the Council’s objectives effectively and efficiently. Many of the Council’s highest value contracts contribute to one or both priorities e.g. waste collection, Leisure Centre management, parking enforcement etc.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	18 September 2017

Contract Management

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 Recent audit reviews of major contracts have indicated some inconsistency in the standard of contract management across different contracts and services. This report sets out the Council's current contract management arrangements and steps that are being taken to raise the overall standard of contract management.

2. INTRODUCTION AND BACKGROUND

2.1 Most of the Council's 10 largest major contracts and outsourced services have been audited in the past 6 years. Details are shown in the table below.

No.	Contract	Company	Team	Contract Value	Start Date	End Date	Audit Plan	Assurance
1	Waste Collection Services	Biffa Municipal Ltd	Waste Management	£8,610,235	01.08.13	21.10.23	2014/15	SOUND
2	Leisure Centre Management	Serco International	Leisure	£6,450,000	15.02.09	14.02.24	2014/15	SOUND
3	Management of Cobtree Golf Course	Mytime Active	Leisure	£4,030,555	09.01.17	08.01.37	2010/11	SUBSTANTIAL
4	Management of the Hazlitt Theatre	Parkwood Leisure Ltd	Leisure	£3,543,677	01.10.13	30.09.23	2016/17	WEAK
5	Park & Ride	Arriva Southern Counties Ltd	Parking Services	£3,030,476	29.03.14	31.05.18	2016/17	WEAK
6	Parking Enforcement	APCOA Parking Ltd	Parking Services	£2,675,586	01.06.11	31.05.18	2012/13	SUBSTANTIAL
7	Insurance	Zurich Insurance Company	Finance	£2,045,891	01.04.16	31.03.21	2011/12	HIGH
8	CCTV Monitoring	Medway Council	Community Safety	£1,680,231	01.12.11	31.03.18	2013/14	SUBSTANTIAL
9	Gas & Electricity	Laser	Property Services	£1,000,000	30.09.16	29.09.20	Not on audit plan	N/A
10	Electrical Maintenance	OpenView Security Solutions Ltd	Property Services	£844,199	01.07.15	30.06.20	Not on audit plan	N/A

2.2 The assurance ratings mean the following:

- **Strong (or High)** - Controls within the service are well designed and operating as intended, exposing the service to no uncontrolled risk.
- **Sound (or Substantial)** - Controls within the service are generally well designed and operated but there are some opportunities for improvement, particularly with regard to efficiency or to address less significant uncontrolled operational risks.
- **Weak** - Controls within the service have deficiencies in their design and/or operation that leave it exposed to uncontrolled operational risk and/or failure to achieve key service aims.
- **Poor** – Controls within the service are deficient to the extent that the service is exposed to actual failure or significant risk and these failures and risks are likely to affect the Council as a whole.

2.3 The majority of the contracts have received positive audits, with the exceptions being management of the Hazlitt theatre and Park & Ride, which both received a Weak level of assurance. Improvement action plans are in place to address the audit recommendations for both services. However, both areas have had staffing issues which have delayed implementation and embedding of some of the actions, so it has not yet been possible to re-visit the audit ratings.

2.4 Neither the Laser gas and electric nor the electrical maintenance contracts have been audited. The Internal Audit team deems the Laser contract low risk as it is essentially a buying consortium to obtain competitive energy prices. Therefore, there are no plans to audit this in the future. However, the team will consider whether the electrical maintenance contract should be included in a future audit programme.

2.5 The type of monitoring required and monitoring arrangements for each contract are shown in the table below.

Contract	Type of monitoring required			Monitoring arrangements
	Contract Performance	Statutory compliance	Property / Facilities	
Waste Collection Services	✓	✓		Monthly health and safety meeting, daily crew checks, weekly reviews of performance, vehicle record checks and quarterly mid-Kent monitoring meeting
Leisure Centre Management	✓	✓	✓	Monthly operational meetings, performance reports, quarterly strategic performance meetings, bi-annual health and safety inspections, ad hoc visits, checking of relevant safety certificates, annual partnership meetings
Management of Cobtree Golf Course	✓	✓	✓	Monthly operational meetings, performance reports, quarterly strategic performance meetings, bi-annual health and safety inspections, ad hoc visits, checking of relevant safety certificates, annual partnership meetings
Management of the Hazlitt	✓	✓	✓	Monthly operational meetings, performance reports, quarterly strategic performance meetings, bi-annual

Theatre				health and safety inspections, ad hoc visits, checking of relevant safety certificates, annual partnership meetings
Park & Ride	✓	✓		Daily reports, visits to supplier's premises, monthly service review meetings, user surveys, mystery shopping,
Parking Enforcement	✓	✓		Daily reports, weekly service review meetings, monthly performance reports, annual reports, annual reviews, random on-street checks, daily liaison with supplier
Insurance				Liaison with the supplier over cover and claims
CCTV Monitoring	✓	✓		Quarterly partnership board meetings, operational group meetings, monthly incident reports, camera fault reports
Gas & Electricity	✓			Comparison of quotes from Laser against the market, check bills against actual consumption
Electrical Maintenance	✓	✓		Monthly performance reviews, checks against requests for payment before contractor raises invoices

2.6 It should be noted that the monitoring arrangements for Maidstone Leisure Centre, Kent Life, Hazlitt and Cobtree Golf Course are currently being reinforced following the departure of the former Contract Monitoring Officer in the Parks and Leisure team and the commencement of a new contract for Cobtree Golf Course. Also, the current Park and Ride and Parking Enforcement contracts will come to an end in 2018, so contract monitoring arrangements may change slightly under any new contracts.

2.7 In addition to the monitoring arrangements shown above, contract performance is monitored by Committees through performance reports e.g. usage figures for the Leisure Centre and percentage of tickets sold at the Hazlitt Theatre. Further monitoring also takes place monthly and quarterly through financial reports and quarterly meetings between the Director of Finance and Business Improvement and each Head of Service.

2.8 The Council also undertakes high value construction projects, which involve a one off spend with a contractor. For example, phases 1 and 2 of the town centre public realm improvements cost approximately £3.6M in total. These projects were well managed and delivered high quality products through use of these key contract management and project management arrangements:

- Use of a NEC contract – this included a specific and specialised Project Manager role to manage the contract for the capital works
- Appointment of a highly skilled and experienced Project Manager
- The NEC contract allowed for the use of early warning notices from the contractor that warned that something might go wrong that could result in a compensation event: a payment from the Council to the contractor. The early warning notices then allowed for discussions to be had at the time so there were no protracted negotiations about cost at the end of the contract
- Good use of PRINCE2 and the Council's Project Management Toolkit

- A Project Board made up of key internal stakeholders to which the Project Manager reported. The Board met monthly and made key decisions and authorised changes. Due to the Board being in place, the project had the right leadership and governance and significant decisions were made at the right level, including a significant design change required to keep the project on budget
- A monthly operational project team that included Kent County Council, the design team and representatives from teams involved across the Council e.g. Finance, Property Services and Communication
- Documentation and good records of meetings and decisions

2.9 The successful delivery of these projects shows how important is it to pick the right sort of contract for the different types of capital works we carry out. Contract type is always considered carefully with all of our construction projects.

2.10 It has been recognised that contract management should be improved across the Council and the following actions have been taken:

- Creation of the position of Head of Commissioning and Business Improvement, with a portfolio that covers all elements of commissioning, including procurement and contract management
- Replacing the former Contract Monitoring Officer role with a higher grade Contracts and Compliance Officer – Leisure and Culture, and moving the management of this role from the former Parks and Leisure team to the Head of Commissioning and Business Improvement. This post monitors the major outsourced leisure and culture contracts: Maidstone Leisure Centre, Hazlitt Theatre, Kent Life and Cobtree Golf Course. The post is currently being covered by a temporary agency officer whilst we complete the recruitment to the substantive role
- A contract monitoring expert has undertaken an audit of the leisure and culture contracts and put in place much more robust monitoring arrangements for statutory compliance and contractual performance. This has really helped to raise standards in supplier delivery for some of these contracts

2.11 Further improvements to raise the standard of contract management are planned for 2017/18. For example:

- A refreshed Commissioning and Procurement Strategy that encompasses contract management
- Clearer guidelines on good contract management to be utilised across the council
- Provision of contract management training for key officers

2.12 The integration of procurement and contract management for a number of key contracts under the Head of Commissioning and Business Improvement will ensure that effective contract management is built into commissioning arrangements from the outset. Whenever a service is commissioned, consideration will be given to the capacity of the host service to monitor performance, hold service providers to account, and to get the best possible value from the contract. In this way, good contract management will be embedded into our commissioning arrangements.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

3.1 The Committee should note the current contract management arrangements for the Council's largest contracts, the changes that have made and the further improvements planned to improve contract management across the Council.

4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

4.1 Audit, Governance and Standards Committee has previously requested an update on contract management across the Council.

5. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	Good contract management helps the Council deliver its corporate priorities, especially through its major contracts to deliver outsourced services.	Georgia Hawkes 31/08/17
Risk Management	Without effective contract management, the Council is at risk of not meeting its statutory responsibilities or failing to provide services of a sufficiently high quality. The improvements detailed in the report help to mitigate this risk.	Georgia Hawkes 31/08/17
Financial	Ineffective contract management can lead to the Council incurring unnecessary additional costs.	Finance Team 07/09/17
Staffing	The staffing structure has already been revised to improve all aspects of commissioning, including contract management.	Georgia Hawkes 31/08/17
Legal	MKLS can assist commissioning officers by securing the necessary terms at the procurement and negotiation stages at the start of the contract to ensure	Team Leader (Contracts and Commissioning) MKLS

	good contract management throughout its term.	
Equality Impact Needs Assessment	An EqIA is not required. However, equalities will be required to be a consideration of all contracts, ensuring all contracts managed are compliant with the Council's values, in line with the Public Sector Equality Duty and as set out in the council's Equalities Policy and objectives 2017-21.	Anna Collier 07/09/17
Environmental/Sustainable Development	No implications	Georgia Hawkes 31/08/17
Community Safety	No implications	Georgia Hawkes 31/08/17
Human Rights Act	No implications	Georgia Hawkes 31/08/17
Procurement	No procurement required. The changes to staff structure will improve the links between all the aspects of commissioning, including procurement and contract management.	Georgia Hawkes 31/08/17
Asset Management	Good contract management helps to ensure that the Council's assets that are managed by other organisations, like the Hazlitt Theatre, are maintained correctly.	Georgia Hawkes 31/08/17

6. BACKGROUND PAPERS

None.

Agenda Item 13

Audit, Governance & Standards Committee

18 September 2017

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

Mixed

Co-Opted Independent Members

Final Decision-Maker	Full Council (on the constitutional amendments, recommendation 1) Audit, Governance & Standards Committee (on the delegations, recommendation 2)
Lead Head of Service	Rich Clarke – Head of Audit Partnership
Lead Officer and Report Author	Rich Clarke – Head of Audit Partnership
Classification	Public
Wards affected	All wards

This report makes the following recommendations to this Committee:

1. To **Recommend** that **Council** changes the constitution to allow the Audit, Governance & Standards Committee to include co-opted independent members.
2. To **delegate** to the Director of Finance & Business Improvement powers, in consultation with the Chair of the Audit, Governance and Standards Committee and following the above constitutional changes, to fill the role of co-opted independent members. This will include composing a job description, setting pay and managing recruitment.

This report relates to the following corporate priorities:

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

The proposal helps support the good governance of the Council and so helps with achievement of both corporate priorities.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	18 September 2017
Council (on recommendation 1)	27 September 2017

Co-Opted Independent Members

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report comes following discussions between the Head of Audit Partnership, Director of Finance & Business Improvement and the Committee Chair. While all recognise the Committee's current effective work, as confirmed by its most recent annual report, we note that similar committees elsewhere have improved still further through adding independent co-opted members.
- 1.2 So, this report aims to provide Members with an illustration of different models of committee composition elsewhere in local government. It also aims to highlight advantages and disadvantages of each and closes with a recommendation that this Committee should seek two co-opted independent members.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 To avoid confusion, the following terms are used in this report:
- **Audit Committee Member** = an elected Member who sits on the Audit, Governance & Standards Committee (or equivalent committee when the report discusses another council).
 - **Co-Opted Independent Member** = a role not currently within the Council's constitution but discussed in this report.
 - **Independent Member** = an elected member who is not part of a national political grouping.
 - **Parish Member** = a parish councillor invited to attend the Audit Committee.
 - **Independent Person** = the specific role set out in the Councillor Code of Conduct and involved in managing complaints.
- 2.2 The Council's Constitution (at 2.2.12) describes the Audit, Governance & Standards Committee membership:
- Membership: 9 Councillors** (plus 2 non-voting Parish Councillors for the Standards Hearings Sub-Committee, for Parish Council matters; and the Council's Independent Person(s) also to be invited.
- 2.3 Taken with the political balance demands at section 1.4 of the Constitution the Committee currently comprises 4 Conservatives, 4 Liberal Democrats, 1 Labour and 1 Parish Member.
- 2.4 Looking more broadly across local government, it is common for councils to supplement their Audit Committee with Co-Opted Independent Members. [Research undertaken by CIPFA in late 2016](#) highlighted how common.

Number of Co-Opted Independent Members	Proportion of Committees 2016	Proportion of Committees 2011
None	61%	69%
One	14%	16%
Two	17%	11%
Three to Five	7%	5%
More than Five	2%	0%
Total with Co-Opted Members	39%	31%

2.5 We must note that the figures show the influence of external causes such as national changes to Standards regimes and the Welsh Government decision in 2012 to mandate co-opted members. However, even considering just 'traditional' audit committees in England alone, almost half (45%) have at least one co-opted Independent Member. As is also clear, audit committees have had Co-Opted Independent Members for some time now, so see continuing value in their presence.

2.6 The most common reason cited for seeking Co-Opted Independent Members lies in recognition that work of an Audit Committee concerns technical financial and governance matters. In these fields especially, Elected Members recognise the benefit in having independent expert contributions to help them provide effective challenge and scrutiny to officers. This experiential demand is common with job descriptions for Co-Opted Independent Members. The quote below, for example, comes from a recent [advertisement](#) for a similar role in Richmond London Borough.

You should have experience either within a financial, accounting or audit background or of governance issues more generally. For this position, you should be able to demonstrate the ability to analyse information and to question effectively, have effective interpersonal skills, a willingness to maintain confidentiality, and have high standards of personal integrity.

2.7 Closer to home, many Members will be aware that Tunbridge Wells Audit & Governance Committee has featured Co-Opted Independent Members for many years. Currently, their Committee comprises eight Elected Members, two Parish Members and three Co-Opted Independent Members who serve four-year terms.

2.8 Beyond the added expertise, Tunbridge Wells' [constitution](#) cites further benefits:

Co-opted [independent] Members [also] help increase public confidence in the Council by promoting high ethical standards. Independent Members also bring a wider perspective from their outside experiences.

2.9 The precise role of Co-Opted Independent Members takes on many different forms. In the report author's experience the role most resembles that at Tunbridge Wells. That is, there are one or more added committee members with the same general audit committee role as elected Members. Some authorities, however, seek Co-Opted Independent Members for specific purposes. For example, [Royal Borough of Greenwich](#) has a Co-Opted Independent Vice-Chair who also serves as the Council's Independent Person. This individual then chairs the group when sitting as a Standards

Committee. As another example, [Woking Borough Council](#) have a Co-Opted Independent Member as Chair. However, the report author is not aware of any arrangement (in local government at least) which grants Independent Co-Opted Members voting or decision making rights.

2.10 Those authorities without Independent Co-Opted Members typically cited one or both of two reasons within CIPFA's research. The first is more philosophical, summarised by a Head of Internal Audit at an English Unitary Council as:

"there is a reluctance to do this [seek independent co-opted members] in my authority. Elected members are of the view that they have been democratically elected by the public and therefore have a vested interest in ensuring that the Council maintains an effective system of governance, control and risk management".

2.11 The second cited reason is more practical: difficulty in finding suitable applicants. This is especially the case where councils offer the role unpaid, or with just expenses. While many authorities have achieved success in finding volunteers, typically most councils who have found good applicants have offered pay. Exactly how much pay varies. At Tunbridge Wells for example it is £800 a year, whereas other authorities offer a by-meeting payment that varies between £100 and £500.

2.12 While the pay is no doubt welcome for applicants, authorities also see it as an important expression of a commitment to the role for both sides. By offering payment, the council signals its intent to fill the role and expectation the applicant performs with commitment and professionalism. The council also recognises the need for compensation to gain those qualities.

3. AVAILABLE OPTIONS

3.1 As noted above, the Audit, Governance and Standards Committee currently performs effectively. It does so with contributions of all its members, including Parish Members. Therefore the Committee would suffer no loss in deciding to continue its existing basis without Co-Opted Independent Members.

3.2 If the Committee did seek to include Co-Opted Independent Members there exist many models of how they might integrate with the Committee. Beyond those, of course, the Council could seek to design its own approach. Subject to Council agreement to necessary constitutional changes, the Committee can seek any model for its membership to meet its needs.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Within that broad scope, though, our recommendation is the Committee seeks to recruit two Co-Opted Independent Members. The advantages of having two such Members lay in resilience and broadening the range of perspectives and experience available to the Committee without overwhelming or adversely affecting its balance.
- 4.2 We further propose the appointment be four years. This will signal the Council's commitment to the role to potential applicants. It also provides an opportunity later to review effectiveness and vary, expand or delete the role as needed.
- 4.3 We also propose the Council offer pay for the role. The precise figure will be agreed in consultation between the Director of Finance & Business Improvement, the Shared Head of Human Resources and the Committee Chair. However, we are mindful of figures offered by neighbouring authorities and so anticipate offering in the range of £700 to £1,000 per year.
- 4.4 Therefore we invite the Committee to recommend to Council the relevant section of the constitution (which currently reads as at paragraph 2.2 of this report) to instead read:

Membership: 9 Councillors (plus 2 non-voting Co-Opted Independent Members and a non-voting Parish Council Representative. Also 2 Parish Councillors for the Standards Hearings Sub-Committee, for Parish Council matters; and the Council's Independent Person(s) also to be invited.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 This report was prepared following discussions with the Audit, Governance and Standards Committee chairman.
-

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 On agreeing the recommendations, the Director of Finance & Business Improvement will arrange for presentation to full Council on the necessary constitutional changes.
- 6.2 Once the constitution allows, the Director of Finance & Business Improvement will then lead on recruiting suitable Co-Opted Members. He will do so in consultation with the Committee Chairman and other Committee Members as fitting. This may include, on request, providing updates to future meetings. We aim to have the Co-Opted Members in place in time to begin attending Committee meetings in the 2018/19 municipal year at the latest.
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7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	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 through improved governance.	Rich Clarke 1 September 2017
Risk Management	The proposals result in no new risks that lay beyond the Council's risk appetite.	Rich Clarke 1 September 2017
Financial	Accepting the recommendations will demand extra spending on training, recruitment and pay of Independent Members. The Director of Finance & Business Improvement is satisfied that spending can be delivered within existing approved budgets.	Section 151 Officer & Finance Team
Staffing	Accepting the recommendations will commit to adding two new individuals to the Council's payroll.	Rich Clarke 1 September 2017
Legal	The Committee may add co-opted independent members subject to permission of the Council's constitution.	[Legal Team]
Equality Impact Needs Assessment	We do not expect the recommendations to have varying impacts on different communities within Maidstone. We will undertake recruitment in line with agreed policies, which include appropriate consideration of equalities.	Rich Clarke 1 September 2017
Environmental/ Sustainable Development	We do not expect any impact in these areas.	Rich Clarke 1 September 2017
Community Safety		
Human Rights Act		
Procurement		
Asset Management		

8. REPORT APPENDICES

This report has no appendices.

9. BACKGROUND PAPERS

Background papers in compiling this report are referenced within as hyperlinks and include:

- CIPFA Survey on Local Authority Audit Committees: A Briefing from the CIPFA Better Governance Forum (November 2016).
- TWBC Constitution
- London Borough of Richmond: Role of the Independent Member of the Audit Committee.

Audit, Governance and Standards Committee

18 September 2017

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

No

Budget Strategy – Risk Assessment Update

Final Decision-Maker	Council
Lead Director	Director of Finance and Business Improvement
Lead Officer and Report Author	Director of Finance and Business Improvement
Classification	Public
Wards affected	All

This report makes the following recommendation:

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

This report relates to the following corporate priorities:

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

Timetable

Meeting	Date
Audit, Governance and Standards Committee	18 September 2017

Budget Strategy – Risk Assessment Update

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Accordingly, as part of the process of setting a budget for 2017/18, the Committee considered a risk analysis produced by the Finance Service for the Budget Strategy at its meeting on 16 January 2017.
- 1.2 Members 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.

2. INTRODUCTION AND BACKGROUND

- 2.1 The key element in the Council's budget strategy is its rolling five year Medium Term Financial Strategy (MTFS). The current MTFS also fulfils the government's requirement that the Council prepare and publish an Efficiency Plan. The MTFS 2017/18 – 2012/22 and Efficiency Plan were approved by Council in September 2016. Subsequently Council approved a budget for 2017/18 at its meeting on 1st March 2017.
- 2.2 Performance so far in 2017/18 has been broadly in line with budget, although there are potential overspends in the areas of (a) temporary accommodation and (b) planning appeals.
- 2.3 The five year MTFS has been updated and will be submitted to Council for approval at its meeting on 27th September. The financial projections in the MTFS 2017/18 – 2012/22 have been updated and rolled forward, taking account of:
 - An assessment of external opportunities and threats
 - Evaluation of existing budget savings in the five year plan
 - Latest emerging information about economic developments and government policy.
- 2.4 Given the uncertainty about the future, various potential scenarios have been modelled, representing (a) favourable, (b) neutral and (c) adverse sets of circumstances. Projections have been prepared for each of the scenarios modelled and work is currently under way to prepare budget proposals that respond to the different scenarios.

2.5 The risks included in the Budget Risk Register have been reviewed in light of the above developments. A summary of the changes to the risk register are set out below. Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register.

	Risk	Factor considered	Implications for risk profile
A	Failure to contain expenditure within agreed budgets	Overall performance was within budget in 2016/17. Two areas have been identified where overspends may arise in 2017/18 but the scale of overspend is currently considered to be manageable.	Impact – no change Likelihood - no change
B	Fees and Charges fail to deliver sufficient income	There has been a delay in implementation of a Planning Fee increase (which would have generated additional income of £200,000) owing to the General Election. This will lead to the income budget being missed but budgeted expenditure has been reduced by a corresponding amount to offset this.	Impact – reduced Likelihood - no change
C	Commercialisation fails to deliver additional income	The commercialisation strategy has now been refocused around housing and regeneration. Commercial activities are performing in line with budget.	Impact – no change Likelihood – reduced
D	Planned savings are not delivered	Assessment of potential for delivering the £1.8 million of savings due in 2017/18 is positive.	Impact – no change Likelihood – no change
E	Shared Services fail to meet budget	All shared services achieved budget in 2016/17. No indications so far of adverse variances in 2017/18.	Impact – no change Likelihood – no change
F	Council holds insufficient balances	Council held usable reserves of £17.8 million as at 31 March 2017, which is considered a reasonable but not excessive level.	Impact – no change Likelihood – no change
G	Inflation rate predictions	CPI increase was 2.6% for year to May 2017. Budget projection was	Impact – no

	Risk	Factor considered	Implications for risk profile
	underlying MTFS are inaccurate	1.6%.	change Likelihood – no change
H	Adverse impact from changes in local government funding	The position for local government funding after 2019/20 remains unclear, although pilot schemes for 100% business rates retention are proceeding. The impact on MBC is difficult to quantify at this stage.	Impact – no change Likelihood –no change
I	Constraints on Council Tax increases	There are no firm indications so far of the government’s stance on Council Tax increases for 2018/19.	Impact – no change Likelihood – no change
J	Funding the capital programme	Council is likely to continue being able to access borrowing at competitive rates.	Impact – no change Likelihood - no change
K	Increased complexity of government regulation	No new developments.	Impact – no change Likelihood – no change
L	Collection targets missed for Council Tax and Business Rates collection	Performance in 2017/18 is slightly below target. More resources are being put into business rates collection as it is considered there is scope for improvement in this area.	Impact – no change Likelihood – no change
M	Kent Business Rates Pool fails to generate sufficient growth to cover safety net payments	Projected benefit from Kent Business Rates Pool to increase from £5.1m to £7.5m in 2017/18 (county-wide)	Impact – no change Likelihood - no change

3. AVAILABLE OPTIONS

- 3.1 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 Finance Section's service planning and/or be reflected in the developing Medium Term Financial Strategy.
- 3.2 There is no constitutional requirement for Policy and Resources Committee to consult with the Audit Governance and Standards Committee on this matter, and it is open to the Committee to make no comments or recommendations.
-

4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 4.1 Each year the council as part of the development of the MTFS and budget carries out consultation on the priorities and spending of the council.
- 4.2 Public consultation on the budget last year took the form of a short survey. Residents were asked to prioritise ten areas of spending and then to consider whether the spending for those ten areas should remain the same, be reduced or cut altogether. The results of the consultation were set out in reports to the Service Committees on the budget proposals.
- 4.3 A Residents' Survey was undertaken during the Summer and will inform how the Council responds to the financial projections in the updated MTFS. Detailed budget proposals for next year will be subject to public consultation and review by the Service Committees.
-

5. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

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

6. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	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

Risk Management	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
Financial	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
Staffing	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
Legal	The Council has a statutory obligation to set a balanced budget and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Director of Finance and Business Improvement
Equality Impact Needs Assessment	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
Environmental/Sustainable Development	The resources to achieve the Council's	Director of Finance and

	objectives are allocated through the development of the Medium term Financial Strategy.	Business Improvement
Community Safety	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
Human Rights Act	None	
Procurement	The resources to achieve the Council's objectives are allocated through the development of the Medium term Financial Strategy.	Director of Finance and Business Improvement
Asset Management	Resources available for asset management are contained within the budget proposals.	Director of Finance and Business Improvement

7. BACKGROUND PAPERS

None.

Budget Strategy Risks

Summary

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

Likelihood	5					
	4		B			
	3				H	
	2		E	C,F,G, I,L,M	A, D, J	
	1		K			
		1	2	3	4	5
		Impact				

- A. Failure to contain expenditure within agreed budgets
- B. Fees and Charges fail to deliver sufficient income
- C. Commercialisation fails to deliver additional income
- D. Planned savings are not delivered
- E. Shared services fail to meet budget
- F. Council holds insufficient balances
- G. Inflation rate predictions underlying MTFS are inaccurate
- H. Adverse impact from changes in local government funding
- I. Constraints on council tax increases
- J. Funding the capital programme
- K. Increased complexity of government regulation
- L. Collection targets for Council Tax and Business Rates missed
- M. Business Rates pool fails to generate sufficient growth

Budget Strategy Risk Register 2017/18

The following risk register sets out the key risks to the budget strategy 2017/18 onwards. 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
35 ^A	<p>Failure to contain expenditure within agreed budgets</p> <p>The Council overspends overall against its agreed budget for the year</p>	<p>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.</p>	<ul style="list-style-type: none"> - Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2017/18. - Strong controls over expenditure and established process for recovering from overspends 	4	2	8
B	<p>Fees & Charges fail to deliver sufficient income</p> <p>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.</p>	<p>The total value of all Council income from fees and charges is in excess of £16 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.</p>	<ul style="list-style-type: none"> - Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised. 	2	4	8
C	<p>Commercialisation fails to deliver additional income</p> <p>The commercial activities currently being delivered and projected in the MTFs do not</p>	<p>The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy.</p>	<ul style="list-style-type: none"> - The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but 	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	deliver the expected level of income.	Income generation from commercial activities supports the revenue budget and is required in order to pay back capital investment.	<p>available to cover short term losses.</p> <ul style="list-style-type: none"> - Individual risks associated with specific projects within commercialisation strategy will be assessed, both as part of the project appraisal process and during the course of delivering the projects. - Decision made to outsource the management of the Mote Park Café from Autumn 2017. 			
36 D	<p>Planned savings are not delivered</p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p>	<p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> - 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 reported quarterly to Corporate Leadership Team and to Service Committees. 	4	2	8
E	<p>Shared Services</p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p>	<p>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.</p>	<p>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.</p>	2	2	4

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
F	<p>Insufficient Balances Minimum balance is insufficient to cover unexpected events</p> <p>OR</p> <p>Minimum balances exceed the real need and resources are held without identified purpose with low investment returns</p>	<p>Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.</p> <p>The Council would not gain best value from its resources as Investment returns are low in the current market.</p>	<p>- The Council has set a lower limit below which General Fund balances cannot fall of £2 million.</p> <p>- At the beginning of the 2016/17 financial year unallocated General Fund balances stood at £6.5 million.</p>	3	2	6
37 ^G	<p>Inflation rate predications underlying MTFS are inaccurate 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"> ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally <p>- Current inflation projections are in line with the Bank of England and economic commentators.</p>	3	2	6
H	<p>Adverse impact from changes in local government funding Unexpected shocks lead to changes in Local Government funding. Government strategy fails to address economic challenges, such as those which could arise from Brexit.</p>	<p>The Council will no longer receive Revenue Support Grant (RSG) after 2016/17, but will be subject to 'negative RSG' in 2019/20 and the amount of this negative RSG – effectively a government tax on the Council – could increase if public finances come under pressure.</p>	<p>- The medium term financial strategy to 2021/22 has been developed to allow 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>	3	4	12
I	<p>Constraints on council tax increases 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 2% per annum.</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>- Planning for the budget 2017/18 has been based upon a £4.95 (2.06%) increase, as agreed by Policy and Resources Committee at its meeting on 29 June 2016 and by full Council at its meeting on 1st March 2017.</p>	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			- No issues have been raised in relation to the proposed increase through consultation.			
J	<p>Funding the capital programme 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"> ○ New Homes Bonus ○ Capital Grants ○ Prudential borrowing ○ Developer contributions (\$106) <p>A reduction in this funding will mean that future schemes cannot be delivered.</p>	<p>- Council has been able to fund the capital programme without recourse to borrowing,</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 and our treasury advisers expect this to continue being the case.</p> <p>- Council remains active and aware of Housing White Paper to incorporate 'right to buy' – and the impact on the Housing investment programme.</p>	4	2	8
K	<p>Increased complexity of government regulation 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 small number of occasions the financial consequences of future events are likely to be significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy.</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>Business Rates & Council Tax collection 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</p>	<p>- The Council has a good track record of business rates and Council Tax collection.</p>	3	2	6

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		<p>cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> <p>Business rates due are in excess of £60 million for 2017/18.</p> <p>Council tax due is in excess of £80 million per annum.</p>	<p>- Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc.</p>			
39M	<p>Business Rates pool</p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool means that members require support from the Council</p>	<p>Membership of Business Rates Pool precludes access to the central government safety net.</p> <p>Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.</p>	<p>- Provisions exist so any loss of income would relate to the excess over the provision already made.</p> <p>- The pool is monitored quarterly Kent wide and Maidstone is the Pool administrator. Projected benefit of pool increased from £5.1m to £7.5m.</p> <p>- The Council has the ability to exit the pool on 1st April in any year by giving notice by the previous September.</p>	3	2	6

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

Agenda Item 15

Audit, Governance and Standards Committee

18 September 2017

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

Yes

Audited Statement of Accounts 2016/17

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

This report makes the following recommendations to this Committee:

1. That the external auditor's Audit Findings Report, attached at **Appendix A** is noted.
2. That the audited statement of accounts attached at **Appendix B** is approved.
3. That the Letter of Representation attached at **Appendix C** is approved.
4. That the proposed approach to signing off future financial statements, as detailed at paragraph 2.11, is noted.

This report relates to the following corporate priorities:

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

Timetable

Meeting	Date
Audit, Governance and Standards Committee	18 September 2017

Audit, Governance and Standards Committee

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The council is required to have its audited Statement of Accounts approved by the Audit, Governance and Standards Committee by 30 September in accordance with the Accounts & Audit Regulations. The audited version of the Statement proposed for approval at this meeting is attached at Appendix B.
 - 1.2 The external auditor intends to issue an unqualified opinion on the 2016/17 Statement of Accounts, and an unqualified Value for Money conclusion. Auditing standards require external auditors to report the findings of their work to those charged with governance, i.e. the Audit, Governance and Standards Committee. The Audit Findings Report attached at Appendix A enables the committee to consider and formally approve the Statement of Accounts with the benefit of this information, and also allows the external auditor to take into account any comments from the committee prior to issuing the audit opinion. Representatives from Grant Thornton will be in attendance at the meeting to present their report and respond to questions.
 - 1.3 The Committee is also asked to consider and approve the Letter of Representation attached at Appendix C as part of the approval of the 2016/17 Statement of Accounts.
 - 1.4 This report also notifies the committee of changes to the timetable for submission and audit of the Statement of Accounts effective from 2017/18, and details how this will impact on the approval process.
-

2. INTRODUCTION AND BACKGROUND

Statement of Accounts and Audit Findings Report

- 2.1 The draft (un-audited) Statement of Accounts was reviewed at the previous meeting of this committee on 26 June 2017. Although there was no statutory requirement for the committee to consider it at that point, this gave committee members the opportunity to review the draft accounts submitted for audit in advance of being asked to formally approve the final version.
- 2.2 External audit work is now substantially complete, and findings have been summarised within the Audit Findings report attached at Appendix A. Amendments identified and agreed during the course of the audit have been summarised on page 18 of this report. The amendments generally concern the presentation and clarity of the statements, and disclosures made in the supporting notes to the main financial statements. There have not been any changes which impact upon the council's General Fund balance at 31st March 2017.

- 2.3 The report makes one recommendation on page 28, concerning record keeping for plant and equipment and this has been accepted by officers. The final version of the accounts at Appendix B incorporates the amendments to the draft Statement of Account which were agreed with the auditor during the course of the audit.
- 2.4 The Audit Findings Report also includes a review of Value for Money, and concludes that in all significant respects the Council has put in place proper arrangements to secure value for money in its use of resources for the year ending 31st March 2017.

Letter of Representation

- 2.5 The Letter of Representation attached at Appendix C is written from the Council to the external auditor and will be signed by the Director of Finance and Business Improvement.
- 2.6 This is provided for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.
- 2.7 The letter confirms that the Council has fulfilled its responsibilities and provided the external auditor with access to all information of relevance to the financial statements audit including records, documentation and other matters.
- 2.8 The letter also confirms that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. The appropriateness of this statement is evidenced by the fact that all services have full revenue budget provision for 2017/18 onwards and the capital programme, asset management plan and medium term financial strategy for 2017/18 onwards consider only service efficiencies and growth in corporate or service objectives.

Changes from 2017/18

- 2.9 Changes to Local Audit Regulations associated with the Local Audit and Accountability Act mean that from 2017/18, the timetable for preparing and approving the accounts has been brought forward.
- 2.10 The implications of this are that from next year, the deadline for producing the draft accounts will be 31 May (currently 30 June), with an audit deadline of 31 July (currently 30 September). The committee will be asked to formally approve the audited version of the accounts at its July meeting. However, the calendar of meetings and the reduced timeframe mean that it will be impractical to present a draft version of the statement prior to 31 May.
- 2.11 The proposed approach to accommodating the changes is therefore to present the final accounts to the committee in July only. It is not a legal requirement for the committee to review the draft accounts before they are

presented for audit, although the draft accounts will be available on the website and for inspection by the public from 31 May. The committee is asked to note this proposal.

3. AVAILABLE OPTIONS

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

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

Audit Findings Report & Statement of Accounts

4.1 That the committee notes the Audit Findings Report and approves the Statement of Accounts and Letter of Representation so that the audit opinion can be issued by the statutory deadline.

5. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

5.1 The process for approving the accounts is as follows:

- a) The submission of the Audit Findings Report and the Letter of Representation to the Audit, Governance and Standards Committee; and
- b) Taking into account any comments by the Committee, the issue of the audit opinion by the external auditor.

The above issues must be addressed by 30 September 2017.

6. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	Production of the annual Statement of Accounts which is free from material or significant error is a key element of the annual external assessment process. It is therefore important that the statement of accounts meets this requirement.	Director of Finance & Business Improvement
Risk Management	The primary risks are that the Council fails to produce its accounts in accordance with the requirements of the	Director of Finance & Business Improvement

	Code of Practice or statutory timetable. A risk assessment has been undertaken in order to mitigate this risk.	
Financial	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2017, and details the council's assets, liabilities and reserves at this date.	Director of Finance & Business Improvement
Staffing	Not applicable	
Legal	Not applicable	
Equality Impact Needs Assessment	Not applicable	
Environmental/Sustainable Development	Not applicable	
Community Safety	Not applicable	
Human Rights Act	Not applicable	
Procurement	Not applicable	
Asset Management	Not applicable	

7. REPORT APPENDICES

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

- **Appendix A:** Audit Findings Report 2016-17
- **Appendix B:** Audited Statement of Accounts 2016-17
- **Appendix C:** Letter of Representation 2016-17

8. BACKGROUND PAPERS

Understanding Local Authority Financial Statements (CIPFA)

http://www.cipfa.org/~media/files/policy%20and%20guidance/boards/cipfa%20lasaac/understanding_lafs_v6.pdf?la=en



The Audit Findings Report for Maidstone Borough Council

Year ended 31 March 2017

18 September 2017

Darren Wells

Engagement Lead

T 01293 554120

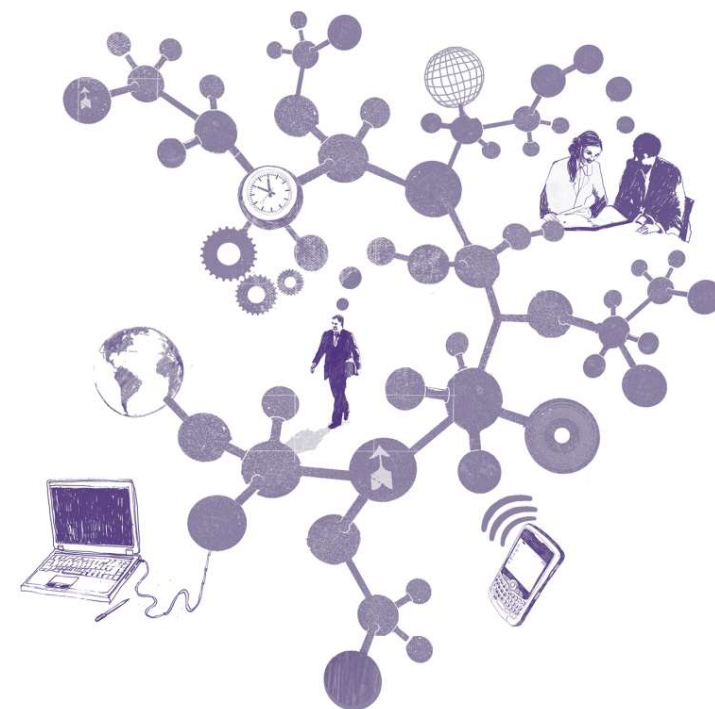
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18 September 2017

Dear Members of the Audit, Governance and Standards Committee

Audit Findings for Maidstone Borough Council for the year ending 31 March 2017

This Audit Findings Report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Maidstone Borough Council, the Audit, Governance and Standards Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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

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

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

Yours sincerely

Darren Wells

Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Maidstone Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

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

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

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

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

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

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 20 March 2017.

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

- our final internal reviews
- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- review of revised versions of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £22,805k, which is the same as disclosed in the audited financial statements. We have recommended a number of adjustments to improve the presentation of the financial statements (details are recorded in section two of this report).

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

- The draft statements presented for audit were of a good standard and only a handful of amendments were identified from the audit work performed;
- We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. The Council responded promptly to the queries raised during the course of the audit.

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

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

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

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

Findings

We draw your attention in particular to the control issue identified in relation to:

- Timely and accurate updating of the Property, Plant and Equipment Register.

Further details are provided within section two of this report.

Value for Money

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

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

Other statutory powers and duties

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

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017. We will report the outcome of this certification work through a separate report to the Audit, Governance and Standards Committee in early 2018.

The way forward

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

We have made one recommendation which is set out in the action plan at Appendix A. This recommendation has been discussed and agreed with the Director of Finance and Business Improvement and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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Materiality

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

As we reported in our audit plan, we determined overall materiality to be £1,787k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and chose to revise our overall materiality based on the gross revenue expenditure in this year's draft accounts. The revised overall materiality is £1,813k (being 2% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £90,650. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

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As we reported in our audit plan, we determined that cash warranted a lower level of materiality due to its sensitive nature and set materiality for this area at £500k.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Maidstone Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we did not consider this to be a significant risk for Maidstone Borough Council.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>The expenditure cycle includes fraudulent transactions</p> <p>Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. For your Council, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>We have considered this risk and did not consider it to require additional audit procedures because, based on your 2015/16 actual expenditure:</p> <ul style="list-style-type: none"> • 58% relates to housing benefit expenditure, on which we have performed detailed testing for the purpose of our Accounts opinion, and will perform additional testing for our certification of the Council's housing benefit subsidy claim, which takes place later in the year. • The other main areas of expenditure are covered by the risks raised in respect of Operating Expenditure and Employee Remuneration, which can be seen on the following page of this Report. 	<p>Our audit work has not identified any issues in respect of fraudulent transactions in expenditure.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

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

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p> <p style="text-align: center; vertical-align: middle;">57</p>	<p>Summary of work performed:</p> <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management; • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation; • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We did not identify, nor have been made aware of, any unusual significant transactions.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p> <p>58</p>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; performed substantive testing of operating expenditure across the year; testing of creditor payments, including accruals, for completeness, classification and occurrence; review of control account reconciliations; cut-off testing of expenditure incurred either side of year end; reviewed the allocation of apportioning expenses in the Comprehensive Income and Expenditure Statement (CIES) in line with the changes made as part of the CIPFA Telling the Story presentation changes. 	<p>Our audit work has not identified any significant issues in respect of the risk identified.</p>
<p>Employee remuneration</p>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> Employee remuneration accruals understated (Remuneration expenses not correct) 	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; reviewed the reconciliation between the payroll system and the general ledger at year end; substantive testing of employee remuneration expenses across the year; performed a trend analysis of employee remuneration expenses across the year and undertake follow up procedures on any unexpected movements or variances identified. 	<p>Our audit work has not identified any significant issues in respect of the risk identified.</p>



"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Valuation of pension fund net liability</p> <p>59</p>	<p>The Council's pension fund net liability, as reflected in its balance sheet represents a significant estimate in the financial statements.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary; • We wrote to the auditor of the Kent Superannuation Fund to gain assurance over the data provided to the Actuary by the Fund on behalf of the Council to enable them to come up with a reasonable estimate for inclusion within the Council's Accounts. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>We used an auditor's expert to provide assurance on the Council's actuary's work. Our expert concluded that the assumptions used by the actuary to be reasonable in most cases although in some instances the assumptions fall outside of expected ranges. Looking at the impact of all assumptions holistically, we obtained sufficient assurance that the pension fund liability is not materially misstated.</p>

Accounting policies, estimates and judgements

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




Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council's revenue recognition policy is disclosed within Note 1b of the Accounts, within Accounting Policies, and covers each of the main areas of revenue received by the Council, including revenue received from the sale of goods, the provision of services along with how revenue is recognised for the non-exchange transactions such as Council Tax and Business Rates.	<p>Following the work performed we are satisfied that the Council's revenue recognition policies are in line with the requirements of the CIPFA Code.</p> <p>Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition.</p>	 Green
Judgements and estimates 60	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • Useful life of capital equipment • Pension fund valuations and settlements • Impairments • PPE revaluations • Depreciation • Bad debt provisions • Business rate appeals 	<p>Your critical judgements and estimation uncertainties are disclosed within Notes 3 and 4 of the financial statements. Our work on this area identified that no disclosure had been made as to why the Cobtree Estate Trust had not been consolidated into the Council's Accounts. Narrative explaining the rationale for this decision has now been included within the revised Accounts. We concur with management's judgement.</p> <p>We have reviewed your Business Rate Appeals provision, along with the calculation of depreciation in respect of Council Dwellings, and are satisfied with the approaches taken in each of these areas.</p> <p>Work has also been performed on the Council's Property, Plant and Equipment revaluations, which we have found to be based on reasonable and appropriate assumptions and the correct base data. Based on our work, we concur with management's judgements in this area.</p>	 Amber

Assessment



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

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

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements - changes to the presentation of local authority financial statements	The Council restated of the prior year Comprehensive Income and Expenditure Statement to take account of the changes arising from the CIPFA 'Telling the Story' Review. This has been clearly disclosed within the Narrative Report, and the required disclosures and notes have been included within the Accounts.	Based on the work performed, we are satisfied with the approach taken by the Council in respect of the Telling the Story Review and this is clearly shown within the Accounts.	 Green
Going concern 61	The Director of Finance and Business Improvement, who is the Council's s151 officer, has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 Green
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

 - Red - Marginal accounting policy which could potentially attract attention from regulators
 - Green - Accounting policy appropriate and disclosures sufficient


 - Amber - Accounting policy appropriate but scope for improved disclosure

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, which is included in the Audit, Governance and Standards Committee papers for this meeting.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review identified a number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading. <p>Whilst we have not identified any issues we would be required to report by exception in these areas, we have highlighted a couple of improvement points for the Council to take forward to next year's Annual Governance Statement.</p>
8.	Specified procedures for Whole of Government Accounts	<p>The NAO require auditors to carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work has not been required as the Council did not exceed the £350m threshold across any of the criteria set out by the National Audit Office.</p>

Internal controls

	Assessment	Issue and risk	Recommendations
1.		<p>Timely and accurate updating of the Property, Plant and Equipment Register</p> <p>During the course of our work on the Council’s Property, Plant and Equipment (PPE) we identified a couple of issues relating to the PPE Register. These were:</p> <ul style="list-style-type: none"> the Council had disposed of some assets during 2015-16 but these were only removed from the PPE Register during the course of 2016-17, requiring an amendment to the opening balances against those disclosed in the previous year. an asset owned by the Council was not included within the PPE Register. However we are comfortable this issue is isolated based on the testing performed. <p>The Council needs to ensure that the asset register is updated in a timely and accurate manner to show an accurate position of the Council’s PPE Assets at any given point in time, in particular ensuring it is accurate ahead of the accounts preparation.</p>	<p>Update the PPE Register in a timely and accurate manner to ensure it reflects the Council’s current position during the course of the year and at the year end.</p>

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Assessment

- - Red - Significant deficiency – risk of significant misstatement
- - Amber - Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

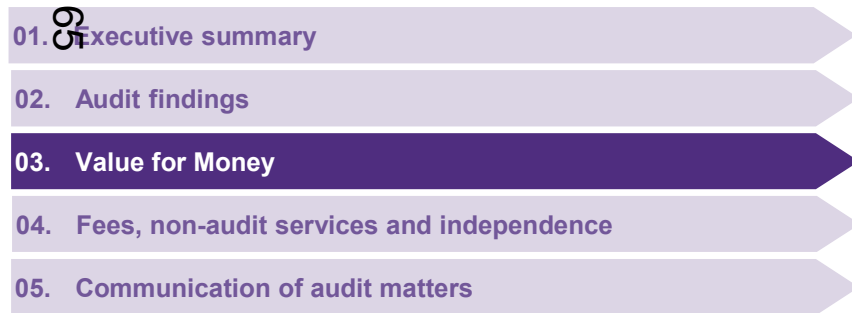
"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Misclassifications and disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Note 3 - Critical Judgements	The draft accounts did not provide any narrative around the Council's judgement for not consolidating the Cobtree Estate Trust into the Council's accounts. This has been added subsequently in the final accounts.
2 Disclosure	243	Note 18 – Property, Plant and Equipment	We identified that the split of the revaluation increases recognised in the Revaluation Reserves was incorrect in the draft note. This has been updated in the revised accounts.
3 Disclosure	Various	Note 32 – Defined Benefit Pension Schemes	Our testing identified that the disclosures initially included within the Scheme History table of the note did not agree with the Actuary's Report. The table has been amended in the revised accounts.
4 Disclosure	Various	Note 33 – Leases	The draft accounts did not provide a reconciliation between the Minimum Lease Payments and the Liability on the Balance Sheet. The Council has now provided this disclosure in the revised accounts.
5 Disclosure	Various	Note 35 and 36 – Cash Flow Statement Notes	We identified that several of the movements supporting the Cash Flow Statement were incorrect. These amendments had no overall impact on the Council's Cash position at year end. The notes have been amended in the revised accounts.
6 Disclosure	Various	Narrative Report Accounting Policies Collection Fund Note 1	Various minor disclosure amendments were made to improve the transparency of the disclosures in the accounts.

Section 3: Value for Money

- 
- 01. Executive summary
 - 02. Audit findings
 - 03. Value for Money**
 - 04. Fees, non-audit services and independence
 - 05. Communication of audit matters

Background

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

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

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

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

Risk assessment

We carried out an initial risk assessment in February 2017 and identified one significant risk in respect of a specific area of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 20 March 2017.

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

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

Significant qualitative aspects

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

We have set out more detail on the risk we identified, the results of the work performed and the conclusions we drew from this work on the following page.

Overall conclusion

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

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

Key findings

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

Significant risk	Work to address	Findings and conclusions
<p>Financial Position On its current trajectory, the Council is behind on its planned in-year General Fund position, largely due to the costs of providing temporary housing to those who have been made homeless. An action plan has been put in place to manage this overspend during the course of 2016-17 to return the position to balance by year end.</p> <p>The longer term picture also looks challenging due to the likely continuation of pressures on temporary accommodation, the cessation of the Revenue Support Grant, along with changes to other areas such as Business Rates Retention. The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council.</p>	<p>We performed the following work in respect of this area:</p> <ul style="list-style-type: none"> • reviewed the progress against the 2017-18 financial plan up to the completion of our audit; and • obtained an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years, including discussions with Management on progress to date. 	<p>The key points from our work in this area are the following:</p> <ul style="list-style-type: none"> • The Council delivered a £89k underspend against its General Fund Budget in 2016-17, despite having to deal with considerable overspends caused by the increased demand for temporary accommodation from people who became homeless during the course of the year. This area is an ongoing challenge in 2017-18, and the Council is continuing with its plan of purchasing properties to redevelop to provide its own source of accommodation to reduce the financial burden of the continued increase in homelessness cases in the Borough. • The Council has set a balanced budget for 2017-18, which includes £1,819k of savings and/or additional income generation schemes, which were identified in full by the Council before the financial year started. Of the £1,819k, £772k comes from income generation schemes, £684k efficiencies, £170k from transformation programmes, and the remainder from service reductions. This shows that the Council is continuing to take a balance approach to managing budget gaps, generating savings against additional sources of income. This will continue to be important as most of the obvious savings have now been utilised and different approaches will be needed to fill future budget gaps. • Over the life of the 2017 to 2022 Medium Term Financial Plan (MTFP), the Council has identified £3.4m of the £4.2m savings it estimates are required, which puts the Council in a strong position. However very little has been identified post-2020, which is largely due to the level of uncertainty over what Local Government funding is going to look like post-2020, when the new funding settlement is going to be implemented. To date the Council has taken a prudent approach to forecasting for this period, including expected additional costs and income in the MTFP to provide what it hopes will be a realistic assessment of the potential budget gap over this period. • During the course of updating the MTFP for the period covering 2018-2023, three scenarios (favourable, neutral and adverse) have been shared to highlight the range of potential savings/additional income which may be needed over this period. The worse case scenario could lead to the Council needing to identify a further £7,702k of savings/income over the next five year cycle, which would prove a real challenge given this equates to 22% of the total resources available to the Council. • At this present time, the Council is working to the 'neutral' position which estimates a budget gap of £2,111k over the medium term planning period. The Council has a good track record of delivering its plans over recent years and its arrangements for the medium term means it is well placed to deal with the challenges ahead, which are going to impact all councils over the next couple of years.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03.  Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Final fee £
Council audit	50,475	50,475
Grant certification	10,433	TBC
Total audit fees (excluding VAT)	60,908	TBC

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

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, would be shown under 'Fees for other services', but there are no items of this type to be considered in 2016-17.

Our final fee for this work will only be confirmed once we have completed all of the work required by this certification, which will be completed by the end of November 2017, which is the national deadline for the completion of this work.

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	None
Non-audit services:	
• Investing in People Programme	16,000

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been put in place.

	Service provided to Maidstone Borough Council	Fees (£)	Threat?	Safeguard
Audit related services	N/A	N/A		
Non-audit services	Investing in People Programme	16,000	Yes	This piece of work was performed by a separate department within Grant Thornton, who have had no involvement in the external audit, or any communication with members of the audit team during the course of the year. Therefore we are satisfied sufficient safeguards were put in place in respect of this piece of work.
70	TOTAL	16,000		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

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

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

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

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

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

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

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

Appendices

A. Action Plan

B. Audit Opinion

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Appendix A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	Timely and accurate updating of the PPE Register Update the PPE Register in a timely and accurate manner to ensure it reflects the Council's current position during the course of the year and at the year end.	Medium	Officers accept this recommendation and will ensure that appropriate checks are introduced to ensure that the information held within the Property, Plant and Equipment Register remains accurate and up to date.	Immediately

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAIDSTONE BOROUGH COUNCIL

We have audited the financial statements of Maidstone Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the CashFlow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Respective responsibilities of the Director of Finance and Business Improvement and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance and Business Improvement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material

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

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

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

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or

Appendix B: Audit opinion (continued)

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

- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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

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

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects

the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

[Signature]

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

2nd Floor
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RH10 1HS

xx September 2017



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STATEMENT OF ACCOUNTS

for the year ending
31st March 2017

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Appendices

Appendix A - Annual Governance Statement

NARRATIVE Report 2017





About Maidstone

The borough of Maidstone is set in the heart of Kent, between the North Downs and the Weald. It has a population of 164,500, occupying a mix of rural and urban areas, and is 32 miles south-east of London and 32 miles from the Eurotunnel terminal at Folkestone.

The total area of the borough is 151 square miles. It includes Maidstone, the County Town of Kent, where around 70% of the population live, and many villages, with larger ones such as Staplehurst, Marden, Headcorn, Lenham and Harrietsham being important local service centres.

The River Medway flows northwards through the borough on its route to Rochester and the Thames Estuary. The Rivers Teise and Beult join the Medway at Yalding, and the River Len joins further downstream at Maidstone. The area has some spectacular landscapes and has a rich historical heritage, with over 2,000 listed buildings.

With nearly 7,000 businesses, we have the largest economy in Kent and a lower than average unemployment rate. Agriculture remains an important industry, and there are new commercial developments including the Kent Medical Campus at junction 7 of the M20, which forms part of the North Kent Enterprise Zone. The council continues to plan for the future with investment in projects recently opened and planned totalling more than £300 million.

The Council faces a number of significant challenges over the next few years. The borough needs to accommodate housing and employment growth, which will put pressure on local infrastructure, whilst at the same time protecting its high quality environment. Public services generally face the challenges of constrained funding and increased service demands.

Maidstone Borough Council is a confident organisation, with a strong ambition to deliver our priorities. Building on our strengths – assets, knowledge and expertise and our track record for innovation and improvement - we are creating a financially sustainable future for our borough.

Maidstone's Strategic Plan

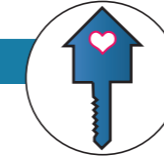
Maidstone has a five year strategic plan covering the years 2015-20. This has been updated in 2016/17 and the council has identified three areas for action:

- **A home for everyone**
- **A clean and safe environment**
- **Regenerating the town centre**

As a council our mission is to put people first. The three areas of focus will see action that respects our heritage and environment and ensures we continue to have an attractive borough. This year we will start to deliver a new housing and regeneration strategy which will focus on providing much needed sustainable housing for our residents across the borough and further investment in Maidstone town centre.

Key achievements

Key achievements in 2016/17 have been:



A home for everyone

- Our Local Plan will guide the future development of the borough. Following extensive local consultation, it was submitted to the Planning Inspectorate for examination in May 2016. Examination hearings ran from October 2016 to January 2017 and gave rise to a number of modifications in order that the Plan can be found sound. The Inspector is expected to conclude on the soundness of the plan and modifications in Summer 2017.
- The Council set up a property holding company, Maidstone Property Holdings Limited, in September 2016 to progress the acquisition, delivery and retention of housing through direct investment. Two major sites are being progressed in addition to smaller purchases that will support the Council's new temporary accommodation strategy. The Council is also working with housing providers to maximise the potential delivery of affordable housing, which should see an additional 200 plus homes provided this year.



A clean and safe environment

- Over the past 5 years, Maidstone Borough Council has demonstrated its commitment to deliver cost effective and sustainable waste and recycling services. As a result our recycling rate has improved significantly. A food waste campaign was launched in February 2017 with "No Food Waste" stickers being attached to refuse bins, a school theatre workshop campaign and an animated video. The recycling rate is currently 52%.



Regenerating the town centre

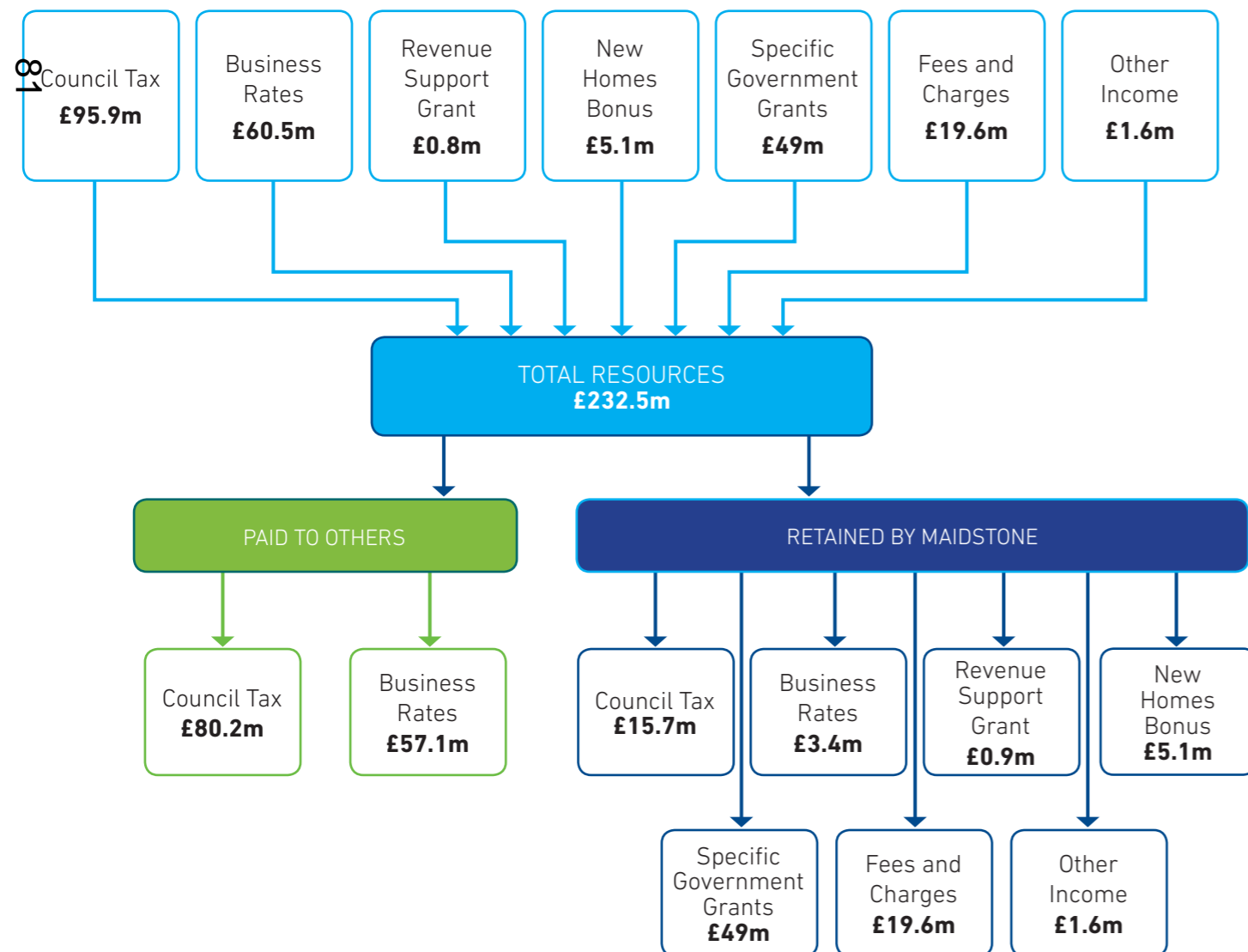
- Progress was made across a wide range of projects. The Council and Kent County Council jointly purchased the former Royal Mail Depot next to Maidstone East station. This is a key site for the town centre and the two Councils are now planning a landmark new mixed use development. The Maidstone bridges gyratory scheme and improvement works to the River Medway cycle path, both part-funded by the Council, were completed. Maidstone Borough Council is now planning to undertake additional public realm improvements to complement the work that has already taken place by upgrading Gabriel's Hill and Week Street.





Financial Performance

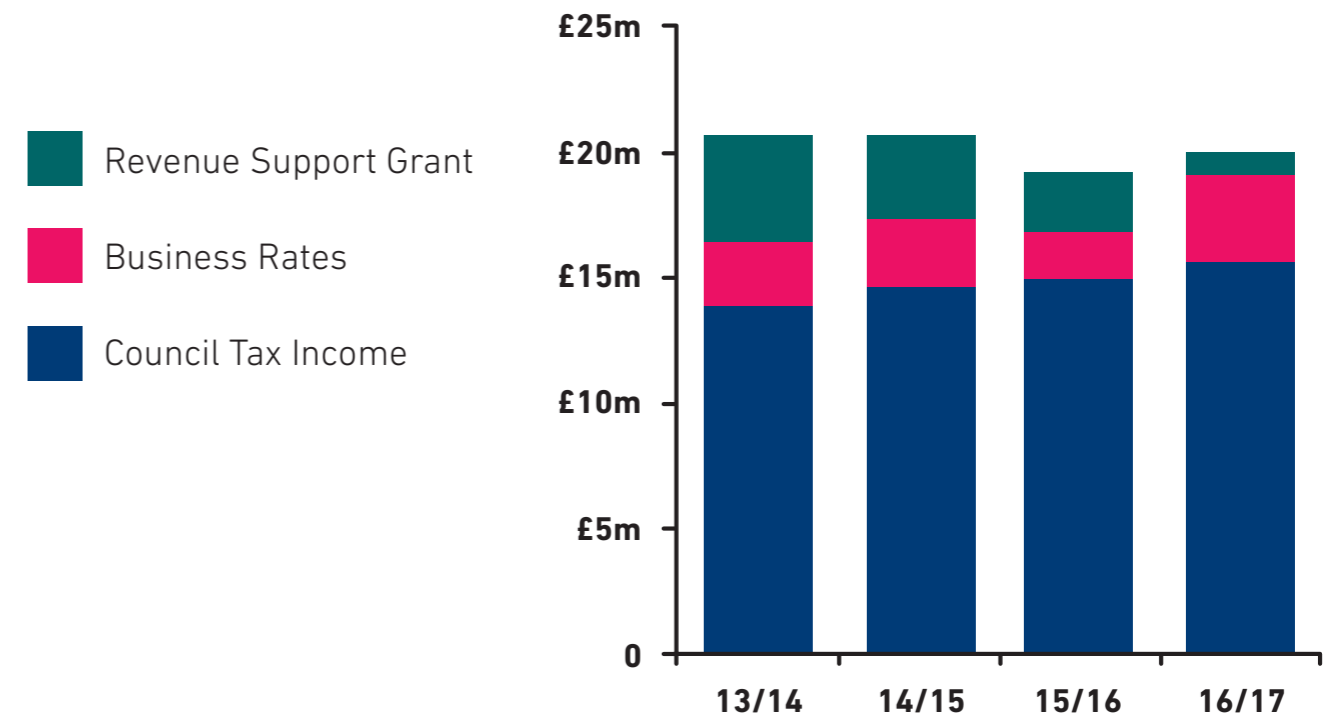
Maidstone Council's financial turnover, including Council Tax and Business Rates collected on behalf of other local authorities and government, amounted to £233 million in 2016/17 (£224 million in 2015/16). The table below shows the flows of income and expenditure.



Income

An increasing proportion of the Council's income is generated locally in Maidstone, through a combination of Council Tax, our share of Business Rates, and Fees and Charges for the services that we provide. By contrast, the Revenue Support Grant from Central Government has fallen from £4.3 million in 2013/14 to £870,000 in 2016/17. It will be zero in 2017/18.

Business rates are increasingly important source of income, but are volatile. Income in 2015/16 was particularly low owing to the need to provide for appeals against business rates valuations.



Fees and Charges account for a further £19.6 million of the Council's income, excluding specific government grants. A new source of income in 2016/17 has come from the Mid Kent Enforcement service, which carries out debt collection previously undertaken by third party bailiffs both for the Council and for other authorities.

These sources of income are shown in note 11 to Accounts, Taxation and Non-Specific Grant Income. Other sources of income which relate to specific services are shown within the income total for the relevant committee in the Comprehensive Income and Expenditure Statement.

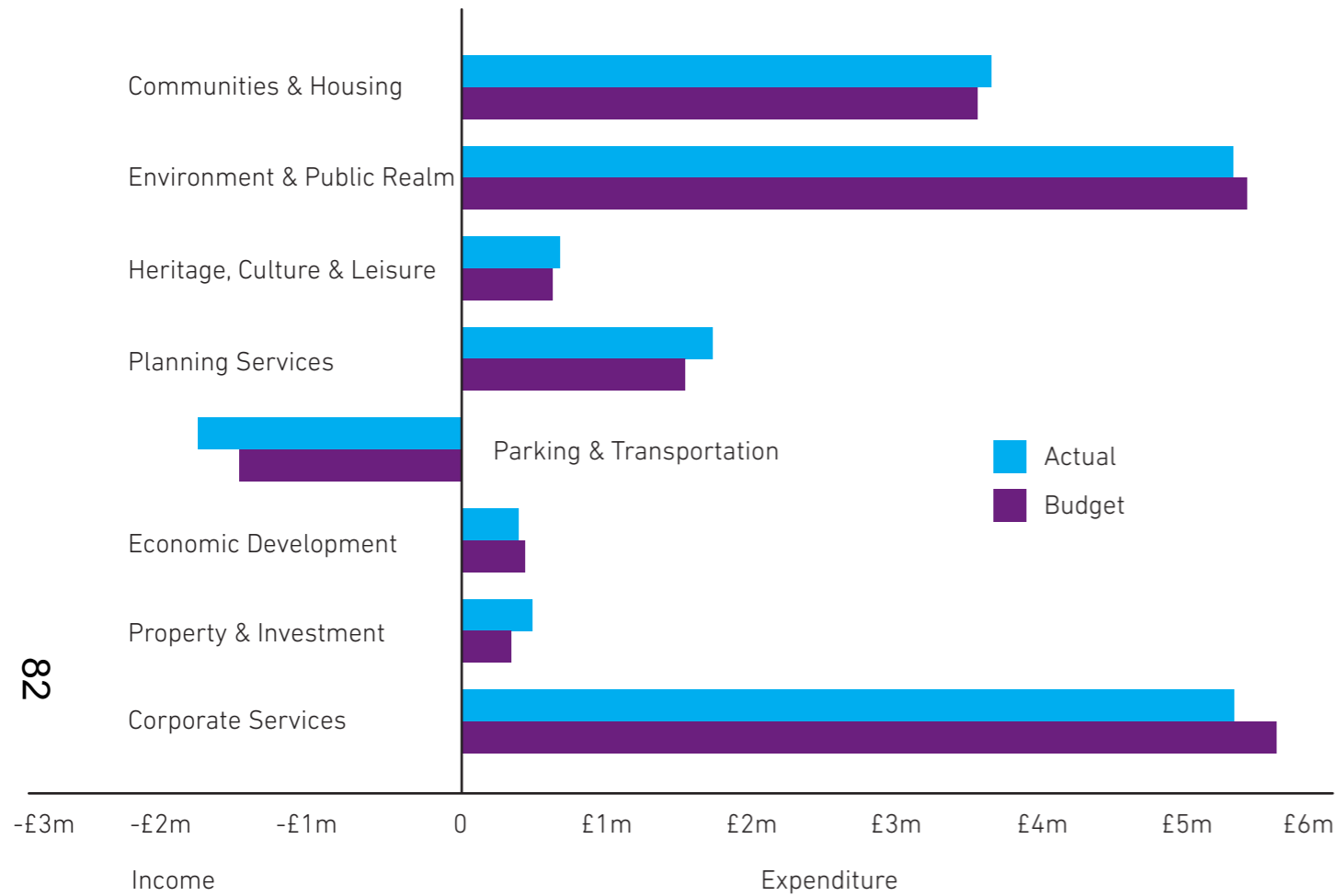


Expenditure

The Council spends money to meet its statutory obligations - delivering services like refuse collection, and making payments such as housing benefit. Council spending also enables us to meet our strategic priorities.

Delivering expenditure in line with budget is likewise an important performance indicator. This objective was achieved overall in 2016/17, but there were areas of overspend which were offset by underspends elsewhere.

The outturn for the year was an overall underspend compared with the budget of £0.1m. Variances are detailed below:



The Council's income and expenditure is set out in the **Comprehensive Income & Expenditure Statement** in the Statement of Accounts.



Balance Sheet

The **Balance Sheet** shows the value of the Council's assets less its liabilities at the end of the year. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. The Council's net assets fell from £35.4m to £22.7m, mainly because of the need to set aside a higher provision, shown under long term liabilities, for the cost of meeting our legal obligations to pay current and former employees' pensions.

2015/16 £000		2016/17 £000
57,882	Property, Plant & Equipment	64,222
10,384	Heritage Assets	10,384
16,309	Investment Properties	16,346
452	Other Long Term Assets	463
31,138	Money owed to the Council	31,502
(15,074)	Money owed by the Council	(18,869)
(65,715)	Long Term Liabilities	(81,966)
35,376	Net Assets	22,082
19,302	Usable Reserves	17,846
16,074	Unusable Reserves	4,236
35,376	Total Reserves	22,082

Property, plant and equipment are assets held by the Council to deliver services or for administrative purposes. The increase reflects capital expenditure during the year. Further details of capital expenditure are shown overleaf.



Balance Sheet (continued)

Money owed to the Council includes amounts receivable from debtors and cash balances, being cash in hand, bank deposits and investments that are readily convertible to cash. The **Cash Flow Statement** provides an analysis of the movement in cash during the course of the year.

Money owed by the Council includes amounts payable to creditors, provisions for business rates appeals and grants received in advance. The Council currently has no long term borrowing.

Usable reserves include money set aside for specific purposes and sufficient contingency to cover unforeseen events. In particular, the Council has decided that the New Homes Bonus that it receives will be set aside for capital investment to improve and enhance the borough. £7.2million was held at year end and a capital expenditure programme has been developed setting out how we plan to spend this money.

Unusable reserves will only become available at some future date, for example if assets are sold. Unusable reserves fell, reflecting the increase in pension liabilities described above.

Changes in Reserves are shown in the **Movement in Reserves Statement** in the Statement of Accounts.

Capital Expenditure

The Council made two significant capital investments in 2016/17. It acquired the Royal Mail site next to Maidstone East station for future development, in partnership with Kent County Council, and it acquired Granada House in Gabriel's Hill to generate rental income and to hold as a strategic asset. The Council plans significant further investment over the next five years as part of its housing and regeneration strategy.

New Homes Bonus

The Council receives New Homes Bonus from the government for new houses built in the borough. Councils have the flexibility to decide how this money is spent, and at Maidstone Borough Council, a decision was taken to invest the money received in the Council's capital programme. It is therefore set aside and used for projects which improve the infrastructure in and around Maidstone, or support financial sustainability by generating income streams which can be used to fund services. At the start of 2016/17, the council held £11.4m New Homes Bonus, and a further £5.1m was received during the year.

During the year, £9.3m was spent on delivering the projects identified within the Council's capital programme. These projects included:

- A 50% share of the former Royal Mail Depot site in Maidstone, the other 50% being purchased by Kent County Council, to support the Housing Development & Regeneration Investment Plan
- The purchase of Granada House, to support the Housing Development & Regeneration Investment Plan
- The purchase of a number of smaller properties to use as temporary accommodation for homeless people
- Contributions towards various projects including improvements to the Riverside Towpath, Bridges Gyrotory System and Flood Defences

	Actual	Five year plan					Total
	16/17	17/18	18/19	19/20	20/21	21/22	
	£000	£000	£000	£000	£000	£000	£000
Housing and regeneration schemes	21	1,500	7,500	11,500	8,500	3,000	32,000
Housing investments	754	3,900	600	600	600	600	6,300
Other housing	840	1,376	1,150	1,150	1,150	1,150	5,976
Commercial property investments	3,653	1,500	0	0	0	0	1,500
Parks and open spaces	641	2,292	1,919	625	0	0	4,836
Town Centre regeneration	131	1,400	1,400	0	0	0	2,800
Maidstone East	2,783	288	212	0	0	0	500
Flood defences	28	50	50	300	550	50	1,000
Infrastructure delivery	500	0	3,000	0	0	0	3,000
Bridges Gyrotory Scheme	941	0	0	0	0	0	0
Other	1,559	740	601	520	415	225	2,501
	11,851	13,046	16,432	14,695	11,215	5,025	60,413

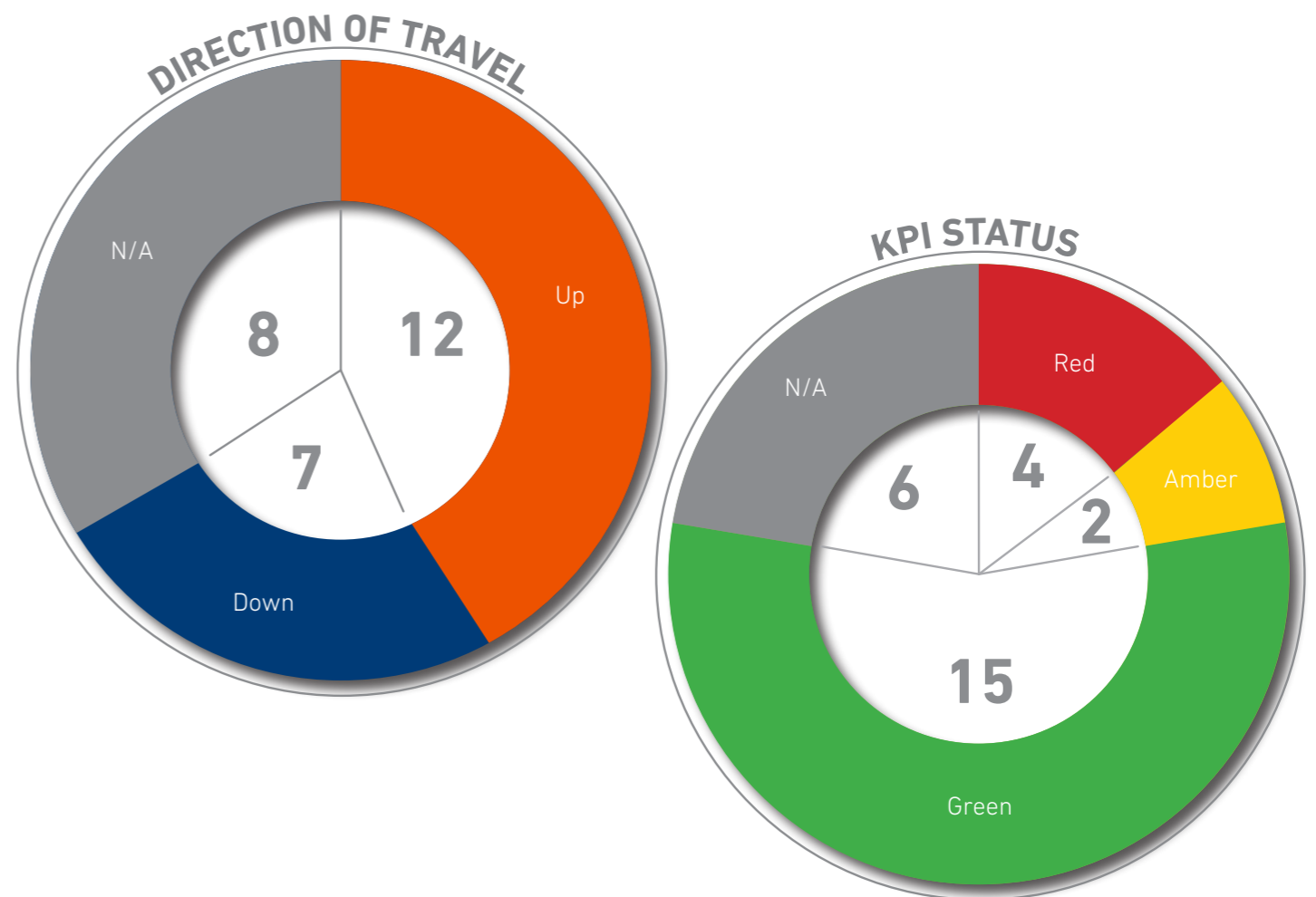


Key Performance Indicators

Performance is judged in two ways; firstly on whether performance has improved, been sustained or declined, compared to the same period in the previous year. For example, 2016/17 annual performance is compared against 2015/16 annual performance. This is termed **direction of travel**. Where there is no previous data, no assessment of direction can be made.

The second way in which performance is assessed looks at whether an indicator has achieved the target set and is termed **KPI status**. Some indicators may show an asterisk (*) after the figure, these are provisional figures that are awaiting confirmation.

Data Only indicators are not targeted but are given a direction. Indicators that are not due to be reported or where there is a delay in data collection are not rated against targets or given a direction.



PRIORITY 1: Keeping Maidstone Borough an attractive place for all

Providing a clean and safe environment

Indicator Name	Service	2016/17 Target	2016/17 Performance	Direction	RAG
Percentage of household waste sent for reuse, recycling and composting (former NI 192)	Waste & Recycling	52.50%	50.30%*	↑	Yellow
The percentage of relevant land and highways that is assessed as having deposits of litter that fall below an acceptable level (former NI 195a)	Street Cleansing	6.50%	2.50%	↓	Green
The percentage of relevant land and highways that is assessed as having deposits of detritus that fall below an acceptable level (former NI 195b)	Street Cleansing	18.00%	7.48%	↓	Green
Number of incidences of fly-tipping	Depot Services	1,200	979	↓	Green
Number of safeguarding practitioners trained	Community Partnerships	200	150**		Red
Percentage change in all crime	Community Partnerships		20.1%	↓	

*Data for March was not available at the time of publication.

**Data for Quarter 4 (January to March) was not available at the time of publication.

Encouraging good health and wellbeing

Indicator Name	Service	2016/17 Target	2016/17 Performance	Direction	RAG
Number of completed Disabled Facilities Grants	Housing & Health	100	122	↑	Green
User satisfaction with the leisure centre	Leisure Services	82%	78.18%	↓	Yellow
Number of people successfully completing a course at the leisure centre following referral by GP	Community Partnerships		157		
Number of older people helped to reduced social isolation through museum projects	Museum		128		

Respecting the Character of our Borough

Indicator Name	Service	2016/17 Target	2016/17 Performance	Direction	RAG
Percentage of Parishes satisfied with the level of communication and engagement they have with MBC	Democratic Services		38.3%	↑	



PRIORITY 1: Keeping Maidstone Borough an attractive place for all

PRIORITY 2: Securing a successful economy for Maidstone Borough

Ensuring there are good leisure and cultural attractions

Indicator Name	Service	2016/17 Target	2016/17 Performance	Direction	RAG
Net Contribution generated from commercial activities	Finance	£623,250	£375,747	↑	Red
Footfall at the Museum and Visitors Information Centre	Museum	78,500	63,541	↓	Red
Number of children taking part in formal educational activities on and off site	Museum	6,500	9,732		Green

Enhancing the appeal of the town centre

Indicator Name	Service	2016/17 Target	2016/17 Performance	Direction	RAG
Footfall on High Street	Economic Development	8,745,691	11,256,227	↑	Green
Percentage of vacant retail units in town centre	Economic Development	12%	9.78%	↑	Green

PRIORITY 2: Securing a successful economy for Maidstone Borough

Securing improvements to the transport infrastructure in our Borough

Indicator Name	Service	2016/17 Target	2016/17 Performance	Direction	RAG
Number of school journeys undertaken without a car as part of borough wide schemes	Planning Policy	N/A	14,977		
Percentage of sustainable vehicles in Maidstone	Planning Policy	N/A	1.34%		

Promoting a range of employment skills and opportunities across the Borough

Indicator Name	Service	2016/17 Target	2016/17 Performance	Direction	RAG
Percentage of people claiming Out of Work Benefits	Economic Development	2%	1.25%	↑	Green
Percentage of 16 to 18 year olds who are not in education, employment or training (NEETs)	Economic Development	N/A	2.86%	↑	
Number of Businesses/Start-ups receiving information, advice and guidance	Economic Development	800	877		Green
Net increase in employment (NOMIS)	Economic Development	2,800	-8,800		Red

Planning for sufficient homes to meet our Borough's needs

Indicator Name	Service	2016/17 Target	2016/17 Performance	Direction	RAG
Number of households prevented from becoming homeless through the intervention of housing advice	Housing & Inclusion	300	329	↑	Green
Number of households housed through housing register	Housing & Enabling	600	643	↓	Green
Number of affordable homes delivered (gross)	Housing & Enabling	180	303	↑	Green
Processing of planning applications: Major applications processed within agreed timescales (former NI 157a)	Development Management	80%	94%	↑	Green
Net additional homes provided (former NI 154)	Planning Policy	550	1,145	↑	Green



FUTURE PLANS

The Council has a Medium Term Financial Strategy, which sets out the financial implications of the overall Strategic Plan. During 2016/17, the Council updated its Medium Term Financial Strategy and rolled it forward to cover the years 2017/18 to 2021/22. Key points from the Strategy are a commitment to continue to reduce costs through efficiency savings, commercial initiatives, shared services and partnership working. There is a formal arrangement with Swale and Tunbridge Wells Borough Councils in the form of Mid Kent Services (MKS), and a number of partnership arrangements are now established covering Internal Audit, Revenues & Benefits, ICT Services, Environmental Health, Human Resources & Payroll and Legal Services.

The Council has further developed its commercialisation strategy, with a focus now on housing and regeneration.

The Medium Term Financial Strategy indicates that, given our savings plans, the Council can fund its spending in 2017/18 and 2018/19. On current projections there are shortfalls between projected income and expenditure in subsequent years and work is under way to address these.

The position in the years 2019/20 and beyond is subject to considerable uncertainty, with the Government having committed to introduction of 100% business rates retention in 2019/20, necessitating a thorough overhaul of local government funding. There is also considerable economic uncertainty generally associated with the UK's prospective exit from the EU.

As part of the finance settlement for 2016/17 the Government made an offer of a fixed, four year local government finance settlement. The Council agreed formally to accept this offer in October 2016. The Medium Term Financial Strategy described above serves as the Efficiency Plan, required by the Government to demonstrate how the Council will achieve its objectives within the available resources set out in the settlement.

RISK MANAGEMENT

The Council addresses future uncertainty through an explicit strategy of managing risk. Risks are identified at corporate and service levels, and mitigations developed to address those risks, with the key outputs from the process reported to the Policy and Resources Committee every six months. The budget risks described above are also addressed in a separate Budget Risk Register which is kept under review by the Audit, Governance and Standards Committee.



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 31st March 2017.

Signed:

Mark Green, Director of Finance & Business Improvement

Date: September 2017

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

For the years ending 31st March 2016 & 2017

2015/16 (Restated)			Committee	2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
58,515	(51,709)	6,806	Policy & Resources	59,492	(52,422)	7,070
13,391	(3,547)	9,844	Communities, Housing & Environment	13,672	(4,278)	9,394
8,998	(3,904)	5,094	Heritage, Culture & Leisure	9,428	(4,362)	5,066
8,473	(6,674)	1,799	Strategic Planning, Sustainability & Transportation	8,047	(6,772)	1,275
89,377	(65,834)	23,543	Cost Of Services	90,639	(67,834)	22,805
		655	Other Operating Expenditure (Note 9)	1,608	(1,022)	586
		1,266	Financing and Investment Income and Expenditure (Note 10)	2,450	(652)	1,797
		(24,114)	Taxation and Non-Specific Grant Income and Expenditure (Note 11)		25,863	(25,863)
		1,350	(Surplus) or Deficit on Provision of Services			(675)
			Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services			
		(662)	(Surplus) or deficit on revaluation of property, plant & equipment assets			(634)
		(8,797)	Remeasurement of the Net Defined Benefit Liability			14,603
		(9,459)	Other Comprehensive Income and Expenditure			13,969
		(8,109)	Total Comprehensive Income and Expenditure			13,294

MOVEMENT IN RESERVES STATEMENT

For the years ending 31st March 2016 & 2017

Current Year	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31st March 2016	18,851	321	130	19,302	16,074	35,376
Movement in Reserves during 2016/17						
Total Comprehensive Income and Expenditure	675	0	0	675	(13,969)	(13,294)
Adjustments between accounting basis & funding basis under regulation (Note 6)	(2,183)	116	(64)	(2,131)	2,131	(0)
Increase or Decrease in 2016/17	(1,508)	116	(64)	(1,456)	(11,838)	(13,294)
Balance at 31st March 2017	17,343	437	66	17,846	4,236	22,082

BALANCE SHEET

As at 31st March 2016 & 2017

Comparative Year (Restated)	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
Balance at 31st March 2015	15,293	154	99	15,546	11,721	27,267
Movement in Reserves during 2015/16						
Total Comprehensive Income and Expenditure	(1,350)	0	0	(1,350)	9,459	8,109
Adjustments between accounting basis & funding basis under regulation (Note 6)	4,908	167	30	5,105	(5,105)	0
Increase or Decrease in 2016/17	3,558	167	30	3,755	4,354	8,109
Balance at 31st March 2016	18,851	321	130	19,302	16,074	35,376

31st March 2016 £000		Notes	31st March 2017 £000
57,882	Property, Plant & Equipment	18	64,222
16,309	Investment Property	19	16,346
10,384	Heritage Assets	20	10,384
428	Intangible Assets		444
24	Long Term Debtors		19
85,027	Long Term Assets		91,415
14,000	Short Term Investments	21	4,000
53	Inventories		100
12,935	Short Term Debtors	23	15,791
4,150	Cash & Cash Equivalents	24	11,611
31,138	Current Assets		31,502
9,326	Short Term Creditors	25	11,576
2,515	Provision for Business Rate Appeals	26	3,046
629	Deferred Liability	28	655
2,604	Capital Grants Receipts in Advance	16	3,592
15,074	Current Liabilities		18,869
176	Provisions		189
898	Deferred Liability	28	243
64,641	Other Long Term Liabilities	32	81,534
65,715	Long Term Liabilities		81,966
35,376	Net Assets		22,082
19,302	Usable Reserves		17,846
16,074	Unusable Reserves	30	4,236
35,376	Total Reserves		22,082

These financial statements replace the unaudited financial statements certified by the Director of Finance and Business Improvement on 30th June 2017.

Mark Green, Director of Finance and Business Improvement
Date: September 2017

Cash Flow STATEMENT

2015/16 £000		Notes	2016/17 £000
1,350	Net (surplus) or deficit on the provision of services		(675)
(5,378)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	35	(8,170)
6,751	Adjustments for items included in the net surplus or deficit on the provision of services that are investing & financing activities	36	(19,145)
2,723	Net cash flows from Operating activities		(27,990)
(2,708)	Investing Activities	37	17,855
4,098	Financing Activities	38	2,674
4,113	Net increase or decrease in cash & cash equivalents		(7,461)
∞			
(8,263)	Cash & cash equivalents at the beginning of the reporting period		(4,150)
(4,150)	Cash & cash equivalents at the end of the reporting period		(11,611)

NOTES TO THE ACCOUNTS

1 – EXPENDITURE & FUNDING ANALYSIS

For the years ending 31st March 2016 & 2017

2015/16 (Restated)				2016/17		
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	Committee	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
8,462	(1,655)	6,807	Policy & Resources	5,485	1,585	7,070
9,266	578	9,844	Communities, Housing & Environment	8,839	555	9,394
820	4,273	5,093	Heritage, Culture & Leisure	626	4,440	5,066
91	1,708	1,799	Strategic Planning, Sustainability & Transportation	(171)	1,446	1,275
18,639	4,904	23,543	Net Cost Of Services	14,779	8,026	22,805
(22,193)	(0)	(22,193)	Other Income & Expenditure	(13,270)	(10,210)	(23,480)
(3,554)	4,904	1,350	(Surplus) or Deficit	1,509	(2,184)	(675)
		15,293	Opening General Fund Balance			18,851
		3,559	Less/Plus (Surplus) or Deficit on General Fund Balance in Year			(1,508)
		18,851	Closing General Fund Balance at 31st March			17,343

NOTE TO THE EXPENDITURE & FUNDING ANALYSIS

Adjustments between Funding & Accounting Basis 2016/17				
Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	Adjustments for Capital Purposes (Note i)	Net Change for Pensions Adjustments (Note ii)	Other Differences (Note iii)	Total Adjustments
Heritage, Culture & Leisure			2,519	2,519
Strategic Planning, Sustainability & Transportation			1,566	1,566
Communities, Housing & Environment Policy & Resources	4,473	(2,290)	(95)	(95)
Net Cost of Services	4,473	(2,290)	0	(1,807)
Other income and expenditure from the Expenditure & Funding Analysis				0
Difference between General Fund surplus or deficit and Comprehensive Income & Expenditure Statement Surplus or Deficit on the Provision of Services				
	4,473	(2,290)	0	2,183

Adjustments between Funding & Accounting Basis 2015/16				
Adjustments from General Fund to arrive at the Comprehensive Income & Expenditure Statement amounts	Adjustments for Capital Purposes (Note i)	Net Change for Pensions Adjustments (Note ii)	Other Differences (Note iii)	Total Adjustments
Heritage, Culture & Leisure			2,604	2,604
Strategic Planning, Sustainability & Transportation			1,742	1,742
Communities, Housing & Environment Policy & Resources	(2,150)	(2,758)	(102)	(102)
Net Cost of Services	(2,150)	(2,758)	0	(9,152)
Other income and expenditure from the Expenditure & Funding Analysis				0
Difference between General Fund surplus or deficit and Comprehensive Income & Expenditure Statement Surplus or Deficit on the Provision of Services				
	(2,150)	(2,758)	0	(4,908)

Note i – Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposals of assets and the amounts written off for those assets.
- Financing and investment income & expenditure – the statutory charges for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note ii – Net Charge for Pensions Adjustments

- Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related income and expenditure.
- For services this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.
- For financing and investment income & expenditure the net interest on the defined benefit liability is charged to the Comprehensive Income & Expenditure Statement.

Note iii – Other Differences

- Other differences between amounts debited/credited to the Comprehensive Income & Expenditure Statement and amounts payable/receivable to be recognised under statute.
- For financing and investment income & expenditure the other differences column represents adjustments to the General Fund for the timing difference for premiums and discounts.
- The charge under taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted practices under the code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

EXPENDITURE AND INCOME ANALYSED BY NATURE

	2015/16 £000	2016/17 £000
Expenditure		
Employee Benefit Expenses	19,573	19,580
Other Services Expenses	95,353	94,034
Support Service Recharges	21,636	21,484
Depreciation, Amortisation, Impairment	4,129	6,554
Interest Payments	173	151
Precepts & Levies	4,723	1,499
Gain on the Disposal of Assets	(1,227)	(1,210)
Total Expenditure	144,360	142,092
Income		
Fees, Charges & Other Service Income	(17,162)	(18,448)
Interest & Investment Income	(251)	(186)
Income from Council Tax & NDR	(41,973)	(40,259)
Government Grants & Contributions	(53,607)	(53,326)
Internal Recharges	(30,018)	(30,548)
Total Income	(143,010)	(142,767)
Surplus or (Deficit) on the Provision of Services	1,350	(675)

2 - ACCOUNTING POLICIES

a) GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31st March 2017. 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 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS).

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

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

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

- Going concern
- Primacy of legislative requirements

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

b) ACCRUALS OF INCOME & EXPENDITURE

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risk and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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

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

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

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

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

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

c) CASH & CASH EQUIVALENTS

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

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

d) EXCEPTIONAL ITEMS

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

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

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

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

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

f) CHARGES TO REVENUE FOR NON-CURRENT ASSETS

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

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

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

g) EMPLOYEE BENEFITS

Benefits Payable During Employment

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

Termination Benefits

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

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

Post Employee Benefits

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

- The liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate specified by the actuaries (based on the indicative rate of return on high quality corporate bonds.)
- The assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - Quoted securities – current bid price
 - Unquoted securities – professional estimate
 - Unitised securities – current bid price
 - Property – market value
- The change in net pensions liability is analysed into the following components:
 - Service cost which comprises:
 - Current service cost – the increase in liabilities as a result of years of service earned in the current year – allocated in the Comprehensive Income & Expenditure Statement to the services for which the employees worked.
 - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement.
 - 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 2016.

Discretionary Benefits

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

h) EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

i) FINANCIAL INSTRUMENTS

Financial Liabilities:

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

Financial Assets:

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

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

Loans & Receivables:

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

Available-for-sale assets:

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

j) GOVERNMENT GRANTS & CONTRIBUTIONS

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

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

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

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

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

k) HERITAGE ASSETS

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

- Replacement Cost
- Purchase Cost
- Insurance Valuation

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

l) INVESTMENT PROPERTIES

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

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

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

m) LEASES

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

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

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

n) OVERHEADS & SUPPORT SERVICES

The costs of support services and overheads are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2016/17. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion with the benefits used, with the exception of:

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

These two cost categories are defined in the Service Expenditure Reporting Code of Practice 2016/17 and accounted for within the Policy & Resources committee line on the Comprehensive Income & Expenditure Statement.

o) PROPERTY, PLANT & EQUIPMENT

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

Assets included in the Balance Sheet at 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 1st 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 5 to 100 years.
- Vehicles, Plant, Furniture & Equipment – straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer.
- Infrastructure - straight-line allocation over 20 years.

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

p) DEFERRED LIABILITIES

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

q) PROVISIONS, CONTINGENT LIABILITIES & CONTINGENT ASSETS

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

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

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

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

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

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

r) RESERVES

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

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

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

s) REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non-current assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by

borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Movement in Reserves Statement so there is no impact on the level of council tax.

t) VALUE ADDED TAX

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

u) MINIMUM REVENUE PROVISION

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

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

v) FAIR VALUE MEASUREMENT

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

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

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

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

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

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

Level 3 – unobservable inputs for the asset or liability.

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 has been undertaken to determine whether they should be classified as an operating lease (which are off-Balance Sheet), or a finance lease (which is on-Balance Sheet). The result of this review was that the Council currently has no property leases which need to be classified as finance leases.
- A review of service contracts has been undertaken in accordance with the requirements of IFRIC 4 to determine whether any of the contractual arrangements contain the substance of a finance lease. It was determined that the Park & Ride contract was classified as containing finance leases for the vehicles involved in the delivery of the service, and these have been included with Property, Plant & Equipment on the Balance Sheet.

- A review of the contract for waste collection has determined that the contractual arrangements do not meet the requirements of IFRIC 4.
- It has been determined that an arrangement between the Council and the managing contractor of the Leisure Centre is classified as a service concession arrangement. Under the terms of the arrangement the Council makes regular payments over a 15 year period to cover the costs of major refurbishment works which have been undertaken by the contractor.
- A 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 Ltd 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.

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 31st March 2017 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
Asset valuations & depreciation	<p>Asset 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>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.</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 £4.8m.</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> <p>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 £0.4m for every year that useful lives had to be reduced.</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Barnett Waddingham) is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The effect on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £3.265m. However, the assumptions interact in complex ways. A one year increase in the mortality age rating assumption would result in an increase to the pension liability of £7.136m.</p>

Balance	Source of Uncertainty	Effect if actual results differ from assumptions
Arrears	At 31st March 2016 the Council had a balance of sundry debtors for £11.943m. A review of significant balances suggested that a provision of doubtful debts for £3.156m was appropriate. There is uncertainty as to whether or not such an allowance is sufficient.	If collection rates were to deteriorate, a 50% increase in the level of impairment required for doubtful debts would require an additional £1.6m to be set aside as an allowance.
Non-Domestic Rates Appeals	The Collection Fund is liable for potential losses arising from appeals against the rateable value of business premises. A provision of £7.614m has therefore been created to recognise current and backdated appeals. The council's share of the provision of £3.045m is reflected on the balance sheet. This is deemed to be appropriate as it is based on a detailed analysis of information provided by the VOA.	If the yield losses from successful appeals were to increase by 10%, an additional provision of £0.761m would be required overall, and the council's share of the provision would increase by £0.305m.

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

There are no new standards to be adopted in 2017/18 that will impact upon the Statement.

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.

2016/17	Usable Reserves		
	General Fund balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources			
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)	2,290		
Council Tax and NDR (transfers to or from the Collection Fund Adjustment Account)	1,955		
Holiday Pay (transferred to the Accumulated Absences Account)	13		
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)	6,546		
Total Adjustments to Revenue Resources	10,804	0	0
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,022)	1,075	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(629)		
Capital expenditure finances from revenue balances (transfer to the Capital Adjustment Account)	(9,624)		
Total Adjustments between Revenue and Capital Resources	(11,275)	1,075	0
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure		(959)	
Application of capital grants to finance capital expenditure	(1,717)		(64)
Cash payments in relation to deferred capital receipts	5		
Total Adjustments to Capital Resources	(1,712)	(959)	(64)
Total Adjustments	(2,183)	116	(64)

2015/16 Comparative Figures	Usable Reserves		
	General Fund balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources			
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)	2,758		
Council Tax and NDR (transfers to or from the Collection Fund Adjustment Account)	3,622		
Holiday Pay (transferred to the Accumulated Absences Account)	(4)		
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)	3,872		
Total Adjustments to Revenue Resources	10,248	0	0
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(852)	853	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(607)		
Capital expenditure finances from revenue balances (transfer to the Capital Adjustment Account)	(2,978)		
Total Adjustments between Revenue and Capital Resources	(4,437)	853	0
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure		(686)	
Application of capital grants to finance capital expenditure	(903)		30
Cash payments in relation to deferred capital receipts			
Total Adjustments to Capital Resources	(903)	(686)	30
Total Adjustments	4,908	167	30

7 – EARMARKED RESERVES

Within the General Fund balance of £17.343m at the end of the year the Council maintains a number of Earmarked Reserves for specific purposes as follows:

	31st March 2016 £000	Contributions to/from Balances £000	31st March 2017 £000
New Homes Bonus funding for Capital Local Plan	11,406	(4,191)	7,215
Neighbourhood Planning	455	(119)	336
Trading Accounts	64	0	64
Business Rates Growth	179	64	243
	233	(75)	158
Total Earmarked Reserves	12,337	(4,321)	8,016
Unallocated Balances	6,514	2,813	9,327
Total General Fund Balance	18,851	(1,508)	17,343

Description of Earmarked Reserves:

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

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

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

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

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

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.

	2015/16 £000	2016/17 £000
Parish Council precepts	1,394	1,499
Levies	109	109
(Gains)/losses on the disposal of non-current assets	(848)	(1,022)
	655	586

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.

	2015/16 £000	2016/17 £000
Interest payable and similar charges	206	183
Net Interest on the Net Defined Benefit Liability	2,281	2,267
Interest receivable and similar income	(252)	(187)
Income & Expenditure in relation to investment properties and changes in their fair value	(969)	(466)
	1,266	1,797

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.

Credited to Taxation & Non Specific Grant Income	2015/16 £000	2016/17 £000
Council tax income	14,995	15,690
Revenue Support Grant	2,267	844
Income from Retained Business Rates	21,444	23,218
Tariff Payable	(19,492)	(19,654)
Levy Payable	(43)	(117)
Non-ringfenced Government Grants	4,943	5,882
Total	24,114	25,863
Credited to Services		
Housing Benefit Subsidy	47,404	46,900
Non-Domestic Rates - Cost of Collection	206	206
Council Tax Administration	188	164
New Legislation	162	358
Other Grants	182	570
Total	48,142	48,198

12 - TRADING OPERATIONS

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

Operation	2015/16 (Surplus)/ Deficit £000	2016/17 Income Expenditure £000	(Surplus)/ Deficit £000	
	Market	111	(321)	366
Parkwood Industrial Estate	(316)	(368)	25	(343)
Mote Park Café	86	(290)	440	150
Commercial Waste	3	(243)	328	85
Debt Recovery	17	(371)	375	4
Pay & Display Car Parking	(1,280)	(2,193)	593	(1,600)
On-Street Car Parking	(181)	(754)	556	(198)
Direct Services	12	(2,007)	2,014	7
Net (Surplus)/Deficit	(1,548)	(6,547)	4,697	(1,850)

13 - MEMBERS' ALLOWANCES

The amount of Members Allowances paid during 2016/17 totalled £345,934. (£340,867 in 2015/16).

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

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

14 – OFFICERS REMUNERATION

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

2016/17	Salary (Including Fees) £000	Benefits in Kind (e.g.Car Allowance) £000	Total Remuneration excluding Pension Contributions £000	Pension Contributions £000	Total Remuneration including Pension Contributions £000
Chief Executive	118	18	136	17	153
Director of Finance & Business Improvement	81	1	82	11	93
Director of Regeneration & Place	80	1	81	11	92
Interim Director of Mid-Kent Services	75	3	78	10	88

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

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

The Interim 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 (£29,343).

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

Remuneration Band	2016/17 No. of employees	2015/16 No. of employees
£50,000 - £54,999	5	5
£55,000 - £59,999	6	5
£60,000 - £64,999	2	1
£65,000 - £69,999	0	0
£70,000 - £74,999	2	3
£75,000 - £79,999	2	3
£80,000 - £84,999	1	1
£85,000 - £89,999	0	0
£90,000 - £94,999	0	0

Exit Packages

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

Exit Package Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £000	2016/17 £000
£0 - £20,000	0	0	16	9	16	9	88	45
£20,001 - £40,000	0	0	0	0	0	0	0	0
£40,001 - £60,000	0	0	1	0	1	0	46	0
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	1	0	1	0	98	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
Total	0	0	18	9	18	9	232	45

15 - 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.

	2015/16 £000	2016/17 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	51	50
Fees payable for the certification of grant claims and returns during the year	14	13
Non-audit Services	6	16
Total	71	79

16 – 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:

	2015/16 £000	2016/17 £000
Balance at start of year:	2,173	2,604
Grants Received	1,304	2,773
Transfers to/from Grants Unapplied	0	0
Funding used for capital expenditure	(872)	(1,785)
Balance at end of year:	2,604	3,592

17 - 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 and 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 2016/17 is shown in Note 13.

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.

18 - PROPERTY, PLANT & EQUIPMENT

Movements on Balances

Movements in 2016/17	Infrastructure Assets £000	Land & Buildings £000	Plant, Machinery & Equipment £000	Vehicles £000	IT & Office Equipment £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuations								
At 1st April 2016	4,008	44,994	12,967	2,052	4,675	3,142	2,032	73,870
Additions	419	3,701	1,071	177	647	25	3,634	9,674
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	243	0	0	0	0	0	243
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(372)	0	0	0	0	0	(372)
Derecognition of assets	(108)	(26)	(634)	(981)	(535)	0	0	(2,284)
Other movements in cost or valuation	(1)	(73)	0	0	0	0	0	(74)
At 31st March 2017	4,318	48,467	13,404	1,248	4,787	3,167	5,666	81,057
Accumulated Depreciation & Impairment								
At 1st April 2016	(2,828)	(3,363)	(5,709)	(1,435)	(2,651)	0	0	(15,986)
Depreciation charge	(216)	(1,883)	(911)	(285)	(355)	0	0	(3,650)
Depreciation written out to the Revaluation Reserve	0	563	0	0	0	0	0	563
Derecognition of assets	108	26	637	932	535	0	0	2,238
At 31st March 2017	(2,936)	(4,657)	(5,983)	(788)	(2,471)	0	0	(16,835)
Net Book Value								
At 31st March 2017	1,382	43,810	7,421	460	2,316	3,167	5,666	64,222
At 31st March 2016	1,182	41,628	7,256	618	2,024	3,142	2,032	57,882

Movements in 2015/16	Infrastructure Assets £000	Land & Buildings £000	Plant, Machinery & Equipment £000	Vehicles £000	IT & Office Equipment £000	Community Assets £000	Assets Under Construction £000	Total Property, Plant & Equipment £000
Cost or Valuations								
At 1st April 2015	3,997	44,553	12,156	1,523	4,371	3,092	23	69,715
Additions	16	188	783	29	305	50	2,049	3,420
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	209	0	0	0	0	0	209
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	118	0	0	0	0	0	118
Transfers between categories	0	0	28	0	0	0	(28)	0
Other movements in cost or valuation	(5)	(74)	0	500	0	0	(12)	408
At 31st March 2016	4,008	44,994	12,967	2,052	4,675	3,142	2,032	73,870
Accumulated Depreciation & Impairment								
At 1st April 2015	(2,636)	(2,343)	(4,908)	(1,166)	(2,335)	0	0	(13,389)
Depreciation charge	(202)	(1,736)	(799)	(268)	(319)	0	0	(3,324)
Depreciation written out to the Revaluation Reserve	0	788	0	0	0	0	0	788
Transfers between categories	0	0	(4)	0	4	0	0	0
Other movements in cost or valuation	12	(75)	0	0	0	0	0	(63)
At 31st March 2016	(2,826)	(3,366)	(5,711)	(1,434)	(2,651)	0	0	(15,988)
Net Book Value								
At 31st March 2016	1,182	41,628	7,256	618	2,024	3,142	2,032	57,882
At 31st March 2015	1,360	42,210	7,245	357	2,034	3,092	23	56,326

Additions for 2016/17 include the acquisition of a number of properties, the most significant of which are as follows:

- A 50% share of the former Royal Mail Depot site in Maidstone, the other 50% being purchased by Kent County Council
- The purchase of Granada House
- The purchase of a number of smaller properties to use as temporary accommodation for homeless people

The de-recognition of assets covers the writing out of a number of items, mainly vehicles, that the Council no longer owns.

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-totaled by asset class.

Analysis of Land & Buildings Movements 2016/17	Car Parks £000	Cemetery & Crematorium £000	Depots, Workshops & Toolsheds £000	Halls £000	Housing £000	Land £000	Leisure Centres & Pools £000	Markets £000	Museums & Galleries £000	Parks & Open Spaces £000	Public Conveniences £000	Residential / Commercial £000	Theatres £000	Town Hall £000	Total Land & Buildings £000
Cost or Valuations															
At 1st April 2016	6,662	1,441	1,748	2,864	1,462	197	8,071	1,050	14,001	583	1,705	0	4,078	1,133	44,995
Additions		64	73						41			3,515	7		3,700
Revaluation increases/(decreases) recognised in the Revaluation Reserve											243				243
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services												(242)	(130)		(372)
Derecognition of Assets												(26)			(26)
Other movements in cost or valuation			(73)												(73)
At 31st March 2017	6,662	1,505	1,748	2,864	1,462	197	8,071	1,050	14,042	583	1,680	3,385	4,085	1,133	48,467
Accumulated Depreciation & Impairment															
At 1st April 2016	12	(68)	(34)	(476)	(292)	(39)	(757)	(64)	(666)	(62)	(590)	(168)	(210)	(117)	(3,363)
Depreciation charge		(67)	(22)	(142)	(146)		(379)	(21)	(665)	(63)	(101)	(168)	(70)	(39)	(1,883)
Depreciation written out to the Revaluation Reserve											563				563
Other movements in cost or valuation											26				26
At 31st March 2017	12	(135)	(56)	(618)	(438)	(39)	(1,136)	(85)	(1,331)	(125)	(107)	(168)	(280)	(156)	(4,657)
Net Book Value															
At 31st March 2017	6,674	1,370	1,692	2,246	1,024	158	6,935	965	12,711	458	1,578	3,217	3,805	977	43,810
At 31st March 2016	6,676	1,370	1,714	2,387	1,170	158	7,312	986	13,334	521	1,115	0	3,869	1,015	41,628

Analysis of Land & Buildings Movements 2015/16	Car Parks £000	Cemetery & Crematorium £000	Depots, Workshops & Toolsheds £000	Halls £000	Housing £000	Land £000	Leisure Centres & Pools £000	Markets £000	Museums & Galleries £000	Parks & Open Spaces £000	Public Conveniences £000	Residential / Commercial £000	Theatres £000	Town Hall £000	Total Land & Buildings £000
Cost or Valuations															
At 1st April 2015	6,568	1,570	1,729	2,864	1,461	196	8,070	1,050	13,586	543	1,705	0	4,078	1,133	44,552
Additions	104	23	49					14							190
Revaluation increases/(decreases) recognised in the Revaluation Reserve		(210)							375	40					205
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services										40					118
Other movements in cost or valuation	(6)	(23)	(29)					(14)							(72)
At 31st March 2016	6,666	1,438	1,749	2,864	1,462	197	8,070	1,050	14,001	583	1,705	0	4,078	1,133	44,994
Accumulated Depreciation & Impairment															
At 1st April 2015	54	(270)	(12)	(316)	(146)	0	(379)	(43)	(513)	(33)	(467)		(140)	(78)	(2,342)
Depreciation charge		(68)	(22)	(162)	(146)		(379)	(21)	(667)	(40)	(123)		(70)	(39)	(1,736)
Depreciation written out to the Revaluation Reserve											513	11			788
Other movements in cost or valuation	(44)	7				(39)									(76)
At 31st March 2016	10	(68)	(34)	(472)	(292)	(39)	(758)	(64)	(662)	(62)	(590)	0	(210)	(117)	(3,366)
Net Book Value															
At 31st March 2016	6,676	1,370	1,714	2,387	1,170	158	7,312	986	13,334	521	1,115	0	3,869	1,015	41,628
At 31st March 2015	6,622	1,300	1,717	2,548	1,315	196	7,691	1,007	13,073	510	1,238	0	3,938	1,055	42,210

Community Assets have all previously been revalued at £1 each, in accordance with Note 2. The Code of Practice on Local Authority Accounting requires Community Assets to be recorded on the Balance Sheet at Historic Cost. Due to the age and nature of many of the Community Assets it is not possible to ascertain an accurate historical cost, but expenditure incurred is now added to the value of the asset. Any expenditure on Community Assets was previously written off as Revenue Expenditure charged to Capital under Statute.

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

Depreciation

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

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

Capital Commitments

The Council were not contractually committed to any major capital projects as at 31st March 2017.

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 Harrison's Chartered Surveyors. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of RICS. The latest revaluations were carried out as at 1st April 2016 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 1st 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	4,318	3,167	454	13,404	1,248	4,787	5,666	33,044
Valued at current value as at:								
31st March 2014			25,336					25,336
31st March 2015			15,978					15,978
31st March 2016			1,641					1,641
31st March 2017			5,058					5,058
Total Cost or Valuation	4,318	3,167	48,467	13,404	1,248	4,787	5,666	81,057

19 - INVESTMENT PROPERTIES

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

	2015/16 £000	2016/17 £000
Balance at start of the year	15,962	16,310
Additions:		
Additions	2	36
Net gains/losses from fair value adjustments	345	(0)
Balance at end of year	16,310	16,346

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.

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

Cost or Valuation	Museum Exhibits £000	War Memorials £000	Statues & Sculptures £000	Other Items £000	Total Assets £000
1st April 2016	9,090	471	515	308	10,384
Additions					0
31st March 2017	9,090	471	515	308	10,384
1st April 2015	9,090	471	515	308	10,384
Additions					0
31st March 2016	9,090	471	515	308	10,384

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 1st 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.

21 - FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

	Long-term		Short-Term	
	31st March 2016 £000	31st March 2017 £000	31st March 2016 £000	31st March 2017 £000
Investments				
Loans & receivables	0	0	18,150	15,856
Available-for-sale financial assets	0	0	0	0
	0	0	18,150	15,856
Debtors				
Loans & receivables	24	0	8,525	7,924
Creditors				
Financial liabilities at amortised cost	0	0	6,370	8,551
Other Long Term Liabilities				
Finance Lease Liabilities at amortised cost	898	243	629	655

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

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

Income & Expense

	Long-Term		Short Term	
	31st March 2016 £000	31st March 2017 £000	31st March 2016 £000	31st March 2017 £000
Income:				
Loans & Receivables	0	0	235	179
Available-for-sale Financial Assets	0	0	15	7
Other Interest	0	0	2	1
Total	0	0	252	187

Fair Value of Assets and Liabilities

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

22 - NATURE & EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Director of Finance & Business Improvement and the Finance Manager in Treasury, Insurance & VAT, under policies approved by the Council on 01 March 2016 in the Annual Treasury Management Strategy, which can be viewed on the Council's website – <http://www.maidstone.gov.uk>. A summary of the main points of the 2016/17 Treasury Management Strategy is also shown below.

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

Treasury Management Strategy 2016/17

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

- Invest up to £8m of core cash for over 1 year if rates were to improve;
- Consider the possibility of using property funds;
- All other investments short term (less than 1 year);
- An authorised limit to borrowing for the year of £20.46m to assist with funding the increased capital programme which has been agreed by Council.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. There are limits based on credit ratings set on the amount and length of time deposits can be made

with individual banks and financial institutions, and these are set out in the Annual Treasury Management Strategy. These ratings are supplied by the Council's Treasury Advisors, Arlingclose, who look at ratings from all three credit rating agencies, Fitch, Moody's and Standard and Poor's. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- Credit Default Spreads to give early warning of likely changes in credit ratings.

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

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

As at 31st March 2017 investments were held with the following institutions:

	31st March 2016 £000	31st March 2017 £000
AAA rated Institutions	2,640	5,810
AA rated Institutions	3,042	2,046
A rated Institutions	11,000	8,000
BBB+ rated Institutions	2,000	0
Unrated Building Societies	0	0
UK Government	0	0
Total	18,682	15,856

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, and there is also an overdraft facility of £0.5m available with Lloyds Bank. However provision has also been made with the current Treasury Management Strategy to have an authorised debt limit of £20.46m (£16.46m for capital programme) to fund on-going schemes in the event of projected capital receipts not being realised. This was not needed during the year.

Refinancing and Maturity Risk

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

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

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

Market Risk – Interest Rate Risk

As the Council did not find itself needing to borrow funds during 2016/17, 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, Enhanced Cash Funds and Money Market Funds which are linked to Base Rate. However the risk is considered to be small as these accounts are generally only used for the short-term investment of funds for cash flow purposes, and funds can be withdrawn on a daily basis. The risk exposure is summarised in the table below.

	31st March 2016 £000	31st March 2017 £000
Call Accounts/Money Market Funds	2,682	8,856
Receivables	16,000	7,000
Total	18,682	15,856

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

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

Foreign Exchange Risk

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

23 – DEBTORS

Short Term Debtors

	2015/16 £000	2016/17 £000
Central government bodies	2,038	3,237
Other local authorities	2,208	4,372
Other entities and individuals	12,163	11,943
Total	16,409	19,552

The movement in the balances for Central Government and other local authorities is a reflection of the Council's membership of the Kent Business Rates Pool.

Provision for Bad Debts

	2015/16 £000	2016/17 £000
Excess Charges Provision	445	605
Sundry Bad Debts Provision	3,029	3,156
Total	3,474	3,761

The figure on the balance sheet represents Debtors less Provision for Bad Debts, which totals £15.791m. Other entities and individuals within Short Term Debtors are broken down as follows:

	2015/16 £000	2016/17 £000
Council Tax payers	826	881
Business Rate payers	1,300	1,636
Capital debtors	236	605
General debtors	8,290	7,319
Payments in Advance	777	584
Other miscellaneous amounts	734	918
Total	12,163	11,943

24 - CASH & CASH EQUIVALENTS

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

	2015/16 £000	2016/17 £000
Cash held by the Council	17	10
Bank current accounts	(549)	(254)
Short-term deposits	4,682	11,855
Total	4,150	11,611

The increase in short term deposits reflects a high level of funds held in short notice /liquid funds for Cash Flow purposes.

25 – CREDITORS

Short Term

	2015/16 £000	2016/17 £000
Central government bodies	941	2,845
Other local authorities	2,919	2,761
Other entities and individuals	5,466	5,970
Total	9,326	11,576

The movement in the balances for Central Government and other local authorities is a reflection of the Council's membership of the Kent Business Rates Pool.

Other entities and individuals are broken down as follows:

	2015/16 £000	2016/17 £000
General creditors	2,335	2,799
Capital creditors	179	141
Council tax payers	187	189
Business Rate payers	411	857
Receipts in advance	975	1,007
Deposits	1,164	936
Retentions	214	41
Total	5,466	5,970

26 - PROVISIONS

Provision for Business Rates Appeals

	2015/16 £000	2016/17 £000
Business Rates Appeals - Current	584	609
Business Rates Appeals - Backdated	1,931	2,437
Total	2,515	3,046

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

27 - TRUST FUNDS

The Council is required to set out details of the nature and amount of trust funds where it acts as sole trustee, the only one of which is the Cobtree 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 31st March 2017 are summarised in the following table. The figures for 2015/16 are the audited figures, which differ from those in the 2015/16 Statement of Accounts, as the audit took place after that was published.

	2015/16 £000	2016/17 £000
Fixed Assets:		
Intangible Assets	38	25
Tangible Assets	2,870	2,870
Investment Property	635	635
Investments	1,134	874
	4,677	4,404
Current Assets	387	190
Current Liabilities	582	78
Total assets less current liabilities	4,480	4,516
Total Charitable Funds	4,480	4,516

Gross expenditure in 2016/17 totalled £573,960 (£926,445 in 2015/16). Gross income in 2016/17 totalled £541,771 (£791,865 in 2015/16). There was significant capital expenditure in 2015/16, which is why the figures have reduced in 2016/17.

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

28 - PRIVATE FINANCE INITIATIVES & SIMILAR CONTRACTS

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

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

The value of the works carried out to date (£4.073m) has been reflected in the non-current assets total, with a matching entry shown as a deferred liability (less repayments made in 2016/17) to reflect the balance due on the loan for the works done to date.

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

Payments

	2015/16 £000	2016/17 £000
Balance outstanding at start of year	1,634	1,527
Adjustments	500	
Repayment of principal	(607)	(629)
Balance outstanding at end of year	1,527	898

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

The £0.5m adjustment figure in 2015/16 relates to the value of the buses in the Park & Ride contract, which for the purposes of the accounts is classified as an embedded lease.

29 – CAPITAL RECEIPTS RESERVE

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

	31st March 2016 £000	31st March 2017 £000
Balance at 1st April	154	325
Capital Receipts Received	857	1,071
Capital Receipts Applied	(686)	(959)
Balance at 31st March	325	437

30 - UNUSABLE RESERVES

	31st March 2016 £000	31st March 2017 £000
Revaluation Reserve	26,223	26,751
Capital Adjustment Account	57,603	64,102
Deferred Capital Receipts Reserve	23	19
Pensions Reserve	(64,641)	(81,534)
Collection Fund Adjustment Account	(2,957)	(4,912)
Accumulated Absences Account	(177)	(190)
Total Unusable Reserves	16,074	4,236

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 1st 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.

	31st March 2016 £000	31st March 2017 £000
Balance at 1st April	25,547	26,223
Upward revaluation of assets	1,052	807
Downward revaluation of assets	(389)	(243)
Additions and Disposals	36	
Difference between fair value depreciation and historical cost depreciation	(23)	(35)
Balance at 31st March	26,223	26,751

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 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

	31st March 2016 £000	31st March 2017 £000
Balance at 1st April	56,258	57,603
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income & Expenditure Statement:		
Charges for depreciation of non-current assets	(3,324)	(3,650)
Amortisation of intangible assets	(195)	(165)
Prior Year Adjustments	(70)	72
Revaluation Gains/Losses on Property, Plant & Equipment	446	(179)
Revenue expenditure funded from capital under statute	(911)	(2,527)
Write-off of non-enhancing capital expenditure	(112)	(83)
	(4,166)	(6,532)
Adjusting amounts written out of the Revaluation Reserve	23	34
Net written out amount of the cost of non-current assets consumed in the year	(4,143)	(6,498)
Capital financing applied in the year:		
Sums set aside for Debt Repayment	607	629
Use of the Capital Receipts Reserve to finance new capital expenditure	686	959
Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	872	1,785
Capital expenditure charged against the General Fund balance	2,978	9,624
	5,143	12,997
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	345	(0)
Balance at 31st March	57,603	64,102

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.

	2015/16 £000	2016/17 £000
Opening balance at 1 April	70,680	64,641
Remeasurements of the net defined liability	(8,797)	14,603
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	6,148	5,691
Employer's pensions contributions	(3,390)	(3,401)
Closing balance at 31 March	64,641	81,534

d) Collection Fund Adjustment Account

107	31st March 2016 £000	31st March 2017 £000
Balance at 1st April	666	(2,957)
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	(130)	(99)
- Non-domestic Rates	(3,493)	(1,856)
Balance at 31st March	(2,957)	(4,912)

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.

31 - 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.

	2015/16 £000	2016/17 £000
Capital Investment		
Property, Plant & Equipment	3,307	9,533
Investment Properties	1	38
Intangible Assets	206	182
Non-enhancing capital expenditure	112	88
Revenue Expenditure Funded from Capital Under Statute	911	2,527
	4,536	12,368
Sources of Finance		
Capital receipts	686	959
Government grants & other contributions	872	1,785
Direct Revenue Contributions	2,978	9,624
	4,536	12,368

The increase in property, plant and equipment includes the acquisition of a number of properties, the most significant of which are as follows:

- A 50% share of the former Royal Mail Depot site in Maidstone, the other 50% being purchased by Kent County Council
- The purchase of Granada House
- The purchase of a number of smaller properties to use a temporary accommodation for homeless people

32 - DEFINED BENEFIT PENSION SCHEMES

Participation in Pension Schemes

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

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

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

Transactions Relating to Post-employment Benefits

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

	2015/16 £000	2016/17 £000
Comprehensive Income & Expenditure Statement (CI&ES)		
Cost of Services:		
Service cost comprising:		
- Current service cost	3,593	3,407
- Past service costs including curtailments	274	17
Financing and Investment Income & Expenditure:		
- Net interest expense	2,281	2,267
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	6,148	5,691
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)	(1,989)	14,979
- Actuarial gains and losses arising on changes in financial assumptions	10,767	(35,909)
- Actuarial gains and losses arising on changes in demographic assumptions	0	3,244
- Experience gains and losses on defined benefit obligation	19	3,015
- Other actuarial gains and losses	0	68
Total Post Employment Benefit Charged to the CI&ES	14,945	(8,912)
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	6,148	5,691
Actual amount charged against the General Fund Balance for pensions in the year:		
- Employers' contributions payable to the scheme	(3,390)	(3,401)

Curtailments

Curtailments have been calculated for employees who become entitled to unreduced early retirement benefits during the year. The capitalised cost of the additional benefits relative to those reserved for under IAS19 is calculated at £16,753 (2015/16 £274,000).

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 (2015/16 £nil).

Pension Assets and Liabilities Recognised in the Balance Sheet

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

	2015/16 £000	2016/17 £000
Present value of funded obligation	149,896	183,756
Fair value of plan assets	87,447	104,482
Contributions by scheme participants	62,449	79,274
Present value of unfunded obligation	2,192	2,260
Net liability arising from defined benefit obligation	64,641	81,534

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

	2015/16 £000	2016/17 £000
Opening fair value of Scheme assets	87,531	87,447
Interest on assets	2,873	3,128
Return on assets less interest	(1,929)	15,035
Actuarial gains/losses	0	68
Administration expenses	(60)	(56)
Contributions by employer including unfunded	3,390	3,401
Contributions paid by scheme participants	785	843
Estimated benefits paid plus unfunded net of transfers in	(5,143)	(5,384)
Closing fair value of Scheme assets	87,447	104,482

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

	2015/16 £000	2016/17 £000
Opening balance at 1 April	158,211	152,088
Current Service cost	3,593	3,407
Interest cost	5,154	5,395
Remeasurement (gains) and losses		
- Change in financial assumptions	(10,767)	35,909
- Experience loss/(gain) on defined benefit	(19)	(3,015)
Changes in demographic assumptions	0	(3,244)
Past service costs, including curtailments	274	17
Estimated benefits paid net of transfers in	(4,961)	(5,211)
Contributions by Scheme participants	785	843
Unfunded pension payments	(182)	(173)
Closing balance at 31 March	152,088	186,016

Local Government Pension Scheme Assets

	31st March 2016		31st March 2017	
	£000	%	£000	%
Equities	58,315	66.7%	73,738	70.6%
Gilts	775	0.9%	779	0.7%
Other Bonds	9,602	11.0%	10,178	9.7%
Property	12,703	14.5%	13,020	12.5%
Cash	2,252	2.6%	2,669	2.6%
Absolute return fund	3,800	4.3%	4,098	3.9%
Total	87,447	100.0%	104,482	100.0%

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 31st March 2016.

The principal assumptions used by the actuary have been:

	2015/16	2016/17
Long-term expected rate of return of assets in the scheme		
Mortality Assumptions		
Longevity at 65 for current pensioners		
- Men	22.9	23.0
- Women	25.3	25.0
Longevity at 65 for future pensioners		
- Men	25.2	25.1
- Women	27.7	27.4
Financial Assumptions		
RPI increases	3.2%	3.6%
CPI increases	2.3%	2.7%
Salary increases	4.1%	4.2%
Pension increases	2.3%	2.7%
Discount Rate	3.6%	2.7%

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.

Sensitivity Analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	182,751	186,016	189,342
- Projected Service Cost	4,759	4,881	5,006
Adjustment to long-term salary increase	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	186,480	186,016	186,556
- Projected Service Cost	4,881	4,881	4,881
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
- Present Value of Total Obligation	188,875	186,016	183,208
- Projected Service Cost	5,006	4,881	4,759
Adjustment to mortality age rating	+1 Year	None	-1 Year
- Present Value of Total Obligation	193,152	186,016	179,151
- Projected Service Cost	5,037	4,881	4,730

Scheme History

	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000	£000
Present value of defined benefit obligation in the Local Government Pension Scheme	(124,831)	(133,772)	(155,811)	(149,896)	(183,756)
Fair value of assets in the Local Government Pension Scheme	78,152	79,694	87,531	87,447	104,482
Present value of unfunded obligation	(2,306)	(2,398)	(2,400)	(2,192)	(2,260)
Surplus/(Deficit) in the scheme	(202,983)	(213,466)	(70,680)	(64,641)	(81,534)

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The total liability of £81.534m 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 2018 are £3.197m.

33 – LEASES

Finance Leases – Council as Lessee

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

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

	31st March 2016 £000	31st March 2017 £000
Not more than 1 year	944	778
Later than 1 year and not later than 5 years	2,734	2,663
Later than 5 years	1,473	905
	5,151	4,346

34 – EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Director of Finance & Business Improvement on September 2017. 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 31st March 2017 the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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

	2015/16 £000	2016/17 £000
Depreciation	(3,324)	(3,650)
Revaluation Gains & Losses	446	(73)
Amortisation of Intangible Assets	(195)	(165)
Movement in Impairment for Bad Debts	(2,336)	127
Movement in Creditors	72	(1,091)
Movement in Debtors	2,416	(614)
Movement in Inventories	(35)	47
Movement in Pension Liabilities	(2,758)	(2,290)
Other Non-Cash items	336	(461)
	(5,378)	(8,170)

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

	2015/16 £000	2016/17 £000
Net adjustment from the sale of short and long term investments	5,000	(22,000)
Capital Grants credited to surplus or deficit on the provision of services	903	1,785
Proceeds from sale of Property, Plant & Equipment	848	1,070
	6,751	(19,145)

37 - CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2015/16 £000	2016/17 £000
Purchase of property, plant & equipment, investment property and intangible assets	3,870	9,544
Purchase of short-term and long-term investments	38,001	12,000
Proceeds from the sale of property, plant & equipment, investment property and intangible assets	(1,263)	(706)
Proceeds from short-term and long-term investments	(42,012)	0
Other receipts for investing activities (Grants)	(1,304)	(2,983)
Net cash flows from investing activities	(2,708)	17,855

38 - CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2015/16 £000	2016/17 £000
Other receipts from financing activities	(12)	0
Repayments of short & long-term borrowing	307	629
Other payments for financing activities	3,803	2,045
Net cash flows from financing activities	4,098	2,674

COLLECTION FUND STATEMENT & NOTES

	2015/16	2016/17	
	£000	£000	£000
INCOME			
90,846	Income From Council Tax		95,899
58,608	Income From Business Rates (Note 2)		60,507
149,454	Total Income		156,406
EXPENDITURE			
Precepts and Demands - Council Tax			
63,371	Kent County Council	67,048	
8,555	Kent Police & Crime Commissioner	9,000	
15,126	Maidstone Borough Council	15,751	
4,108	Kent Fire & Rescue Authority	4,260	
			96,059
Shares of Business Rates			
31,171	Central Government	31,342	
5,611	Kent County Council	5,642	
24,937	Maidstone Borough Council	25,073	
623	Kent Fire & Rescue Authority	627	
			62,684
26	Transitional Protection Payments - Business Rates		94
Impairment of Debts - Council Tax			
228	Write offs of uncollectable amounts	138	
238	Additional / (Reduced) Provision For Non Payment	279	
			417
Impairment of Debts/Appeals - Business Rates			
1,255	Write offs of uncollectable amounts	817	
(106)	Additional / (Reduced) Provision For Non Payment	18	
(1,055)	Losses on appeal	(1,274)	
4,671	Additional / (Reduced) Provision For Appeals	2,601	
			2,162
206	Cost of Collection Allowance - Business Rates		206
158,965	Total Expenditure		161,622
(9,511)	Surplus/(Deficit) For Year		(5,216)
3,157	Surplus/(Deficit) Brought Forward From Previous Years		(6,355)
1,764	Surplus/(Deficit) on Council Tax		1,186
(8,119)	Surplus/(Deficit) on Business Rates		(12,757)
(6,355)	Surplus/(Deficit) as at 31st March 2017		(11,571)

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, 1 April 1991 values. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, the Kent Police & Crime Commissioner Kent Fire & Rescue Authority and this Council for the forthcoming year and dividing this by the council tax base 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: 58,525.4 for 2016/17 (56,974.3 for 2015/16) (see table below.) This basic amount of council tax for a Band D property, £1,598.36 for 2016/17, (£1,543.50 for 2015/16) 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)	0.40	5/9	0.2
Band A	2,631.40	6/9	1,754.3
Band B	6,086.40	7/9	4,733.9
Band C	14,419.40	8/9	12,817.3
Band D	15,259.60	9/9	15,259.6
Band E	8,250.90	11/9	10,084.4
Band F	4,833.70	13/9	6,982.0
Band G	3,631.60	15/9	6,052.6
Band H	311.10	18/9	622.2
Other			219.0
			58,525.4

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 49.7p / £ Rateable Value (49.3p in 2015/16)
- Small Business Multiplier 48.4p / £ Rateable Value (48.0p in 2015/16)

The rateable value at 31st March 2017 was £142.528m (£142.241m at 31st March 2016).

For 2016/17, it was calculated that the Council would receive £24.059m in business rates (£23.410m 2015/16).

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

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 (£19.654m in 2016/17, £19.41m in 2015/16) is subsequently topsliced and returned to DCLG 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.

For 2016/17 Maidstone Borough Council participated in a pooled arrangement with Kent County Council, Kent Fire and Rescue Authority and nine other district councils in order to minimise the levy payment due to central government and thereby maximise retention of locally generated business rates.

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

GLOSSARY OF TERMS

ACCOUNTING POLICIES

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

ACCOUNTS

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

ASSETS HELD FOR SALE

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

BALANCE SHEET

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

BALANCES

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

CAPITAL EXPENDITURE

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

CAPITAL FINANCING

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

CAPITAL RECEIPTS

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

COLLECTION FUND

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

CREDITORS

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

DEBTORS

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

DEPRECIATION

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

GENERAL FUND

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

HERITAGE ASSETS

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

INTANGIBLE ASSETS

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

INVESTMENT PROPERTIES

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

PROPERTY, PLANT & EQUIPMENT

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL BY STATUTE

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

REVENUE SUPPORT GRANT

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

REVENUE ACCOUNT

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

SUPPORT SERVICES

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

USABLE CAPITAL RECEIPTS

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

UNUSABLE RESERVES

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

USABLE RESERVES

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAIDSTONE BOROUGH COUNCIL

We have audited the financial statements of Maidstone Borough Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

Respective responsibilities of the Director of Finance and Business Improvement and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance and Business Improvement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

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

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or

- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

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

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

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Darren Wells
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
2nd Floor
St John's House
Haslett Avenue West
Crawley
RH10 1HS

xx September 2017

Appendix A

Annual Governance Statement

2016/17

Introduction

The Annual Governance Statement is a review of the council's governance arrangements in 2016-17. The statement evaluates how we meet the governance framework and provides an opinion on whether the current governance arrangements are fit for purpose.

Our Responsibilities

Maidstone Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Maidstone Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council's section 151 Officer and the Monitoring Officer are key members of the Corporate Leadership Team, reviewing all decisions taken through Leadership Team, Committees and Full Council. The Section 151 officer has a number of statutory duties, including the duty to report any unlawful financial activity involving the authority (past, present or proposed) or failure to set or keep to a balanced budget. The Section 151 officer also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit. The Monitoring Officer serves as the guardian of the Council's Constitution and the decision-making process. They are responsible for advising the Council on the legality of its decisions and providing guidance to councillors and officers on the Council's Constitution and its powers. The Corporate Leadership Team is led by the Chief Executive who is the Council's chief policy advisor with overall corporate management and operational responsibility.

The Council operates a committee system of governance and the Leader is the Council's political and elected head, the focus for political direction and the chief spokesperson for the Borough. The Leader is also Chair of Policy and Resources Committee. The Council has four service based committees taking decisions within their terms of reference as agreed by full council, individual councillors do not have the power to make decisions. In addition there are committees that deal with licensing, planning, audit, governance and standards; democracy; urgent matters employment and other regulatory matters.

In discharging this overall responsibility, Maidstone Borough Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) and Society of Local Authority Chief Executive's (SOLACE) Framework Delivering Good Governance in Local Government Guidance Notes for English Authorities 2007 updated 2012. We will be adopting a new local code of corporate governance to take into account the new 2016 framework in June 2017.

Our Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and the activities through which it is accountable to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The monitoring of Corporate Governance has a high priority at the Council. The Head of Policy, Communications and Governance is responsible for Corporate Governance. A small working group made up of the Head of Finance, the Head of Legal services (Monitoring Officer) and the Head of Policy and Communications assisted by the Head of Audit Partnership reports biannually to the Corporate Leadership Team and the Audit, Governance and Standards Committee on governance matters.

This governance framework has been in place at Maidstone Borough Council for the year ended 31 March 2017 and up to the date of approval of the Statement of Accounts.

Our Governance Principles

- 1) **We will focus on our purpose and on outcomes for the community in creating and implementing a vision for the local area.**
- 2) **Councillors and officers will work together to achieve a common purpose with clearly defined functions and roles.**
- 3) **Councillors and officers will promote our values and demonstrate the values of good governance through upholding high standards of conduct and behaviour.**
- 4) **We will take informed and transparent decisions which are subject to effective scrutiny and will manage risk.**
- 5) **We will develop the capacity and capability of Councillors and officers to be effective.**
- 6) **We will engage with local people and other stakeholders to ensure robust public accountability.**

Review of Effectiveness

1) We will focus on our purpose and on outcomes for the community in creating and implementing a vision for the local

The Council has a clear vision set out in the Strategic Plan. In 2016/17 the Council refreshed and updated the Strategic Plan, this was led by Committees using information from the last resident survey and budget consultation roadshow carried out in Autumn 2016 in locations across the Borough. Outcomes are measured through strategy action plan updates, performance measures and targets which are reported regularly to Wider Leadership Team and the Policy and Resources Committee. To ensure the delivery of the strategic plan priorities and actions each service is required to produce a service plan and individuals also identify how they meet the priorities in their objectives for the year. The Investors in People (IiP) review in January 2017 identified Strategic Planning as a strength, "Staff clearly understand the challenges ahead and all take part in discussing service plans and their contribution."

A resident survey will be undertaken in June 2017 to identify satisfaction with our services, areas for improvement and residents priorities.

A Member Sounding Board was formed in 2016 to consider how Councillors engage with officers, public consultation and engagement, share information as well as get involved in communications projects such as the residents' survey. This has ensured Councillors have an opportunity at an early stage to influence public engagement. The board has looked at the proposed changes to the Internet requesting that accessibility issues are taken into consideration in the new design.

The Council's performance management arrangements were audited in 2016-17, recommendations to improve the engagement in performance management and data quality were made and will be implemented in 2017-18. The Council produced an end of year performance report in 2016, it is planned to combine this with the Annual Report in 2017.

2) Councillors and officers will work together to achieve a common purpose with clearly defined functions and roles.

The Council's Constitution clearly defines the roles and responsibilities of Officers and Councillors. The Head of Legal Partnership has reviewed the constitutional arrangements and made recommendations for amendment in 2016/17. These covered clarifying the roles and responsibilities of Heads of Service and some changes to procedure rules.

The Democracy Committee is charged with amending the council's constitution and has considered constitutional matters throughout the year. The Democracy Committee has begun a review into appointments to outside bodies to be completed in 2017, they also considered the web casting arrangements and held the provider to account in a meeting to discuss the problems with the system and solutions.

The Audit, Governance and Standards Committee purpose is to promote and maintain high standards of Councillor and Officer conduct within the Council. The Committee has responsibility for adopting and reviewing the Annual Governance Statement; independent assurance of the adequacy of the financial and risk management framework and the associated control environment. In 2016 they commissioned a review of whistle blowing which resulted in a new charter and briefings for staff and managers on the new policy. The recent IiP assessment identified Member and Officer relationships as an area for development in 2017/18. It identified that "Collaborative working needs to be focused on to ensure that MBC can achieve in challenging times." As a result an away day has been planned with Councillors and Corporate Leadership Team in Summer 2017.

The Strategic Plan was refreshed in 2016-17 a process which involved workshops with Committee Chairs and Vice Chairs and then input via committee meetings from each service committee. As a result we have identified three priority areas for 2017-18:

- A Home for Everyone
- Providing a Clean and Safe Environment; and
- Regenerating the Town Centre

3) Councillors and officers will promote our values and demonstrate the values of good governance through upholding high standards of conduct and behaviour

We have a clearly defined set of core values that are embedded at the Council, they form part of our competency framework, are used as part of the appraisal process. Annually we hold a staff awards event for those who have demonstrated they have exceeded the standards by going above and beyond the expected in their behaviour:

- Service
- Teamwork
- Responsibility
- Integrity
- Value

11
9
Equality

The recent liP identified that:

“The STRIVE Values are embedded in all people processes such as recruitment, induction and within the appraisal process. In particular, the STRIVE awards presented at ‘One Council’ briefings work really well to reinforce the importance of positive behaviours.”

There is an Equality Policy in place for the organisation and the equality objectives will be refreshed in 2017-18. A Register of Interests is maintained and training is offered to councillors on standards, interests and our code of conduct. Councillor and Officer codes of conduct are in place. A register of gifts and hospitality is maintained and staff are regularly reminded to complete this. Information on conduct is included in our Staff Handbook.

The Audit, Governance and Standards Committee purpose is to promote and maintain high standards of Councillor and Officer conduct within the Council.

The Democracy Committee approved a member development programme that included training on interests and conduct. The Programme is focused on the following areas for Member Development:

- Support and build on existing skills for their role in the community now and in the future
- Support and build on existing skills for the various roles undertaken within and on behalf of the Council

4) Taking informed and transparent decisions which are subject to effective scrutiny and risk management

A Member Development Plan was delivered in 2016-17 including training set by Committees such as planning and licensing. Training was not always well attended and the Democracy Committee was asked to review the training needs for 2017-18. The plan for 2017-18 has been developed in consultation with the Democracy Committee. We have introduced in 2016-17 work programmes for the four service committees, Democracy Committee and Audit, Governance and Standards Committee. These programmes detail the decisions and reports for the year and are reviewed monthly by each committee.

Our work to implement and embed improved risk management arrangements has continued throughout 2016-17, and builds on the work set out in last year’s annual governance statement action plan. The highest level risks on the Comprehensive Risk Register, were reported and monitored by Corporate Leadership Team throughout the year, and action taken to manage risks to an acceptable level. Further to this, risks updates were reported to Policy & Resources Committee and also to Audit, Governance and Standards Committee during the year for oversight and challenge. This momentum of work will continue into 2017-18 as the Council works to refresh its corporate level risks, and seeks to establish its risk appetite.

Whilst the Council demonstrates there is good quality advice and support for councillors and officers in relation to the council’s decision making process, it has been identified that report writing could be improved. As such a refresh of the report template and report writing and training is planned for 2017-18 for officers. As part of the refresh of the template we will look at best practice elsewhere as well as current expectations of both Councillors and Officers.

5) Developing the capacity of Councillors and Officers to be effective

The Council was recently accredited Sliver following an Investors in People assessment. To achieve this level the council had to demonstrate that we have in place regular appraisals, service plans, learning and development activities, recruitment and selection procedures as well as a clear strategic vision, good leadership and strong corporate values.

The appraisal process for staff includes a personal development section where staff are encouraged to think about development needs and identify training required. This information is then fed into the Learning and Development team and assists with the development of the programme for the year. The Council has a management toolkit and training programme and will be introducing the “Maidstone manager” in 2017-18 which will set out the behaviour and standards that are expected of managers. This was developed with staff at staff forum meetings and through team talks across the Council.

The Council has a learning and development programme in place for officers and councillors. This has been assessed as good in the recent assessment. There is a wide variety of training offered to staff and councillors. The recent assessment identified action needed to improve succession planning and this will be taken forward alongside other areas of development by a wider leadership team project group.

6) The Authority will engage with local people and other stakeholders to ensure robust public accountability.

The Policy and Information Team and Communications Team work together with teams across the Council to ensure consultation is run consistently and effectively and are well communicated to all stakeholders. This collaborative working enables the teams to more effectively manage the consultation process, and in particular, better manage barriers such as such as consultation fatigue. Recognising of the importance of effective engagement with our stakeholders, the Council became a member of the Consultation Institute earlier in the year, which provides a wealth of resources and insight. Officers are currently undertaking accredited training via the Institute to further improve our approach and processes.

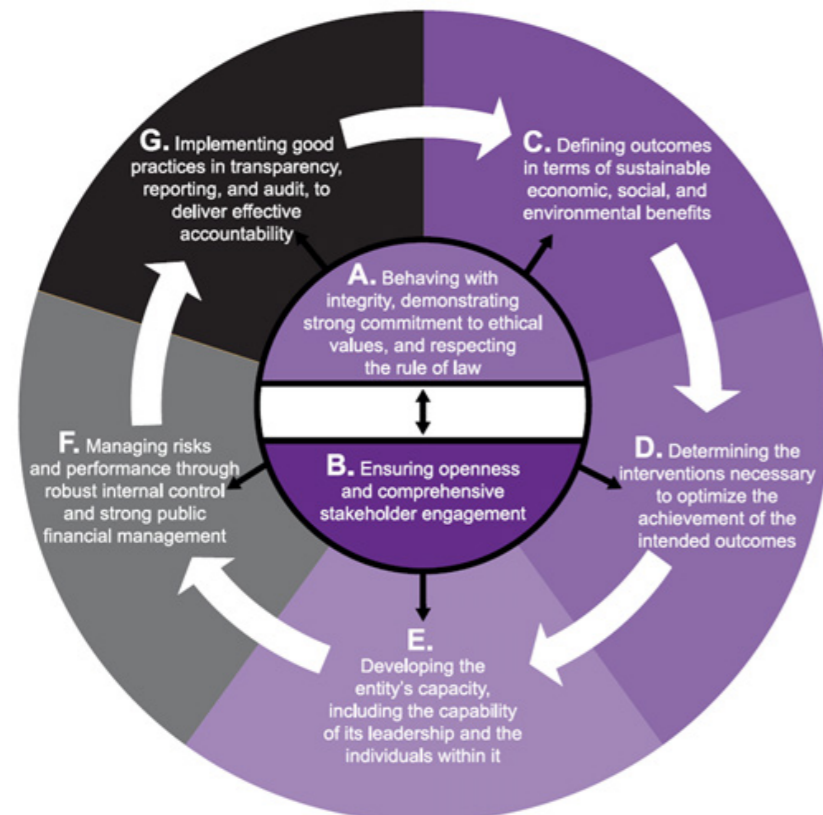
A new Communication and Engagement Strategy was approved in 2016-17 with actions aligned to our corporate priorities and action areas. This will be refreshed in 2017.

The annual budget consultation was held across a number of channels including face to face and digitally with our residents on the priorities for spending going forwards.

The Council takes up opportunities to engage with partners and stakeholders through avenues such as the Developers' forum, Parish Liaison meetings, Maidstone Destination Management Plan, BME forum, Children and Young People forum, Voluntary and Community Services focus group, disability network and older person's forum. During the year we also carried out a public consultation to update our customer service standards. A good level of response was received, and we will be working in 2017/18 to implement and embed the new standards. This will include a programme on communication externally (to the public), and internally (to staff) to ensure that we put the standards into practice.

Looking ahead

In 2017 the council will adopt a new CIPFA and Solace code. The new code has seven principles, effective governance will be judged against these principles when we review our performance for 2017-18, and in light of this the action plan identifies actions for these principles as well.



Internal Audit Opinion

The Head of Internal Audit will present the annual report and opinion to Audit, Governance and Standards Committee on 26 June 2017. The specific extract of that report that includes the opinion reads:

I am satisfied that during the year ended 31 March 2017 the Council managed a system of internal control that offers sound assurance on control effectiveness.


I am satisfied that Council's corporate governance arrangements for the year ended 31 March 2017 comply in all material respects with guidance on proper practices [CIPFA/SOLACE 2016 guidance].

I am satisfied the risk management arrangements at the Council for the year ended 31 March 2017 are effective and provide sound assurance.

In addition, the report notes consistent findings from the areas offering only weak assurance on a need for the Council to improve consistency in its contract management. This is included as one of the governance actions below.

Governance actions 2016-17 - Update

Governance Issue	Action Taken
Training and Communication on Information Management	<ul style="list-style-type: none"> New e-learning module has been developed and all staff have been asked to complete the module by the end of August Briefings at manager's forum and staff forum Action Plan in implementation
Involvement in decision making and informing residents about our services	<ul style="list-style-type: none"> New communication and engagement strategy introduced Budget roadshows held as well as on-line survey Consultations run on key decisions Member Sounding Board in place for communications Web casting issues resolved
Establishing Risk Appetite	<ul style="list-style-type: none"> Risk register has been reviewed and risks included in service planning Risk appetite set with leadership team next steps to inform and engage officer and members
Audit Reviews with Weak Assurance	<ul style="list-style-type: none"> Safeguarding Business Continuity Mote Park and Cobtree Cafe <p>During 2016-17 these were re-assessed as sound.</p>

Governance Issue	Lead Officer	Delivered by
Engaging with local people: <ul style="list-style-type: none"> Implementing new Customer Service Standards Refresh of the Communication and Engagement Strategy 	Head of Policy, Communications and Governance	October 2017
Member and Officer Relationships <ul style="list-style-type: none"> Externally led away day Member Bulletin 	Chief Executive and Leadership Team	March 2018
Risk Management <ul style="list-style-type: none"> Setting the risk appetite Improving report writing in relation to risk 	Director of Finance and Business Improvement	March 2018
Decision Making <ul style="list-style-type: none"> Improving report writing Officers trained to deliver accurate procedural advice in meetings 	Head of Policy, Communications and Governance	March 2018
Information Management  Ensure the council is compliant with the new General Data Protection Regulations (GDPR)	Director of Finance and Business Improvement	March 2018
Contract Management <ul style="list-style-type: none"> Improving consistency and effectiveness of contract management across the council 	Director of Finance and Business Improvement	March 2018
Audit Reviews with weak assurance Hazlitt Theatre Health & Safety Park and Ride Performance Management	Director of Regeneration & Place Mid Kent Services Director Director of Regeneration & Place Director of Finance and Business Improvement	March 2018

Conclusion

Overall we are compliant and our governance arrangements are fit for purpose.

A number of governance issues have been identified to be addressed in 2017-18 to ensure we continue to improve and meet the requirements of the new corporate code for 2017. These include actions to improve contract management, implementing recommendations for weak audit reviews covering Health and Safety, Park and Ride, Performance Management and the Hazlitt Theatre.

The actions we propose to take are set out in the table above.

Signed:

Chief Executive:

Date:

Leader of the Council:

Date:



Maidstone Borough Council

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

18 September 2017

Alison Broom
Chief Executive

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Dear Sirs

Maidstone Borough Council Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the financial statements of Maidstone Borough Council for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ("the Code") which give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- vi. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii. Except as disclosed in the financial statements:
 - a) there are no unrecorded liabilities, actual or contingent
 - b) none of the assets of the Council has been assigned, pledged or mortgaged
 - c) there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv. We have provided you with:
 - a) access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b) additional information that you have requested from us for the purpose of your audit; and
 - c) unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
 - a) management;
 - b) employees who have significant roles in internal control; or
 - c) others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

- xxvi. The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on 18 September 2017.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

Audit, Governance and Standards Committee

18 September 2017

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

No

External Auditor Appointment Update

Final Decision-Maker	Council
Lead Director	Director of Finance and Business Improvement
Lead Officer and Report Author	Director of Finance and Business Improvement
Classification	Public
Wards affected	All

This report makes the following recommendation:

1. The Committee notes the proposal of PSAA for Grant Thornton to continue as the Council's external auditor.
2. The Committee notes that the Director of Finance and Business Improvement will respond to PSAA's consultation, taking into account comments from Members.

This report relates to the following corporate priorities:

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

Timetable

Meeting	Date
Audit, Governance and Standards Committee	18 September 2017

External Auditor Appointment Update

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Council's current contract with its external auditor is due to expire at the end of 2017/18. This Committee considered the options for appointment of a new auditor at its meeting on 19 September 2016. It recommended to Council, and it was agreed, that the Council opt in to a joint procurement arrangement through an 'approved person', Public Sector Audit Appointments Ltd (PSAA).
- 1.2 On 15 August PSAA told the Council it was proposing that Grant Thornton continue as the Council's external auditors.
- 1.3 This report updates Members and seeks views that might shape our response to the proposal.

2. INTRODUCTION AND BACKGROUND

- 2.1 The Local Audit & Accountability Act 2014 abolished the Audit Commission and directed local authorities to appoint their own external auditors before 31 December 2017. The Act also allowed created a category of 'approved persons' able to manage procurement for authorities who choose to opt in to that path. The Department of Communities & Local Government approved Public Sector Audit Appointments Limited (PSAA), a wholly owned subsidiary of the Local Government Association, to act as an 'approved person' and invite local authorities to opt-in.
- 2.2 On 7 December 2016 Council decided to opt in to PSAA's procurement arrangement. All but one district council in England took the same decision meaning PSAA effectively ran a single national procurement exercise.
- 2.3 PSAA have largely kept to the procurement timetable and approach advised to the Council in 2016. This approach awarded national contracts divided on the volume of audit work on offer, with a second step following to assign auditors to individual authorities. On 22 June 2017 PSAA announced the results of its national exercise.

Lot	Value	Percentage	Winner
1	£14.6m	40%	Grant Thornton LLP
2	£10.9m	30%	EY LLP (Ernst & Young)
3	£6.6m	18%	Mazars LLP
4	£2.2m	6%	BDO LLP
5	£2.2m	6%	Deloitte LLP
6	No set value	N/A	Moore Stephens LLP/Scott-Moncrieff LLP Consortium

- 2.4 The overall value of the award suggests an average decrease in audit fees of 18% compared to 2016/17. However, the specific fees for individual authorities will be subject to separate consultation in early 2018.
- 2.5 PSAA then began to assign work to individual authorities in line with these overall values. On 15 August 2017 PSAA told the Council of its proposal to appoint Grant Thornton as the Council's external auditor from the 2018/19 financial year on a five-year contract with potential two year extension.
- 2.6 Grant Thornton are the Council's current external auditors. We understand that Grant Thornton are also the proposed auditors for Swale and Tunbridge Wells Borough Councils.
- 2.7 The appointment only covers work directed by the National Audit Office's Code of Audit Practice. This covers most of external audit's current work, for example the accounts and value for money opinions. The most notable omission is certification of the Council's Housing Benefit Claim form, which it must provide to the Department of Work and Pensions by 30 November each year. The Council will consider arrangements for that appointment soon, and must tell DWP of its decision on that matter by 28 February 2018.
-

3. AVAILABLE OPTIONS

- 3.1 The Council may object to PSAA's proposal to appoint Grant Thornton. PSAA give only limited grounds for objection:
- An independence issue that has not previously been notified to PSAA;
 - Formal joint working arrangements with another authority that are both relevant to the auditor's responsibilities and not previously notified to PSAA;
 - Another valid reason, for example a history of inadequate service.
- 3.2 We believe the Council has no valid grounds under these headings to raise an objection to the proposed appointment.
-

4. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 4.1 The Committee has been consulted at earlier stages during the external audit procurement process and the outcome as advised by PSAA is consistent with the views previously expressed by Members.
-

5. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 5.1 The Council must respond to PSAA by 22 September 2017. If we confirm our satisfaction with the proposed appointment we need take no further action. PSAA will confirm the Maidstone BC appointment, with appointments for all opted in authorities, at its board meeting on 14 December 2017. PSAA will write with final confirmation of appointments by 21 December 2017, so meeting the statutory deadline of 31 December.

6. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	Effective audit procurement will help to ensure good value for money and maintain good governance.	Director of Finance and Business Improvement
Risk Management	External audit complements the Council's internal risk management processes.	Director of Finance and Business Improvement
Financial	The Council's external audit fee is currently £50,475. The new audit arrangements are expected to lead to a reduction but details are not yet known.	Director of Finance and Business Improvement
Staffing	None.	Director of Finance and Business Improvement
Legal	The Council has to appoint a new auditor and have a suitable contract in place before 31 December 2017.	Director of Finance and Business Improvement
Equality Impact Needs Assessment	None.	Director of Finance and Business Improvement
Environmental/Sustainable Development	None.	Director of Finance and Business Improvement
Community Safety	None.	Director of Finance and Business Improvement

		Improvement
Human Rights Act	None	
Procurement	The procurement described in this report is fully compliant with legal requirements and is expected to achieve good value for money.	Director of Finance and Business Improvement
Asset Management	None.	Director of Finance and Business Improvement

7. BACKGROUND PAPERS

None.