

GOVERNANCE AND AUDIT COMMITTEE

Wednesday, 24th October, 2018

10.30 am

Darent Room - Sessions House

There will be a training session for Members of the Committee at 10.00 am on Enhancing Audit Committee challenge and effectiveness





AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Wednesday, 24th October, 2018, at 10.30 am
Darent Room - Sessions House

Ask for: **Andrew Tait**
Telephone: **03000 416749**

Tea/Coffee will be available 15 minutes before the start of the meeting

Membership (11)

Conservative (8)	Mr R A Marsh (Vice-Chairman), Mrs R Binks, Mr D L Brazier, Mr N J D Chard, Mr G Cooke, Mrs S V Hohler, Mr M J Horwood and Mr H Rayner
Liberal Democrat (1):	Mr R H Bird
Labour (1)	Mr D Farrell
Independents (1):	Mr M E Whybrow

Webcasting Notice

Please note: this meeting may be filmed for live or subsequent broadcast via the Council's internet site – at the start of the meeting the Chairman will confirm if all or part of the meeting is being filmed.

By entering the meeting room you are consenting to being filmed and to the possible use of those images and sound recordings for webcasting and/or training purposes. If you do not wish to have your image captured then you should make the Clerk of the meeting aware.

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1. Introduction/Webcasting
2. Membership
To note that Mr D L Brazier has replaced Miss C Rankin on the Committee
3. Substitutes

4. Declarations of Interest in items on the agenda for this meeting
5. Election of Chairman
6. Minutes - 25 July 2018 (Pages 5 - 12)
7. Dates of Future Meetings
Wednesday, 23 January 2019;
Wednesday, 24 April 2019;
Wednesday, 24 July 2019;
Thursday, 3 October 2019;
Wednesday, 22 January 2020;
Thursday, 23 April 2020
8. Committee Work and Member Development Programme (Pages 13 - 18)
9. Internal Audit and Counter Fraud Progress Report (Pages 19 - 56)
10. External Audit Annual Letter 2017/18 (Pages 57 - 72)
11. External Audit Update (Pages 73 - 90)
12. Debt (Pages 91 - 98)
13. KCC Annual Customer Feedback Report 2017/18 (Pages 99 - 114)
14. KCC Insurance Overview (Pages 115 - 120)
15. Treasury Management Update (Pages 121 - 132)
16. Other items which the Chairman decides are urgent

EXEMPT ITEMS

(At the time of preparing the agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public)

Benjamin Watts
General Counsel
03000 416814

Tuesday, 16 October 2018

Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.

KENT COUNTY COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Council Chamber - Sessions House on Wednesday, 25 July 2018.

PRESENT: Mr N J D Chard (Chairman), Mr R A Marsh (Vice-Chairman), Mrs R Binks, Mr R H Bird, Mr D L Brazier (Substitute for Miss C Rankin), Mr G Cooke, Mr D Farrell, Mrs S V Hohler, Mr H Rayner and Mr M E Whybrow

ALSO PRESENT: Miss S J Carey, Mrs M E Crabtree, Mr R W Gough, Ms S Hamilton and Mr E E C Hotson

IN ATTENDANCE: Mr R Patterson (Head of Internal Audit), Ms S Buckland (Audit Manager), Mr G Singh (Barrister), Mrs C Head (Acting Deputy S151 Officer and Head of Finance Operations), Miss E Feakins (Chief Accountant), Mrs A Mings (Treasury and Investments Manager), Ms S Cheeseman (Business Manager), Mr D Whittle (Director of Strategy, Policy, Relationships and Corporate Assurance), Mr M Scrivener (Corporate Risk Manager), Mr M Rolfe (Trading Standards Manager (East)), Mrs R Spore (Director of Infrastructure) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

27. Minutes (Item 4)

RESOLVED that the Minutes of the meetings held on 24 April 2018 and 7 June 2018 are correctly recorded and that they be signed by the Chairman.

28. Committee Work and Member Development Programme (Item 5)

(1) The Head of Internal Audit provided an update on the forward Committee Work and Member development programme following best practice guidelines in relation to Audit Committees.

(2) RESOLVED that approval be given to the forward Committee Work programme and Member Development programme set out in the report.

29. Annual review of the Committee's Terms of Reference (Item 6)

(1) The Committee considered a report on the Committee's terms of Reference, including a comparison of them to those of the recently published CIPFA Position Statement on Audit Committees. This report also recommended

the abolition of its Trading Activities Sub-Committee and the amendment of the Committee's Terms of Reference to subsume the activities of its Sub-Committee into the Committee.

(2) The Barrister confirmed that the revised Terms of Reference for the Committee would be submitted to the County Council for its approval.

(3) RESOLVED that:-

- (a) the outcomes of the review of the Terms of Reference and their comparison to the CIPFA Position Statement be noted;
- (b) the Trading Activities Sub-Committee be deleted from the County Council's governance arrangements; and
- (c) approval be given to the amended Terms of Reference for approval by the County Council.

30. External Audit Annual Findings Report 2017/18
(Item 7)

(1) Mr Andy Conlan from Grant Thornton UK LLP presented the External Audit Findings report.

(2) During discussion of this item, the Committee discussed the possible implications of legal action being taken in respect of Lender Option Borrower Option loans (LOBOs). Mr R H Bird and Mrs R Binks informed the Committee that they had previously been professionally involved with LOBOs but never in relation to the County Council. Although this did not qualify as a Disclosable Pecuniary Interest or an Other Significant Interest, they refrained from participating in the discussion of this topic.

(3) RESOLVED that:-

- (a) the conclusions of the Audit Findings Report on value for money and the Council's financial resilience be noted for assurance;
- (b) the audit opinion be noted for assurance; and
- (c) approval be given to the draft management response to the action plan.

31. External Audit Pension Fund Audit Findings Report 2017/18
(Item 8)

(1) Mr Andy Conlan from Grant Thornton UK LLP presented the External Auditor's Annual Pension Fund Audit Findings report.

(2) RESOLVED that the findings in the report be agreed.

32. Draft Statement of Accounts 2017/18
(Item 9)

(1) Mrs M Crabtree, Deputy Cabinet Member for Finance introduced the Draft Statement of Accounts. She asked the Committee to record its thanks to the Finance Team and to Grant Thornton for the speed and quality of their work in bringing the accounts forward. This was agreed.

(2) RESOLVED that:-

- (a) approval be given to the Statement of Accounts for 2017-18 and to the Letters if representation;
- (b) the recommendations made in the Annual Findings Report be noted; and
- (c) the Finance Team and Grant Thornton be thanked for the speed and quality of their work in bringing the accounts forward.

33. Schools Audit Annual Report
(Item 10)

(1) The Committee considered a report which summarised the Schools Financial Services (SFS) compliance programme and other activities undertaken during 2017-18 which enabled the Chief Finance Officer to certify that there was a system of audit for schools which gave adequate assurance over financial management standards in schools.

(2) RESOLVED that the report be noted for assurance.

34. Internal Audit Annual Report and Opinion for 2017/18
(Item 11)

(1) Miss S J Carey, Cabinet Member for Customers, Communications and Performance and the Head of Internal Audit introduced the report on the outcomes and themes from Internal Audit and Counter Fraud work for 2017-18 and the resultant annual opinion on the Council's systems of governance, risk management and internal control, together with details of the related performance of the Internal Audit and Counter Fraud Unit in delivering this work.

(2) The Committee thanked the Internal Audit Team, particularly for the high proportion of audit issues actioned by departments.

(3) RESOLVED that:-

- (a) the outcomes from the 2017/18 audit and counter fraud work and the resultant substantial opinion to the Annual Governance Statement be noted; and
- (b) the Internal Audit Team be thanked, particularly for the high proportion of audit issues actioned by departments.

35. Update on 2018/19 Savings Programme
(Item 12)

- (1) The Committee considered a report on the position on progress towards the 2018/19 budget savings.
- (2) The Acting Deputy 151 Officer and Head of Finance Operations agreed to provide details to the Committee of the percentage of Red savings in 2016/17.
- (3) RESOLVED that the progress on the 2018-19 revenue budget savings be noted for assurance.

36. Treasury Management Annual Review 2017/18
(Item 13)

- (1) Mrs M Crabtree, Deputy Cabinet Member for Finance and the Treasury and Investments Manager summarised Treasury Management activities in 2017/18.
- (2) RESOLVED that approval be given to the report for submission to the County Council.

37. Corporate Risk Register
(Item 14)

- (1) The Corporate Risk Manager presented the Corporate Risk Register to the Committee together with an overview of the changes since it had last been presented and an outline of the ongoing process of monitoring and review.
- (2) The Corporate Risk Manager replied to a question from Mr Bird by explaining that the question of whether highways maintenance should be identified as a Corporate Risk was due to be discussed during the Autumn Review.
- (3) RESOLVED that the assurance provided in relation to the development, maintenance and review of the Corporate Risk Register be noted.

38. RIPA Report on surveillance, covert human intelligence source and telecommunications data requests carried out by KCC between 1 April 2017 and 31 March 2018
(Item 15)

- (1) The Committee considered a report on surveillance, the use of covert human intelligence sources (CHIS) and access to telecommunications data governed by the Regulation of Investigatory Powers Act 2000 (RIPA) during the 2017/18 business year.
- (2) RESOLVED that the use of RIPA techniques during the 2017/18 business year be noted for assurance.

EXEMPT ITEMS
(Open access to Minutes)

(Members resolved under Section 100A of the Local Government Act 1972 that the public be excluded for the following business on the grounds that it involved the likely disclosure of exempt information as defined in paragraphs 5 and 6 of Part 1 of Schedule 12A of the Act.)

39. The Education People
(Item 17)

(1) The Committee considered a report on the establishment of a Local Authority trading Company (LATC) which had been agreed by Cabinet on 27 March 2017. The report sought recommendations on the proposed governance arrangements as part of the establishment of the Company.

(2) RESOLVED that:-

- (a) the Cabinet Member for Children, Young People and Education be informed of the Committee's concerns over:-
 - (i) the possibility of a cross-subsidy by KCC and a less than private sector commercial loan arrangement;
 - (ii) the manner in which the Chairman and Vice-Chairman of the company board were appointed; and
 - (ii) the apparent lack of commercial rigour and trading expertise within the current make up of the Company Board; and
- (b) a progress report be given to the Committee meeting in October 2018 which the Chairman and Vice-Chairman of the Company will be invited to attend.

40. Property Income Management - Update Report
(Item 18)

(1) Mr EEC Hotson, Cabinet Member for Corporate and Democratic Services introduced a report updating the Committee on actions taken to ensure that Property Income Management was progressing towards effectiveness and within acceptable risk parameters.

(2) The Head of Internal Audit informed the Committee that there would be a formal follow-up audit during the year.

(3) The Director of Infrastructure informed the Committee that a review was also being carried out by the Strategic Commissioner.

(4) The Committee agreed to receive a progress report in January 2019 following completion of the review and the formal audit follow-up.

(5) RESOLVED that:-

- (a) the progress made since the Property Income Management Audit report be noted together with the further improvement to ensure that the Council's Property Income Management process is robust; and
- (b) an update report be submitted to the Committee in January 2019 following the outcomes of the Strategic Commissioner's review and the formal Internal Audit follow-up.

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By: David Brazier, Chairman of Governance and Audit Committee
Robert Patterson, Head of Internal Audit

To: Governance and Audit Committee – 3rd October 2018

Subject: **COMMITTEE WORK & MEMBER DEVELOPMENT PROGRAMME**

Classification: Unrestricted

Summary: This report provides an update on the forward Committee Work programme following best practice guidance in relation to Audit Committees.

FOR DECISION

Introduction and background

1. In December 2013, CIPFA published updated best practice guidance on the function and operation of audit committees in Local Government. The guidance recommends that this Committee's work programme is designed to ensure that it can fulfil its terms of reference and that adequate arrangements are in place to support the Committee with relevant briefings and training.
2. This paper is a standing item on each agenda to allow Members to review the programme for the year ahead, and provide Members with the opportunity to identify any additional items that they would wish to include.

Current Work Programme

3. Appendix 1 shows the latest programme of work for the Committee, up to October 2019. The content of the programme is matched to the Committee Terms of Reference and aims to provide at least the minimum coverage necessary to meet the responsibilities set out. This does not preclude Members asking for additional items to be added during the course of the year.

Member Development Programme

4. It is good practice for the Committee to embrace a Member development programme through a series of pre-meeting briefings, focusing on areas that are of specific relevance to this Committee. This has been successfully implemented over the last few years and is particularly relevant with a newly formed Committee with many new Members.
5. Before the start of today's meeting a presentation was given on "Enhancing Audit Committee challenge and effectiveness". The following training has been scheduled for subsequent meetings

- Internal and external audit planning and sources of assurance (Jan 2019)
6. Members can request alternative or additional training if they wish, via the Chairman.

Recommendations

7. It is recommended that Members approve the forward Committee Work Programme (***Appendix 1***)

Robert Patterson
Head of Internal Audit (03000 416554)

Committee Work Programme

Appendix 1

Category Item	Owner	Oct-18	Jan-19	Apr-19	Jul-19	Oct-19
Secretariat						
Minutes of last meeting	Andrew Tait	✓	✓	✓	✓	✓
Work Programme	Robert Patterson	✓	✓	✓	✓	✓
Member Development Programme	Robert Patterson	✓	✓	✓	✓	✓
Risk Management and Internal Control						
Corporate Risk Register	Mark Scrivener		✓		✓	
Review of the Risk Management Strategy, Policy and Programme	Mark Scrivener		✓			
Report on Insurance and Risk Activity	Lee Manser	✓				✓
Treasury Management quarterly report/six monthly review	Alison Mings	✓	✓	✓		✓
Treasury Management Annual Review	Alison Mings				✓	
Ombudsman Complaints	Pascale Blackburn-Clarke	✓				✓
Annual Complaints & Customer Feedback Report	Pascale Blackburn-Clarke	✓				✓
Update on Savings Programme / Transformation Programme	Interim S151 / DoF		✓		✓	
Annual report on 'surveillance' activities carried out by KCC	Mark Rolfe				✓	
Corporate Governance						
Annual review of Terms of Reference of G & A	Robert Patterson Ben Watts				✓	
Debt Management	Cath Head	✓			✓	
Annual review of the Council's Code of Corporate Governance	Benjamin Watts	✓			✓	
LATCo Policies and Governance Structures (when required)	LATCO Board or originating Directorate				✓	

Committee Work Programme

Appendix 1

Category Item	Owner	Oct-18	Jan-19	Apr-19	Jul-19	Oct-19
Internal Audit and Counter Fraud						
Internal Audit and Counter Fraud Progress Report	Robert Patterson	✓	✓	✓		✓
Schools Audit Annual Report	Yvonne King				✓	
Internal Audit and Counter Fraud Annual Report	Robert Patterson				✓	
Internal Audit Strategy and Annual Plan	Robert Patterson			✓		
Review of the Anti-Fraud and Corruption Strategy (part of progress report)	Robert Patterson	✓				✓
Review of Anti-Money Laundering Policy (part of progress report)	Robert Patterson	✓				✓
External Audit (provided by Grant Thornton)						
External Audit Update	Robert Patterson	✓	✓	✓	✓	✓
External Audit Findings Report/Value for Money and Annual Audit Letter	Robert Patterson	✓			✓	
Pension Fund Audit Findings Report	Robert Patterson				✓	
External Audit Certification of Claims and Returns Report	Robert Patterson			✓		
Effectiveness of Internal and External Audit Liaison	Robert Patterson		✓			
External Audit Plan	Robert Patterson			✓		
External Audit Pension Fund Plan	Robert Patterson			✓		
External Audit Fee letter and / or procurement arrangements	Robert Patterson		✓			
External Audit Fraud, Law & Regulations & Going Concern Considerations	Interim S151 / DoF			✓		
Financial Reporting						
Statement of Accounts & Annual Governance Statement	Interim S151 / DoF				✓	
Revised Accounting Policies	Cath Head			✓		
Review of Financial Regulations	Emma Feakins			✓		
Review of Companies which KCC has an Interest						
Review of statutory accounts	Emma Feakins			✓		

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By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 3rd October 2018

Subject: **INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT**

Classification: Unrestricted

Summary: This report summarises the outcomes to date against the 2018/19 internal audit and counter fraud plan

Recommendation: FOR ASSURANCE

Introduction

1. This report, and the enclosed Appendix A, summarises:

- The key outcomes from completed Internal Audit reviews and counter fraud investigations since April 2018
- Progress against the 2018/19 Internal Audit Plan, proposed revisions and key performance indicators
- Cyclical reviews of counter fraud strategies and anti-money laundering policies
- Future plans and improvements,

Outcomes and opinion

2. From our coverage to date we have concluded that the County Council continues to have **adequate and effective controls and governance processes** as well as robust systems to deter incidences of material fraud and irregularity. We have based this opinion on the following:

3. Positives

- 33% of systems or functions reviewed to date have been judged with a substantial assurance or better
- A continuing pattern of general robustness of key financial systems
- A pattern of good quality standards governing a range of financial assessment systems
- Management have acted appropriately and promptly to issues we have raised
- There have been no incidences of significant fraud, irregularity or corruption

4. Areas for development

- One 'no assurance' audit relating to a contract management issue
- Continuing issues with contracting and commissioning set ups
- Evidence from our recruitment audit that managers are not consistently following pre-employment checks. Such checks are key 'entry controls' into KCC.

5. At this time of the year audit and counter fraud activity is clearly more limited but will build up through the progression of the financial year. In making our opinion we also take into account the outcomes from our work in the previous financial year.

6. We have undertaken our cyclical review of the Council's anti-fraud and corruption strategy and anti-money laundering policy, and bar minor amendments for changes in Council structures and personnel we have found no need for any substantive revision and conclude that they remain fit for purpose.
7. In addition, we have carried out a self-assessment against the Public Sector Internal Audit Standards (PSIAS), in line with the internal audit Quality Assurance and Improvement Programme. In this self-assessment, we have judged that we are fully conformant with 53 of the 56 standards, partially conformant with two and non-conformant with one. An action plan has been developed to address the areas of non-compliance and progress against this will be reported to the Committee.
8. The delivery of the 2018/19 plan will be the last led by the current Head of Internal Audit before retirement and as such it would be desirable if recruitment processes could start before Christmas 2018.

Member challenge

9. In reviewing this report, Members might consider whether:
 - audit findings and outcomes correlate with the interim overall opinion being given
 - the audit judgements against selected corporate risks provide assurance that these risks are being adequately managed
 - management actions and responses are appropriate for the issues raised by audit
 - any areas of poor performance which warrant further review/ call in or follow up by this Committee

Recommendations

10. Members are asked to note:
 - Progress and outcomes against the 2018/19 audit and counter fraud plan
 - That minimal revisions are required to the Council's anti-fraud and corruption strategy and anti-money laundering policy
 - The action plan developed following completion the PSIAS self-assessment
 - Future plans and enhancements
 - Future preparations for the replacement of the current Head of Internal Audit during 2019

Appendices

Appendix A - Internal Audit and Counter Fraud Progress Report October 2018

Robert Patterson
Head of Internal Audit
(03000 416554)

Kent County Council

Internal Audit and Counter Fraud Progress Report

October 2018

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Internal Audit and Counter Fraud Progress Report

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1.Executive Summary and Opinion

1.1 This report details the cumulative internal audit and counter fraud outcomes for 2018/19 to date. It particularly focuses on the progress and delivery of internal audit and counter fraud work since April 2018. It highlights key issues and patterns in respect to internal control, risk and governance arising from our work.

1.2 From our work to date we have concluded that Kent County Council has:

- Adequate and effective financial and non-financial controls and governance processes including systems to deter incidences of material fraud and corruption

1.3 Figure 1 (right) maps the outcomes from the completed internal audits to date. Summaries of these completed audits are detailed in Annex 1.

1.4 Where audits have identified areas for improvement, management action is agreed. All audits are allocated one of five assurance levels together with four levels of prospects for further improvement, which represents a projected 'direction of travel'. Definitions are included in Annex 5.

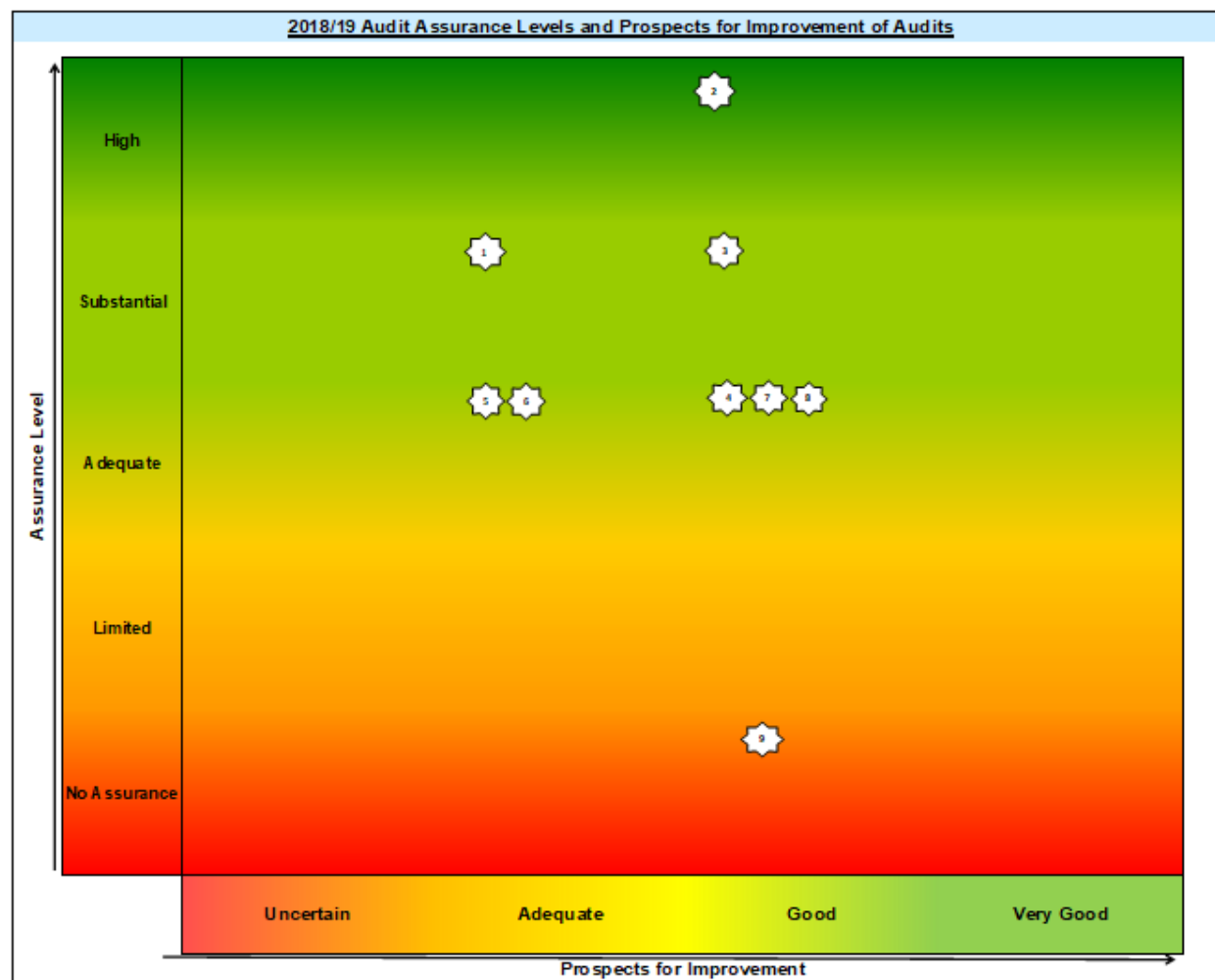


FIGURE 1

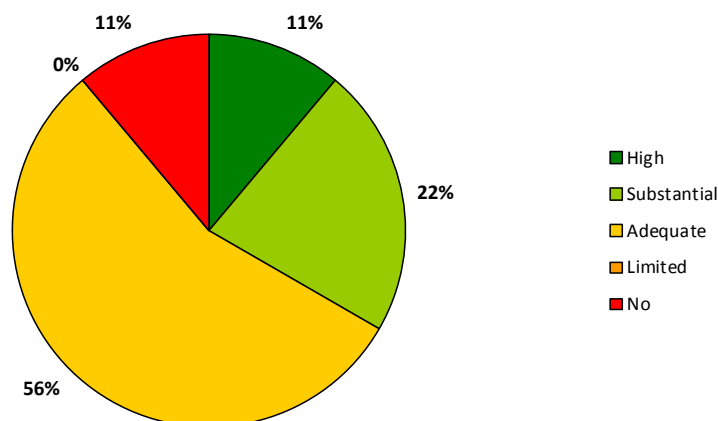
1.Executive Summary and Opinion

Audit Opinion October G&A Committee

No	Audit	Judgement	Prospects for Improvement
1	Financial Assessments Follow-up	Substantial	Adequate
2	CART Follow-up	High	Very Good
3	Client Financial Affairs	Substantial	Good
4	Recruitment and Pre-Employment Checks	Adequate	Good
5	Coroners Service Financial Controls	Adequate	Adequate
6	Direct Payments - Adults	Adequate	Adequate
7	Youth Services Commissioned Contracts	Adequate	Good
8	Direct Payments - Childrens *	Adequate	Good
9	Oakwood	No	Good

* - Audits urrently at Draft Report stage.

Assurance Levels 2018/19



Assurance Level	No	%
High	1	11%
Substantial	2	22%
Adequate	5	56%
Limited	0	0%
No	1	11%

1.Executive Summary and Opinion

1.5 Although at this stage drawn from a relatively small sample of audits, the overall outcomes to date have been satisfactory with the following positives and areas for development:

Positives	Areas for Development
<ul style="list-style-type: none">• 33% of systems or functions reviewed to date have been judged with a substantial assurance or better• A continuing pattern of general robustness of key financial systems• A pattern of good quality standards governing a range of financial assessment systems• Management have acted appropriately and promptly to issues we have raised• There have been no incidences of significant fraud, irregularity or corruption	<ul style="list-style-type: none">• One 'no assurance' audit relating to contract management at Oakwood House• Continuing issues with contracting and commissioning set ups• Evidence from our recruitment audit that managers are not consistently following pre-employment checks. Such checks are key 'entry controls' into KCC.

1.6 In relation to counter fraud work there have been 68 irregularities reported and investigated since the start of 2018/19 of which 13 have been concluded. The total value of all irregularities reported to us is £183,177 to the end of August 2018. We have also conducted 2 investigations following receipt of whistleblowing information.





1.7 In addition to the 9 substantive audits that have been completed we have a further 7 audits where material fieldwork is in progress.

1.8 Overall the unit has reviewed systems or activities with a combined spend of an estimated **£773 million** since the start of 2018/19.

2. Mapping Internal Audit Assurance & Outcomes against Corporate Risks

2.1 It is important to provide an overview of audit and related counter fraud outcomes against corporate risks, mapping cumulative audit outcomes for the year to date. As such, the following patterns of audits emerge against the County Council's key risks:

RISK: Safeguarding – Protecting Vulnerable Children



Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Children's Allowance Review Team (follow up)	High 		1	3	0
Direct Payments – Disabled Children	Adequate 		1	2	1

2.2 Our review of the children's allowance review team has determined that all actions have now been implemented, including the retention of all key documentation relating to the calculation of allowances. As such this function has improved from 'limited' to 'high' assurance.

2.3 Children's direct payments are used to purchase care from providers other than KCC. The control environment regarding direct payments for disabled children was found to be adequate, although there were inconsistencies in the quality of record keeping, in particular for older cases (pre 2015) where key documents were missing from the Liberi system. However, this has greatly improved for current cases with only a few exceptions identified. We noted that delays had been experienced transitioning from Children's to Adults' Services at age 18 during the time of the KCC restructure in April 2017 but to a large extent these instances have now reduced. This report is at final draft stage.

2. Mapping Internal Audit Assurance & Outcomes against Corporate Risks

RISK: Safeguarding – Protecting Vulnerable Adults

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Client Financial Affairs	Substantial 	Good 	0	2	3
Direct Payments – Adults	Adequate 	Adequate 	0	4	1



2.4 The Client Financial Affairs team manages the financial affairs of vulnerable people including clients at risk of financial abuse. Despite high caseloads, we found good financial controls operating with effective controls over transactions and robust reconciliation processes. We found some delays in case progression and a project to start obtaining client personal allowance records from residential homes has had a limited take up to date.

2.5 Direct payments are used in adult social care to enable clients to purchase their own care. Overall, payments are being made accurately, client contributions are calculated correctly, and a risk-based approach is being applied to reviews. Unfortunately, in nearly 20% of cases tested we could not locate a payment agreement and a further 20% of agreements were out of date. This in turn has implications on the ability to recover debt. Although our testing found incidences of inappropriate use of the Kent Card this represented less than 1% of total spend.

RISK: Evolution of KCC's Strategic Commissioning Approach

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Youth Services Commissioned Contracts	Adequate 	Good 	0	5	4

2. Mapping Internal Audit Assurance & Outcomes against Corporate Risks

Oakwood House	No 	Good 	5	4	0
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2.6 Our youth service audit examined the changes in the commissioning model following problems of delivery for a number of providers at the start of these contracts which was caused by a lack of market intelligence and consultation. Despite these setbacks, the new contracts are now being pro-actively managed. A performance management regime has been introduced but limitations with the KPI's enshrined in the contracts make it difficult to determine whether the desired outcomes are being delivered.

2.7 Through GEN2 we were commissioned to independently review the contract arrangements for Oakwood House which is currently causing a net £100K excess funding pressure on the County Council. We found that the site has been run with an out of date and defective contract since 2012 (which was unknown to GEN2, the managing agent) leaving KCC holding all the financial risk. Resources to manage the financial administration of the hotel were minimal, resulting in an absence of key financial controls.

Critical Financial and Corporate Support Systems



Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Recruitment and pre-employment checks	Adequate 	Good 	1	5	2
Financial assessments (Follow up)	Substantial 	Adequate 	1	1	0

2.8 Each year KCC brings over 2,000 new employees into the organisation and it is important that key 'entry controls' are maintained to ensure we employ bona fide staff that do not pose a risk to the organisation or service users. Overall, we found new starters are processed promptly and accurately with appropriate DBS checks. In relation to other key checks, we found inconsistencies in areas such as taking up references, occupational health clearance and qualifications. Where agency staff are employed outside the prescribed C2K (Commercial Services) route there is no assurance over the adequacy of these alternative agency checks. A number of corporate – wide actions from this report are still awaiting CMT approval

2. Mapping Internal Audit Assurance & Outcomes against Corporate Risks

2.9 Our follow up of the financial assessments team was positive. We found improvements in the use of prescribed systems and related quality assurance. The charging policy has also now been updated and enhancements made to staff training on fraud awareness.

Audit of Other Activities

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Coroners Service Financial Controls	Adequate 	 Adequate	0	4	0

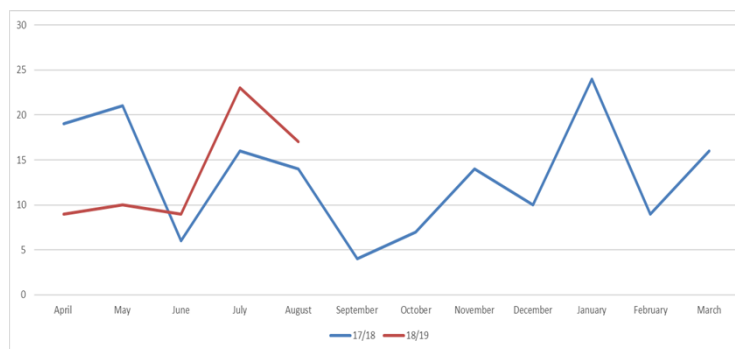
2.10 KCC is legally responsible for meeting the costs of this service, estimated at £3.5 million per annum. Overall financial and budgetary controls were adequate but there was a lack of clarity over expenses procedures and weaknesses in elements of imprest operation.

3. Counter Fraud and Corruption

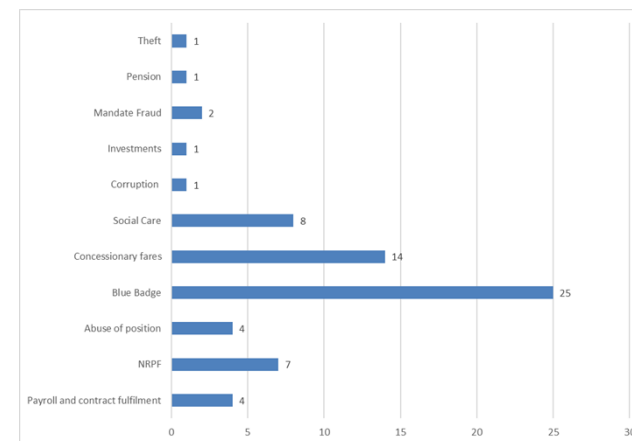
Fraud and Irregularities

3.1 The distribution and characteristics of the 68 irregularities reported to date show that the highest areas of financial risk so far this year are from false applications for financial support from families claiming to be destitute with no recourse to public funds (NRPF) (around £90k) and from misuse of social care support paid via a Direct Payment (around £66k).

Number of Irregularities Reported by Month

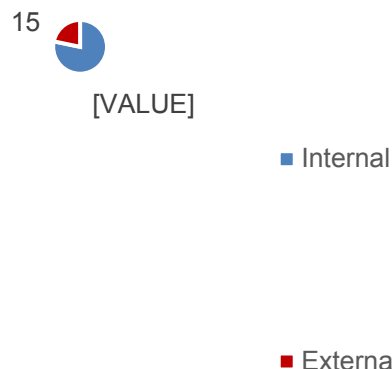


Irregularities by Type 2018/19

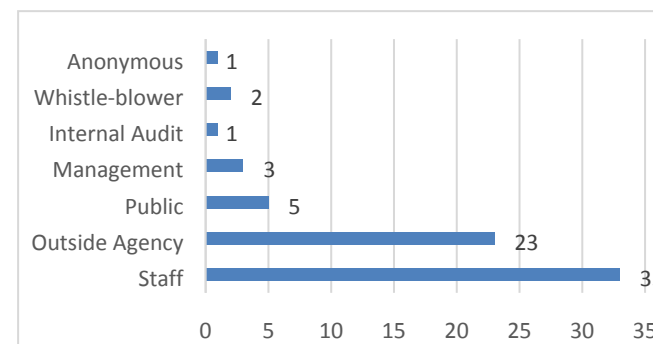


3.2 We continue to actively support Social Care in both areas. For example, counter fraud staff are now regularly accompanying social workers during interviews with families that present as NRPF.

Split between Internal & External Fraud 2018/19



Source of Irregularities 2018/19



3.3 However, the majority of the 68 irregularities reported relate to the misuse of the Blue Badge and concessionary fare schemes. These types of fraud are low value, high volume activity and we are in the process of revising our approach to streamline these investigations and free up resources for more prevention focussed activity.

3. Counter Fraud and Corruption

Counter Fraud Partnerships with District Councils

Kent Intelligence Network

- 3.4** As a reminder, the KIN is a DCLG grant funded Kentwide cross local authority data analytics collaboration initiated by the Kent Finance Officers Associations (KFOA) with the shared objective to detect, prevent and deter fraud and corruption. A grant of nearly £1/2 million was awarded. The network has been operating since October 2016 and in its initial operations recoveries of £1/4 million matched the grant spend to that date. KCC is the accountable body for these resources and directly project managed it until a board structure representing the Kent Local Authorities was formed last year.
- 3.5** Unfortunately for the past 6 months the project has stalled with the Board deciding against extending the contract with the previous software provider, instead preferring to procure a new system. This issue together with difficulties in recruiting a dedicated project manager has meant that very little data matching is now taking place and with little or no benefit accruing to the County Council.
- 3.6** A recovery plan is being put in place incorporating the spend on the remaining £1/4 million of DCLG grant, but clearly there will be some elapsed time before proactive data matching resumes.

Joint Counter Fraud Funding with Other Preceptors

- 3.7** The County Council, Police, District Councils and Fire and Rescue Service have been working together in tackling fraud and error within Council Tax and Business Rates since 2016. All district councils have been funded from 2017 to a total of circa £700k per annum. This funding is due to end in March 2019. Funding has been provided by all the preceptors to purchase a credit reference data matching solution, debtor tracing and to help retain specialist counter fraud resources within districts following the migration of investigation staff to the Department for Work and Pensions. Internal Audit is currently conducting a review of the impact and savings achieved within the Council Tax and Business Rates tax base, as well as any efficiency savings achieved through the use of risk-based verification software being deployed at a few sites.

Anti-Fraud & Corruption Strategy and Anti-Money Laundering Policy

- 3.8** The Council's counter fraud strategy and policy are due for their annual cyclical revision.
- 3.9** Our review has shown that only very minor amendments are required to reflect changes in Council structures (such as a new Corporate Director of Finance) and these amendments have been made.
- 3.10** Copies of these minor revisions are available to Members on request

3. Counter Fraud and Corruption

Counter Fraud Benchmarking Performance

3.11 During the summer we took part in a locally arranged benchmarking exercise with 5 other county councils from across the country for 2017/18 data. The exercise has provided assurance that we are performing comparably or better than our peers. The results of this benchmarking at shown at Annex 2. In agreement with the other authorities, we have masked their identity.

3.12 In our view, the results to note are:

- We employ a comparable number of fraud investigators.
- We have undertaken the most fraud awareness/training sessions.
- We have investigated and closed the second highest number of referrals.
- Our outcomes are similar to our peers, but there are opportunities to increase our criminal prosecution activity.
- The losses being recovered appears lower than our peers, but this figure does not include prevented losses which are significantly higher.

3.13 From further discussion concerning criminal prosecutions, we have determined that all bar one of the criminal prosecutions reported by other County Councils related to Blue Badge misuse/fraud. Having recruited an additional counter fraud resource, we are now able to increase this type of activity and are working with the relevant directorate and Invicta Law to do so.

4. Internal Audit and Counter Fraud Performance

4.1 Performance against our targets to the end of August 2018 are shown below. Overall, the inputs, outputs and outcomes are in line with our plans for 2018/19

Performance Indicator	Target	Actual
Outputs		
90% of Priority 1 audits completed (by year end)	22%	22%
20% of Priority 2 audits completed	4%	3%
Draft audit reports issued within agreed date on the engagement plan	60%	33%
No of fraudulent incidents / irregularities recorded	N/A	58
Outcomes		
% of high priority / risk issues agreed	100%	100%
% of high priority / risk issues implemented		To be reviewed Jan 19
% of all other issues agreed		100%
% of all other issues implemented		To be reviewed Jan 19
Client satisfaction		100%
Value for money / efficiency savings identified		£1000
Total number of occasions on which a) fraud and b) irregularity was identified	N/A N/A	12 1
Total monetary value of (a) fraud and (b) irregularity that was detected		£278,221* £0
Total monetary value of (a) fraud and (b) irregularity that was recovered		£14,446 £0

* These figures include unsuccessful attempted frauds that resulted in no loss and therefore do not require recovery

5. Internal Audit and Counter Fraud Enhancements and Resources

5.1 Resources are keeping pace with our growing workloads – particularly in relation to counter fraud. In March 2018 CMT approved an additional £48,000 towards additional fraud resources in the light of increasing volumes of fraud referrals and a need to bolster investigative capacity. An additional counter fraud technician has now been recruited and in tandem with this additional resource a 6-month counter fraud enhancement plan has been constructed containing a number of pro-active counter fraud initiatives including an authority wide counter fraud culture assessment.

5.2 The aim is to raise the counter fraud culture in KCC and the assessment will consist of:

- E-surveys asking cohorts of staff in selected areas about their perception of the organisation's response to tackling fraud
- Targeted counter fraud workshops and e-learning; and
- Analysis and reports to the Governance and Audit Committee, Corporate Management Team and Directorate Senior Management Teams

5.3 The Counter Fraud Team will produce an annual counter fraud culture (CFC) plan, not dissimilar to the internal audit plan. It is intended to start CFC work in Strategic and Corporate Services.

5.4 Audit resources remain stable. Training to maintain a professional quality section continues and Paul Rock, our Counter Fraud Manager, is now a fully qualified member of the Institute of Internal Auditors, thus increasing our capacity of chartered auditors and accountants.

5.5 The delivery of the 2018/19 plan will be the last led by the current Head of Internal Audit before retirement with current plans envisaging an end to full time working in early April 2019 and a move to part time leading up to delivery of the 2018/19 annual audit opinion in July. As such it would be desirable if recruitment processes could start before Christmas 2018.

6. Work in Progress and Future Planned Coverage

6.1 Annex 3 updates progress against the agreed plan coverage and substantiates the estimation that we are on target to achieve our coverage. The next period up to the January 2019 Governance and Audit Committee includes delivery of the following substantive audits:

- A strategic review of the Council's ethical frameworks as expressed through its values & behaviours
- Children's safeguarding reviews – including schools
- Lifespan Pathways – Post implementation review
- Children, Young People and Education Directorate Governance Review
- Property Income and Statutory compliance follow-up
- Concessionary Fares application process
- Risk Management
- ICT Oracle Application

6.2 As detailed previously, we also have significant workloads across the Council's LATCO's (which are reported to separate Audit Committees)

7. Maintaining our Quality Systems and Standards

- 7.1 Under the Public Sector Internal Audit Standards (PSIAS), the Head of Internal Audit is required to maintain a Quality Assurance and Improvement Programme (QAIP) which is overseen by Governance and Audit Committee. The QAIP includes external quality assessments every five years and annual internal self-assessments against the PSIAS. We are required to report the outcomes of the QAIP to Governance and Audit Committee, together with the resultant action plan.
- 7.2 We last had an External Quality Assessment in June 2016 and we were found to be fully conformant with all 56 standards. Since then, the PSIAS have been revised (effective from 1 April 2017) and we have carried our own internal self-assessment for 2017/18. This was undertaken by a member of the team who has a Chartered Internal Auditor qualification.
- 7.3 In this self-assessment, we have judged that we are fully conformant with 53 standards, partially conformant with two and non-conformant with one. There are also some other areas where we have concluded that although we are conformant overall, further enhancements could be made. The area of non-conformance concerns the processes that we have in place for identifying other assurance providers and determining the extent to which we can place reliance on their work.
- 7.4 We have judged that we are fully conformant with the Institute of Internal Audit's Code of Ethics.
- 7.5 The Action Plan is provided in Annex 4. Progress against the action plan will continue to be reported to this Committee until the actions are closed.

8. In Conclusion

- 8.1** We are satisfied that sufficient internal audit and counter fraud work has been undertaken to allow us to draw a positive conclusion as to the overall adequacy and effectiveness of KCC's standards of control, governance and risk management.
- 8.2** In addition, line management have taken, or have planned, appropriate action to implement our issues and recommendations.
- 8.3** We believe we continue to offer added value to the organisation as well as providing independent assurance during a time of considerable challenge and change.

Annex 1 – Summary of Individual 2018/19 Internal Audits Issued April – September 2018

Children's Allowance Review Team (Follow-up)

Audit Opinion	High
Prospects for Improvement	Very Good

Our follow-up work highlighted that despite the very short time scale between the issue of the final report in May 2018 and the performance of this follow-up audit there has been significant progress since our original audit, including action on all issues raised; the one high priority issue and the three medium issues. As such, no issues remain outstanding.

Key findings were:

- Liberi is now used to store all documentation/evidence to substantiate claims and to evidence the review process.
- Means tests are now being reviewed by the CART Team on the point of the arrival of evidence, this ensures that the review process is more efficient and eliminates duplication.
- Standard letters have been amended to include a paragraph on data retention.
- A CART Process Manual has been compiled which was approved at the DivMT meeting held on 26th June 2018.
- CART is working with the CPT to promote best practice in terms of monitoring and reduction of errors and the provision of joint training.
- All new vendors are routinely checked to ensure that they have been set up correctly.
- Such has been the progress in strengthening controls, particularly evidencing claims, we consider this to be now of high assurance.

Prospects for Improvement

Prospects for improvement are considered to be Very Good, based on the following factors:

- CART have embraced the use of Liberi for the storage of documentation and evidence. In the future they hope to become a paperless office. The CART Team are working closely with the CPT on the monitoring of errors and the provision of joint training.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted, and no action proposed
High Risk	1	1	0
Medium Risk	3	3	0
Low Risk	0	0	0

Note – these are residual actions from the original audit

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Direct Payments - Children

Audit Opinion	Adequate
Prospects for Improvement	Good

From our extensive sampling of direct payment and managed service claims we are satisfied that the DBS checking process (for payments for personal assistants) is robust, ensuring as far as possible that children and young people are safeguarded and protected. A contract provider – ‘Beams’ – also assists parents / carers with the recruitment of assistants. The uploading of key documentation on Liberi for historic cases (pre-2015) was inconsistent but this has now greatly improved for current cases.

Overall, the financial monitoring processes are effective, although within our sampling the resolution of queries took too long which risks overpayments which may not be recoverable. Delays in the transition from Children’s to Adults Services escalated at the time of the KCC restructure in April 2017 but to a large extent have now reduced.

Key Strengths

- In the majority of cases the key documentation was successfully located to Liberi.
- Outcomes had been included in all (100%) of current direct payment and managed service referrals.
- In the majority of cases reviewed the costs were confirmed as accurate or reimbursement of unused costs had been requested.
- A current DBS check was in place for all cases where a personal assistant had been employed by the parents/carers for the disabled child.
- In all cases the purpose of the direct payment was clear and a thorough direct payment financial review had been conducted.
- Where parents/carers were found to be struggling to resource a personal assistant assistance was provided by Beams.
- In the majority of cases the shared funding arrangements were clear and had been correctly accounted for.

Areas for Development

- There were inconsistencies in the documentation held on Liberi. Absent information included; signed direct payment/ managed service agreement, signed panel decision, letter to parent/carer informing them of panel decision, review of direct payment/managed service agreement confirming that the care being received was still appropriate and care plan. However on further investigation it was evident that the much of this missing information was historical (pre-2015) and before the recent re-structure.
- Delays were experienced transitioning from Children’s to Adults’ Services at age 18; this delay was largely due to the implementation of new KCC systems.
- Whilst a financial review had been consistently performed by Beams, in some cases insufficient detail had been recorded in terms of what had been reviewed and what advice had been given to the parent/carer.
- In a small number of cases a query had been raised by Beams following the financial review. However, no resolution had been offered.

Prospects for Improvement

- It is clear from the results of audit fieldwork that the majority of missing information relates to historic rather than current cases. The referral form now includes a field for outcomes which has ensured that the outcomes for the disabled child/young person are consistently reported.

Summary of Management Responses – at final draft stage

	Number of issues raised	Management Action Plan developed	Risk accepted, and no action proposed
High Risk	1	1	0
Medium Risk	2	2	0
Low Risk	1	1	0

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Client Financial Affairs

Audit Opinion	Substantial
Prospects for Improvement	Good

There are good financial controls operating within Client Financial Affairs (CFA) to support the financial management of vulnerable clients deemed incapable or at risk of financial abuse. A recent visit by the Office of Public Guardian found no issues with the way CFA were managing client's finances. Client Financial Affairs Officers have a high case load of clients (around 150 per officer) which places pressure on the process of accepting new referrals and progressing appointments and deputyship orders. Furthermore, CFA is reliant on Case Managers to provide mental capacity assessments and best interest decisions, which at times can result in a delay.

Key Strengths

- Each CFA client has an individual Natwest account and the Caspar system is used to support efficient transaction and reconciliation processes.
- Access to sensitive financial information of clients held electronically and on paper records is appropriately restricted to CFA team members.
- All transactions reviewed were accurate and appropriate to the needs of the client, authorised by a second officer and supporting evidence is retained to justify payments made
- A robust reconciliation process is operating to identify unexpected income or payments through client bank accounts, with prompt investigation by officers to resolve any issues
- There is a good process in place to reimburse KCC when emergency payments have been made on behalf of a client.

Areas for Development

- There were a number of cases identified where progression of the referral to CFA or application for deputyship was delayed due to a lack of response from Case Management or the Court of Protection.

- A project to start obtaining client personal allowance records from residential homes has started, however under 50% of homes have signed the required agreement and less than 10% of clients have had a quarterly review conducted
- Although there are checklists in place to support officers in progressing cases correctly, these were not being used in the majority of cases
- The process to identify clients reaching capital limits which could impact their right to certain benefits could be improved so that the DWP can be promptly notified of such cases
- The identification of clients who have passed away could be improved by developing a report from information held on Swift

Prospects for Improvement

- Enhancements are being made to the referral form to prompt Care Managers to provide required information and supporting documents
- Although relevant searches were conducted on new referrals which were appropriately authorised, The CFA team has recently adopted a more robust approach to the criteria of accepting new clients to ensure resources meet demand
- Work is ongoing to engage with residential care homes and improve the exchange of information on client finances and gain assurance that CFA client monies are held securely and used for the benefit of the individuals.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted, and no action proposed
High Risk	0	0	0
Medium Risk	2	2	0
Low Risk	3	3	0

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Direct Payments – Adults

Audit Opinion	Adequate
Prospects for Improvement	Adequate

Analytical Review

As part of the audit an analytical review of Direct Payments was undertaken which included reviews of monitoring controls, identification of trends and case studies, which emphasise the issues raised in the report regarding these control failures. Approximately £7.5m has been spent on Direct Payments via Kent Card between January 2018 and June 2018.

The level of funds identified for reclaim was approximately £500k as at 9th July 2018. Review of the current status of debt recovery found that a large proportion of these are disputed or unsecured (this may mean they have been raised but not yet paid or chased). This equates to approximately £330k of which we estimate approximately £102k should have been progressed, chased or reclaimed as they were overdue by over 60 days.

Key Strengths

- The majority of payments tested had been made accurately with only a few minor discrepancies identified.
- A risk-based approach is undertaken to review Direct Payments which can result in more frequent reviews should discrepancies be identified.
- Direct payments review information had been accurately recorded on Swift.
- Client contributions in all cases had been appropriately applied.
- Controls to monitor Direct Payments are adequate in design to identify and minimise the instances of misuse, though the audit has found that these could be further enhanced with the use of data analytics.
- 94% of payments via Kent Card over the last 6 months were used solely with care or education suppliers
- Less than 1% of spend over the last 6 months via Kent Card was highlighted as questionable or potentially inappropriate.

Areas for Development

- Review of the policies and procedures found areas where these could be enhanced, including further guidance for the Direct Payments Team.
- Testing found that support plans were in place for the majority of our sample however, there were some discrepancies surrounding who had authorised the plan and what the Direct Payment could be used for.
- For 18% of our sample tested we were unable to locate a Direct Payment Agreement whilst an additional 18% of agreements were prior to 2015 which may present challenge to reclaiming any overpayments.
- Testing found that while reviews were taking place these were not always based upon the most up to date Care and Support plan and the level of detail recorded against these could be more consistent across the team

Prospects for Improvement

- The issues identified surrounding Direct Payment Agreements and Support Plans were similarly found within the previous audit undertaken in 2015.
- The service pro-actively engages with counter fraud
- The Service are not using data interrogation and analytics as smartly as they could.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted, and no action proposed
High Risk	0	0	0
Medium Risk	4	4	0
Low Risk	1	1	0

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Youth Services Commissioned Contracts																			
Audit Opinion		Adequate																	
Prospects for Improvement		Good																	
<p>The contract management team has effectively implemented important changes to the contracts, including major changes to improve the performance management regime. KCC's teams have observed and monitored providers' improvements and encouraged them to share best practice.</p> <p>EHPS selected the district-wide commissioning model based on findings of a diagnostic analysis of its wider commissioning of a range of services. There was a high number of responses to the request for expressions of interest but a weak response to the invitation to tender, with KCC letting 10 of the 12 lots without effective choice in its selection of winning bidder(s). All winning bids, however, met EHPS's minimum quality standards.</p> <p>The Council is measuring the specified outcomes through two management reporting indicators which are consistently tracked and reported monthly. However, from our review of these indicators, we found that we could not draw firm conclusions whether the specified outcomes were being achieved.</p>																			
<p>Key Strengths</p> <ul style="list-style-type: none">KCC potentially increased market resilience by awarding one contract to a second placed bidder.The contract management team has monitored performance against both the quantitative measures and qualitative aspects of service delivery and held providers to account against the agreed KPIs and MRIs.Contract management reporting to the Cabinet Committee has been proportional to the size of the contracts and the risks.The senior commissioning manager has met Members to brief them about specific issues including improvement plans for poor performance and the re-letting of the failed contracts.Communications have been consistently good between KCC's teams and providers.There is good wider stakeholder engagement.																			
<p>Areas for Development</p> <ul style="list-style-type: none">The Management Reporting Indicators (MRIs) are not all meaningful.The financial health of each of the providers is not tracked. With no contingency plans in place, the Council is at risk of service interruption if one of the providers were to suddenly fail.The original decision to allow a negotiated termination and not pursuing recovery of costs has not been documented.There have been two major changes to the performance management regime, but we not seen the full reasoned justification for how these changes improve the chances of delivering the specified outcomes.The Council has not yet started to consider its commissioning strategy for the next set of youth services contracts, which are due in 2021.																			
<p>Prospects for Improvement</p> <ul style="list-style-type: none">The contract management and the EHPS teams have a consistent understanding about the practicalities of implementing the contract.KCC implemented two major changes to the performance management regime. In doing so it has established more realistic KPIs.Communication between the Council and providers is now strong, and information is shared outside formal contract management meetings.The providers that we interviewed expressed commitment to providing youth services that will improve life outcomes.KCC's intends to host an annual event where the providers showcase their work and share best practice.																			
<p>Summary of Management Responses</p> <table><tr><th></th><th>Number of issues raised</th><th>Management Action Plan developed</th><th>Risk accepted, and no action proposed</th></tr><tr><td>High Risk</td><td>0</td><td>0</td><td>0</td></tr><tr><td>Medium Risk</td><td>5</td><td>5</td><td>0</td></tr><tr><td>Low Risk</td><td>4</td><td>4</td><td>0</td></tr></table>					Number of issues raised	Management Action Plan developed	Risk accepted, and no action proposed	High Risk	0	0	0	Medium Risk	5	5	0	Low Risk	4	4	0
	Number of issues raised	Management Action Plan developed	Risk accepted, and no action proposed																
High Risk	0	0	0																
Medium Risk	5	5	0																
Low Risk	4	4	0																

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Oakwood House

Audit Opinion	No
Prospects for Improvement	Good

A review of the management of Oakwood was conducted on behalf of the Gen² board and senior management and was reported to the Gen² Audit Committee in July.

Oakwood House has been run with an out of date, rolling contract with a contractor since 2012 when the previous attempt to let a contract failed. Gen² inherited the management of this contract on its inception.

Until very recently there has only been one member of staff employed on site by Gen² to manage the financial administration of the hotel. Although no material irregularities were uncovered during the audit there is clearly a lack of financial controls in place and therefore there is significant risk of fraud and financial loss to KCC/ Gen².

Key Strengths

- Bookings and payments from rooms are reconciled as part of the weekly bank process. All functions, events and weddings were satisfactorily recorded and invoiced/ paid.
- We were provided with costing analysis for current wedding packages which demonstrate consideration for profitability.
- There is sufficient oversight of price changes with the opportunity to challenge.

Areas for Development

- It was not possible to accurately identify all associated costs for planned events. The costing sheets do not consistently include all variable costs and due to no oversight of the KCC budgets, excludes hotel overheads.
- Performance of the Hotel is poor in certain areas. Occupancy rates for conferences are 47% and although bedrooms are higher at 67% they are still slightly behind what would be considered good in the hotel sector. There were 38 weddings booked for this year, but this has declined in each of the last 2 years.

- There is a lack of financial controls in place to prevent fraud and financial loss.
- Reconciliation of monthly invoices from Genuine Dining is incomplete and invoices for some services and charges are not checked before payment.
- There is an out of date, rolling, contract in place and there has been no robust procurement process to re-let this service for the past 6 years. The current arrangement with the contractor could be open to challenge
- Two KCC teams have used Oakwood House for office accommodation. One left over a year ago and rooms remain vacant, the second team are still using the site, but no one could locate a current tenancy agreement
- The contractor receives a set management fee and are able to charge all costs back to KCC/ Gen². They therefore carry no financial risk.
- There is poor communication and coordination between the stakeholders involved in running and managing Oakwood House (KCC, Gen², GD)
- There is no annual business plan and no targets agreed to hold GD to account

Prospects for Improvement

- There is a good level of awareness of the issues with Oakwood House amongst the current Gen² management
- There are already plans in place and changes being made to address some of the issues identified in the review.
- At the time of our audit there was a lack of clarity or plans regarding the future use of the hotel and the vacant areas.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted, and no action proposed
High Risk	5	5	0
Medium Risk	4	4	0
Low Risk	0	0	0

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Recruitment Controls and Pre-employment Checks

Audit Opinion	Adequate
Prospects for Improvement	Good

Recruitment controls and checks are critical 'entry controls' for the Council, ensuring that the staff we employ are bona fide and do not pose a risk to the organisation. The systems that are in place for the recruitment of staff are satisfactory, particularly with regards to performance of checks on identity, eligibility to work in the UK, Health and Care Professions Council Checks (HCPC) and the completion of DBS checks and renewals.

Processes are carried out promptly by Cantium Business Solutions (Recruitment and Employment Check Teams) and by the hiring managers. Recruitment processing is in line with current legislation and recorded on RMS (also known as Taleo) and Oracle accurately.

Unfortunately, recruitment processes are generally less robust when they are devolved to hiring managers.

All of the issues raised in our last Recruitment Controls audit have been satisfactorily addressed.

Key Strengths

- Detailed procedure notes and guidance are available to hiring managers and Cantium Business Solutions staff covering recruitment processes, and these have been updated in line with current legislation.
- New starters are set up on Oracle promptly and accurately following the appropriate checks.
- Controls are in place in RMS (Taleo) to ensure all pre-employment checks are carried out before the new starter process can be completed.
- DBS checks are dealt with promptly were appropriate to the role, and the outcomes are accurately recorded on Oracle.
- A new CV screening process has been implemented for the recruitment of KR16 grades and above.

Areas for Development

- We found that Occupational Health Clearance is not obtained in all cases prior to the new starter passing their probationary period and some managers appeared unsure when such checks were necessary.
- Employment of temporary agency staff through recruitment agencies other than Connect2Kent continues, with reliance placed on the recruitment agency to perform the DBS and pre-employment checks - however the integrity of such checks is unknown.
- Evidence of mandatory qualifications is not always obtained prior to the new starter commencing employment.
- Two references are not obtained in all cases prior to the probationary period ending and there is no guidance for managers for instances when only 1 reference is received.
- Take up of the Document Fraud Awareness E-Learning is low, both for hiring managers and within the Recruitment Team.

Prospects for Improvement

- Management actions from the 2015 Recruitment Controls Audit have been implemented.
- The Cantium Recruitment Team engaged fully with the audit throughout the process and controls remain strong in the new LATCO arrangements.
- Progress has already been made to address the areas for development raised during this audit.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted, and no action proposed
High Risk	1	1 – subject to CMT agreement	0
Medium Risk	5	5 - subject to CMT agreement	0
Low Risk	2	2	0

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Financial Assessments Follow-up

Audit Opinion	Substantial
Prospects for Improvement	Adequate

Good progress has been made with actioning all the issues raised in the 2017/18 audit. Five of the seven issues raised have been fully implemented and the remaining two are in progress and management have agreed further actions to address these issues.

Since the last audit the financial assessment team has transferred back from the Business Service Centre (now Cantium Business Solutions (CBS) to KCC Finance, although they continue to use the Customer Relationship Management (CRM) software provided by CBS to track tasks created as part of the financial assessment process.

With the introduction of a replacement for the social care system SWIFT due during 2018/19, the service is exploring alternatives to the current CRM system to enable a more integrated and automated end to end process, therefore placing on hold the further development of the current CRM system for financial assessments.

Key Strengths

- The financial impacts (both positive and negative) of KCC's charging practices on both clients and KCC has been reported to CMT in order for Senior Management to make informed decisions.
- Staff are appropriately trained on essential knowledge required to safeguard clients and to progress financial assessments.
- Good use is made of the CRM system by Team Leaders and Financial Assessment Officers for tracking and clearing of tasks.
- There is supporting evidence and appropriate sign off for staff accessing the DWP Customer Information.
- KPI reports are produced based on accurate information and additional staff have been trained on the process.

Areas for Development

- Assessment Officers are still not consistently and correctly raising tasks in the CRM system. The Quality Assurance process does not cover raising CRM tasks.
- A clearer process is needed to identify clients whose assessments need reviewing due to hitting a 'significant age', in particular men turning 65.

Prospects for Improvement

- The development of an end to end CRM system to manage the financial assessment process has not yet been achieved. The best way forwards is now being re-assessed.
- Significant progress has been made in addressing the issues raised in our previous report.
- The team recently transferred back to KCC Finance (from the BSC) and has been restructured to support closer working between Benefit Advisors and the Assessment Team.

Summary of Management Responses

	Issues raised in previous audit	Implemented and closed	Not fully addressed & further actions agreed
High Risk	2	1	1
Medium Risk	5	4	1
Low Risk	n/a	n/a	n/a

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Coroners Service – Financial Controls

Audit Opinion	Adequate
Prospects for Improvement	Adequate

Overall, we found financial controls in the Coroners Service were adequate particularly regarding budget management with forecasts produced, budget variances explained and value for money sought. However, there were a number of areas for development around expense controls, a lack of clarity or guidance over expenses procedures and weaknesses in elements of imprest operation.

During the audit we met with both Senior Coroners to understand how they viewed their role in financial management and how they saw their relationship with KCC. Both Senior Coroners informed us that they are not directly involved in financial management but were generally aware of the current budget pressures. The relationship between KCC and the two coroners was very different. One felt that they had a good relationship with the Head of Service and senior management meeting often. The other Senior Coroner felt that the relationship was very poor and had disintegrated.

Key Strengths

- The budget manager produces forecasts monthly, in line with the CP timetable.
- Explanations for significant variances are recorded and feed into the divisional MTFP monitoring sheets.
- A costing model is currently being set up to provide a more robust understanding and to quantify budget pressures.
- The service looks for ways to provide value for money, for example: exploring the use of digital autopsy to reduce the cost of pathology fees; attempting to reduce the spend on fees paid Assistant Coroners by employing two salaried area coroners; and commissioning a new mortuary contract which sets fees until 2021.

Areas for Development

- Due to resourcing issues, succession planning has not progressed to fill the Head of Service and Projects and Contracts Officer roles when they retire or leave KCC.
- Robust due diligence checks are not in place for checking of expenses.
- There are no procedures or guidance in place to support Court Officers and the Business Services Support Officer in carrying out financial processes, and a lack of clarity in what is expected when checking expenses and specialist fees invoiced.
- In relation to the imprest account, VAT is not recorded or reclaimed and there is no record of who signed each cheque.

Prospects for Improvement

- The service is demand led and therefore it is difficult to predict the volume of deaths that will need to be investigated – these factors and legislative changes affect the service and contribute to budget pressures.
- Coroners are not directly employed by KCC and work independently, therefore they are not required to follow KCC policy.
- The service endeavours to respond to pressures but due to its inherent nature, the successful outcome of these is not always within its control.
- A new costing model is due to be set up by the end of August 2018.

Summary of Management Responses

	Issues raised in previous audit	Implemented and closed	Not fully addressed & further actions agreed
High Risk	0	0	0
Medium Risk	4	4	0
Low Risk	0	0	0

Annex 2 – Counter Fraud Benchmarking for 2017/18

Counter Fraud Benchmarking 2017/18							
Authority	1	2	KCC	3	4	5	AVG
Staffing							
Number of fraud investigators	2 FTE	2.6 FTE	2.8 FTE	3 FTE	1 FTE	1 FTE	2.1
Proactive Work							
Number of fraud awareness / training sessions completed	11	6	15	10	7	0	8
Number of Referrals during 2017/18							
Blue Badge	70	170	80	?	1	6	55
Social Care	18	66	19	2	2	4	19
Grants	0	1	2	0	2	0	1
Bank Mandate	4	0	13	0	0	5	4
Schools	16	2	0	6	0	4	5
Payroll	7	0	3	0	0	1	2
Insurance	0	1	0	0	0	0	0
Procurement	0	4	5	0	4	0	1
Pensions	5	0	0	0	0	0	1
Expenses	0	5	2	0	1	3	2
Other	2	3	36	3	5	4	10
TOTAL	122	252	160	11	15	27	98
Outcomes:							
Number of cases closed during 2017/2018	76	261	100	11	13	?	92
Sanctions:							
Prosecutions	9	1	0	0	0	4	2
Disciplinary action - Dismissal	1	1	0	0	0	1	1
Disciplinary action - written warning / management advice etc	2	3	1	1	1	2	2
Debt generated / invoice generated	9	22	8	0	0	0	7
Mis-use letter sent (Blue Badge)	40	54	36	0	71	30	39
Blue Badge seized	6	28	0	0	63	86	31
Other	0	41	0	0	0	0	7
No Fraud Established	6	108	31	0	0	0	24
Forwarded to other agencies	9	3	0	3	0	1	3
Financial Recovery							
Monies recovered (Non NFI)	0	£89k	0	0		£36k	£20k
Monies in recovery (Non NFI)	£148k	£157k	£83k	0	£3200	£90k	£80k
NFI Reported outcome	£1.8m	£440k	£912k	£481k	£431k	£160k	£704k

Additional breakdown of other (36) for KCC

Abuse of position	4
Concessionary Fares	10
Kent Supports and Assistance	2
No recourse to Public Funds	15
Theft	2
Other	3

Annex 3 – Audit Plan 2018/19 Progress

Audit	Progress at Sept 2018	Date to G&A	Opinion / Prospects
Complete			
Annual Governance Statement	Complete	July 2018	Adequate / Good
Financial Assessments Follow up	Complete	October 2018	Substantial / Adequate
Disabled Children – Direct Payments and Managed Services	Complete	October 2018	Adequate / Good
Client Financial Affairs	Complete	October 2018	Substantial/ Good
Complete by October 2018			
Recruitment Controls and Pre-employment Checks	Final Draft	October 2018	Adequate / Good
Direct Payments – Adults	Final Draft	October 2018	Substantial/ Good
Draft Report			
Payments Processing	Draft Report		
Pension Contributions	Draft Report		
In Progress			
Values of Behaviours (Ethical framework)	In progress		
Data Quality – Liberi System	In Progress		
Risk Management	In Progress		
Deferred Payments	In Progress		

Audit	Progress at Sept 2018	Date to G&A	Opinion / Prospects
Complete			
Children's Allowance Review Team (CART) Follow up	Complete	October 2018	High / Very Good
Oakwood (Final to Gen ² Client-Side Report due)	Complete	October 2018	No Assurance/ Good
Coroners Service – Financial Controls	Complete	October 2018	Adequate/ Adequate
Complete by October 2018			
Youth Services – Commissioning and Contract Management	Final Draft	October 2018	Adequate / Good
Draft Report			
Carbon Reduction Commitment Annual Return – Priority 2	Draft Report		
In Progress			
Virtual Schools Kent – Priority 2	In Progress		
Concessionary Bus Passes	In Progress		
Schools Themed Review	In Progress		
Oracle Application Review	In Progress		

Annex 3 – Audit Plan 2018/19 Progress

Audit	Progress at Sept 2018	Date to G&A	Opinion / Prospects
LD Lifespan Pathway Post Implementation Review	In Progress		
Planning			
Directorate Governance Review – Children, Young People and Education	Planning		
Data Protection Act 2018 (incorporating GDPR)	Planning		
Property Statutory Compliance	Planning		
Home Care	Planning		
Ongoing			
Hold Co watching brief – Advisory - Priority 2		Ongoing	
CQC/Quality Assurance - Advisory		Ongoing	
Swift Replacement Watching Brief - Advisory		Ongoing	
KCC/KMPT Consultancy on review of S75 – Advisory		Ongoing	
Integration of Enablement and Intermediate Care (NHS) - Advisory		Ongoing	
Postponed to later in 2018/19			
Developer Contributions – S106 and CIL	Postponed to Q3/4		
Agilisys Contract Management	Postponed - new date TBC		

Audit	Progress at Sept 2018	Date to G&A	Opinion / Prospects
Special Educational Needs and Disability - Incl. Education, Health and Care plans and Higher Needs Funding	In Progress		
Planning			
Education Psychology	Planning		
Safeguarding Children	Planning		
Residence Arrangements – IFA and Residential Placements	Planning		
Youth Justice/Adolescent Services – Priority 2	Planning		
Ongoing			
BDUK Watching Brief – Advisory		Ongoing	
Cloud Navigation – Audit Watching Brief - Advisory		Ongoing	
Principal Adult Social Worker – Watching Brief - Advisory		Ongoing	
Care Leavers Payments – Advisory		Ongoing	
Postponed to later in 2018/19			
Swift Replacement - Mosaic	Postponed to Q3		
Information Security	Postponed to Q4		

Annex 3 – Audit Plan 2018/19 Progress

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Audit	Progress at Sept 2018	Date to G&A	Opinion / Prospects
ICT Capacity Planning	Postponed to Q4		
Social Care Recruitment Incentives – Follow up	Postponed to Q4		
Postponed to 2019/20			
Social Care Client Billing	Postponed to 2019/20 – Replaced by Deferred Payments		
Additional audits			
Deferred Payments	In Progress		
Remainder of 2018/19 Audit Plan			
Corporate Governance	Q4		
Business Continuity Planning	Q3		
Information Governance	Q4		
Strategic Commissioning	Q3		
Declarations of Interest	Q3		
Transformation and Change 0-25	Q4		
Learning the Lessons from LATCos Follow up	Q4		
Schools Financial Services – School Compliance Visits	Q4		
Treasury Managements	Q4		
K2 Property Management System	Q3		

Audit	Progress at Sept 2018	Date to G&A	Opinion / Prospects
Business Service Centre – Service delivery during change	Postponed to Q4		
BDUK Voucher Scheme	Postponed to Q4		
Postponed to 2019/20			
Kent Manager	Postponed to 2019/20 when the new Kent Manager scheme will be more mature.		
Additional			
Care Leavers Payments – Advisory	In Progress		
Remainder of 2018/19 Audit Plan			
Libraries Contract Management	Q3		
Cloud Navigation – Project Milestone Deep Dive	Q3		
Education Systems Replacement	Q3		
Software Licensing	Q4		
KCC/BSC Segregation of IT	Q3		
Open Plus System – Priority 2	TBC		
Performance Management – Priority 2	TBC		
Strategic Partnerships – Priority 2	TBC		
Customer Feedback – Priority 2	TBC		
General Ledger – Priority 2	TBC		

Annex 3 – Audit Plan 2018/19 Progress

Audit	Progress at Sept 2018	Date to G&A	Opinion / Prospects
Fire Safety	Q4		
0 – 25 Transformation	Q4		
Client-side Relationship Management of Gen ²	Q4		
Key Decision Process	Q3		
Commissioner/Provider Relationship – The Education people	Q4		
Troubled Families	Q3		
Public Health – Partnership with Kent Community Health Foundation Trust	Q3		
Intervention and Enablement	Q3		
Quality of Adult Social Care	Q4		
Purchasing Finance Process	Q2		
Transformation/Modernising Adult Social Care Services	Q3		
Home to School Transport Incl. SEND	Q3		

Audit	Progress at Sept 2018	Date to G&A	Opinion / Prospects
Consultations – Priority 2	TBC		
Public Health – Clinical Professional Development – Priority 2	TBC		
DELTA System (e-learning) – Priority 2	TBC		
Succession Planning – Priority 2	TBC		
TCP Revised Approach – Priority 2	TBC		
Leadership Management Framework – Priority 2	TBC		
Infrastructure Commissioning and Contract Management – Priority 2	TBC		
Redesign 26+ - Priority 2	TBC		
Troubled Families Returns – Priority 2	TBC		
Foster Care – Priority 2	TBC		
Adoption – Priority 2	TBC		
Care Leavers – Priority 2	TBC		
Highways Contract – Amey – Priority 2	TBC		

Annex 4 – Summary Quality Assurance Action Plan (QAIP)

Action	Date for completion
Standard 2050 Co-ordination and Reliance Determine process for assessing work of, and placing reliance on, other assurance providers. Complete an 'assurance map' for the organisation.	December 2018 (in time for 2019/20 annual audit planning process)
Standard 1112 Chief Audit Executive Roles Beyond Internal Auditing Ensure that HoIA role in relation to fraud is documented in the IA Charter including statement as to how independent assurance will be provided on the Counter Fraud section.	October 2018
Standard 1000 Purpose, Authority and Responsibility Review and refresh the Internal Audit Charter, ensuing that The Internal Audit Charter and the mandatory nature of PSIAS needs to be discussed and shared with Corporate Management Team.	October 2018

Action	Date for completion
1130 Impairment to Independence or Objectivity Clarify how threats to independence regarding potential conflicts between assurance and consultancy work will be managed (at individual auditor level). This particularly relates to consultancy work and acceptance of engagements.	October 2018
1210 Proficiency & 2000 Managing the Internal Audit Function Relationship management strategy to be developed that includes how current activities, trends and emerging issues that may impact on the organisation are identified and feed into Internal Audit work.	October 2018
2200 Engagement Planning and 2201 Planning Considerations Engagement Plans must consistently consider and reference the strategies of the organisation / the strategies and objectives of the activity being reviewed.	October 2018

Annex 4 – Summary Quality Assurance Action Plan (QAIP)

Action	Date for completion
Standard 2210 Engagement Objectives Be clearer on what criteria we are using in engagement plans	November 2018

Action	Date for completion
1300 Quality Assurance and Improvement Programme (QAIP) and 1320 Reporting on the Quality Assurance and Improvement Programme Review the QAIP to ensure that it reflects current desired practice, including for reporting. Where the QAIP is considered to reflect desired practice, Management Team must ensure conformance – QAIP conformance and outcomes should be periodically reviewed at Management Team. Ensure that the outcomes of the QAIP including internal self-assessments are reported as a standard part of the Annual Report and to Senior Management. Action Plans and progress against action plans must be reported to G&A Committee to ensure their oversight of the QAIP.	Complete October 2018 October 2018 October 2018 and ongoing

Annex 5 – Internal Audit Judgement Definitions



High

Internal control, Governance and the management of risk are at a high standard. The arrangements to secure governance, risk management and internal controls are extremely well designed and applied effectively.

Processes are robust and well-established. There is a sound system of control operating effectively and consistently applied to achieve service/system objectives.

There are examples of best practice. No significant weaknesses have been identified.



Substantial

Internal Control, Governance and management of risk are sound overall. The arrangements to secure governance, risk management and internal controls are largely suitably designed and applied effectively.

Whilst there is a largely sound system of controls there are few matters requiring attention. These do not have a significant impact on residual risk exposure but need to be addressed within a reasonable timescale.



Adequate

Internal control, Governance and management of risk is adequate overall however, there were areas of concern identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.

There are some significant matters that require management attention with moderate impact on residual risk exposure until resolved.



Limited

Internal Control, Governance and the management of risk are inadequate and result in an unacceptable level of residual risk. Effective controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied.

Certain weaknesses require immediate management attention as there is a high risk that objectives are not achieved.



No Assurance

Internal Control, Governance and management of risk is poor. For many risk areas there are significant gaps in the procedures and controls. Due to the absence of effective controls and procedures no reliance can be placed on their operation.

Immediate action is required to address the whole control framework before serious issues are realised in this area with high impact on residual risk exposure until resolved.

Annex 5 – Internal Audit Judgement Definitions

Prospects for Improvement

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Very Good	There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.
Good	There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.
Adequate	Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives.
Uncertain	Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.

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By: Peter Oakford, Deputy Leader, Cabinet Member for Finance & Traded Services
Interim Corporate Director of Finance

To: Governance and Audit Committee – 3rd October 2018

Subject: **EXTERNAL AUDIT ANNUAL AUDIT LETTER - 2017/18**

Classification: Unrestricted

Summary: The Annual Audit Letter provides a summary of the most important findings from the external audit work in respect of the 2017/18 audit year.

Recommendation: FOR ASSURANCE

Introduction

1. The former Audit Commission's Code of Audit Practice requires that the external auditors prepare an Annual Audit Letter (the Letter) and issue it to the Council. The purpose of the Letter is to communicate to the Council and its external stakeholders, including members of the public, the key issues arising from their work which the Engagement Lead considers should be brought to the attention of the Council. The Letter covers the work carried out by the external auditor in respect of the 2017/18 audit year.
2. The Letter highlights any key issues drawn from reports previously presented to the Governance and Audit Committee and the auditors' conclusions on relevant aspects of the audit.

Summary of the letter

3. This Letter summarises the work from the External Auditor's 2017/18 Audit Plan and includes:
 - The audit opinion and financial statements
 - Value for money
4. The Letter reaffirms the unqualified opinion on the 2017/18 financial statements, including the Kent Pension Fund, and the unqualified value for money conclusion.

Publication of the letter

5. The Letter is addressed to all Members and the Engagement Lead requires that all Members receive a copy. There is also a statutory requirement to publish the letter. The Council will also publish the Letter on its website.

Recommendations

6. The Governance and Audit Committee is asked to receive the Annual Audit Letter for assurance and note that:
 - The requirement of the External Auditors to prepare and issue the Annual Audit Letter to the Council has been met.

Robert Patterson
Head of Internal Audit (03000 416554)

Annual Audit Letter

Year ending 31 March 2018

Kent County Council and Kent Superannuation Fund 2017/18

24 August 2018

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Appendices

A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Kent County Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance and Audit Committee, as those charged with governance, in our Audit Findings Report on 25 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £44,253,000, which is 2% of the Council's prior year audited gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 25 July 2018.
Whole of Government Accounts (WGA)	During August 2018 we have completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We are required under the Act to give electors the opportunity to raise questions about the Council's financial statements and we consider and decide upon objections received in relation to the accounts. We received no questions or objections from electors in relation to the 2017/18 financial statements. We are completing our work around an objection from an elector to the 2016/17 financial statements.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 25 July 2018.
Certificate	We are currently unable to certify the completion of the 2016/17 due to an outstanding elector objection which is still being considered, and will therefore also be unable to certify completion of the 2017/18 audit when we give our audit opinion.

Working with the Council

During the 2017/18 financial year we have:

- Worked closely with the officers in your Finance Team to complete an efficient audit for the earlier 31 July 2018 submission deadline. The majority of our detailed work was completed by early July, thereby releasing your finance team for other work.
- Sharing our insight – we provided regular committee updates covering best practice. We also shared our thought leadership reports
- Carried out detailed work in responding to the elector objections

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £44,253,000, which is 2% of the Council's prior year audited gross expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £2,213,000 above which we reported errors to the Governance and Audit Committee in our Audit Findings Report.

Superannuation Fund Materiality

For the audit of the Kent County Council Superannuation Fund accounts, we determined materiality to be £52,460,000, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Superannuation Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a threshold of £2,623,000 above which we reported errors to the Governance and Audit Committee.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the Narrative Report and the Annual Governance Statement to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA 240 (UK) 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 the Council, we determined that the risk of fraud arising from revenue recognition could 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• The culture and ethical frameworks of local authorities, including Kent County Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we did not consider this to be a significant risk for Kent County Council.</p>	<p>Our audit work did not identify any issues in respect of improper revenue recognition.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. .</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Our audit work included but was not restricted to:</p> <ul style="list-style-type: none">• gaining an understanding of accounting estimates, judgements and decisions made by management and considered their reasonableness• obtaining a full list of journal entries, identifying and testing unusual journal entries for appropriateness and• evaluating the rationale for any changes in accounting policies or significant unusual transactions	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Accounts

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its land and buildings according to the rolling 5 year programme to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Our audit work included but was not restricted to:</p> <ul style="list-style-type: none"> • review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • considering the competence, expertise and objectivity of any management experts used • corresponding with the valuer on the basis on which the valuation is carried out and challenge of the key assumptions • reviewing and challenging the information used by the valuer to ensure it is robust and consistent with our understanding • testing revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value 	<p>Our audit work did not identify any issues in respect of the valuation of property, plant and equipment.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Our audit work included but was not restricted to:</p> <ul style="list-style-type: none"> • identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • evaluating the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. We have gained an understanding of the basis on which the valuation was carried out • undertaking procedures to confirm the reasonableness of the actuarial assumptions made • checking the consistency of the pension fund asset and liability and disclosures in the notes to the financial statements with the actuarial report from your actuary 	<p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.</p>

Audit of the Accounts

Superannuation Fund - Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. 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 the Kent Superannuation Fund, we determined that the risk of fraud arising from revenue recognition could 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 • The culture and ethical frameworks of local authorities, including Kent Superannuation Fund, mean that all forms of fraud are seen as unacceptable <p>Therefore we did not consider this to be a significant risk for Kent Superannuation Fund.</p>	<p>Our audit work did not identify any issues in respect of improper revenue recognition.</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Our audit work included but was not restricted to:</p> <ul style="list-style-type: none"> • gaining an understanding of the accounting estimates, judgements applied and decisions made by management and considering their reasonableness • obtaining a full listing of journal entries, identifying and testing unusual journal entries for appropriateness • evaluating the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Accounts

Superannuation Fund - Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The valuation of Level 3 investments is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>	<p>Our audit work included but was not restricted to:</p> <ul style="list-style-type: none">• gaining an understanding of the Fund's process for valuing level 3 investments and evaluating the design of the associated controls• reviewing the nature and basis of estimated values and considering what assurance management has over the year end valuations provided for these types of investments• consideration of the competence, expertise and objectivity of any management experts used• reviewing the qualifications of the Fund Managers to value Level 3 investments at year end and gaining an understanding of how the valuation of these investments has been reached• for a sample of investments, testing the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We also reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period	<p>Our audit work did not identify any issues in respect of the risk of incorrect valuation of Level 3 investments.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 25 July 2018, complying with the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Governance and Audit Committee on 25 July 2018.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

During August 2018, we carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 24 August 2018.

Superannuation fund accounts

We gave an unqualified opinion on the superannuation fund accounts of Kent County Council on 25 July 2018.

We also reported the key issues from our audit of the superannuation fund accounts to the Council's Governance and Audit Committee on 25 July 2018.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

To date we have received no questions or objections from electors in relation to the 2017/18 financial statements. We are completing our work around an objection from an elector to the 2016/17 financial statements.

Certificate of closure of the audit

We are unable to certify that we have completed the 2016/17 and 2017/18 audit of the accounts of Kent County Council until we resolve all elector objections.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Medium Term Financial Sustainability</p> <p>The Council has a strong track record of delivering to your budgeted spend at the year end. The Council set a balanced budget for 2018/19 with a net budget requirement of £946m. It should be noted that the budget is balanced by one-off use of underspends and reserves, and within the forward looking Medium Term Financial Plan there are significant challenges particularly in terms of increasing cost pressures and necessary identified savings gaps of £53.3m in 2018/19 and £34.4m in 2019/20.</p> <p>We reviewed the Medium Term Financial Plan, including the robustness of assumptions. We also reviewed savings plans in overview and revenue generating schemes. We discussed your plans and outcomes with management, and reviewed how finances are reported to Councillors.</p>	<p>We looked in detail at the Council's revenue outturn performance for the year and the performance and operational reasons behind any variances against budget. We also carried out detailed work around the medium term budgeting for the 2018/19 and 2019/20 financial years. We analysed the detailed breakdown of the reductions in income and increased expenditure budgeted for 2018/19. We discussed the key items with management and looked at the assumptions behind these and concluded that they were realistically and prudently estimated.</p> <p>We discussed with management the challenging "budget gap" and what the plans were to address this, along with the detailed methods and assumptions behind the setting of key savings plans.</p> <p>We were satisfied that management have demonstrated that sound financial planning processes and robust financial control are in place.</p> <p>We also carried out a detailed analysis of the Council's reserves levels and other fiscal indicators as against other County Councils. We were satisfied that the considerations and assumptions that management have in place to monitor reserves levels at what they consider to be a safe level are reasonable and detailed. The reserves level consideration is presented to and approved by Cabinet each year so we are also satisfied that management report this consideration in an open and transparent way. Management also monitor various other fiscal indicators on an annual basis including debt costs, overheads and strategic costs as a percentage of net revenues expenditure, contribution from commercial income and local funding. Overall we were satisfied that management had an appropriate process in place for monitoring and reporting fiscal indicators and reserves levels.</p> <p>Your reserves level provides you with a sufficient cushion to weather the on-going financial challenges that you face over the medium term due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary controls. The financial outlook for local government is at its most uncertain for a generation. It is vital members recognise that the current level of reserves provides a buffer for the uncertainties ahead and do not represent an easy way to resolve immediate budget pressures</p> <p>On the basis of this work, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for securing value for money.</p>

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
<p>Ongoing planning and implementation of health and social care integration</p> <p>The Kent and Medway Sustainability and Transformation Plan (STP) was published in November 2016. Kent County Council has a major role in continuing to develop the STP across Kent. The Council's central role in this transformation project means it continues to present one of the most significant risks for Value for Money.</p> <p>We will update our understanding of the project management and risk assurance frameworks put in place by the Council to establish how it is identifying, managing and monitoring these risks. We will also review the Council's plans for transformation of social services and integration with other services in the Kent Health Economy, and how the Council will monitor expenditure and outcomes in the new shared/collaborated services.</p>	<p>Our discussions with management and review of the minutes and actions of the Health and Wellbeing Board, and the proposed governance and decision-making structures set out in the internal STP board meetings, showed that detailed plans are in place and your central role is well established.</p> <p>Initial financial modelling in the STP plans demonstrates that there are potential efficiency and savings benefits that will benefit the whole region which are significant even if they are only partially delivered. Our discussions with management show that care is being taken to assess the financial impact of changes on Kent County Council taxpayers and protect value for money for electors in the County.</p> <p>Detailed plans and costings for Kent County Council have been integrated into the Medium Term Financial Plan through the processes which we have examined in the risk analysis above. We were satisfied that your management are making reasonable and prudent estimates of the investment costs involved in setting up new processes and social care/health collaborated services.</p> <p>On the basis of this work, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for securing value for money.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	24 April 2018
Audit Findings Report	25 July 2018
Annual Audit Letter	10 August 2018

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Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	155,925	155,925	155,925
Statutory Pension Fund Audit	30,568	30,568	30,568
Total fees	186,493	186,493	186,493

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

Fees for non-audit services

Service	Fees £
Audit related services	
- Resolution of objections to the 2015-16 statutory accounts (accrued for in the 16-17 accounts expenditure)	£29,218
- Resolution of objections to the 2016-17 statutory accounts (invoiced in late June)	£13,490
Non-Audit related services	
- Teachers Pensions Return certification work 2016-17	£4,378
- CFO Insights membership 2017-18	£10,000

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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



By: Peter Oakford, Deputy Leader, Cabinet Member for
Finance & Traded Services
Interim Corporate Director of Finance
To: Governance and Audit Committee – 3rd October 2018
Subject: **EXTERNAL AUDIT UPDATE**
Classification: Unrestricted

Summary: This paper provides recent updates and information from the
External Auditor, Grant Thornton UK LLP

Recommendation: FOR ASSURANCE

Introduction and background

1. In order that the Governance and Audit Committee is kept up to date with the work of Grant Thornton UK LLP, progress reports are written by the external auditor as appropriate.
2. The attached report covers the following areas:
 - Progress for 2018/19
 - Emerging issues and developments

Recommendation

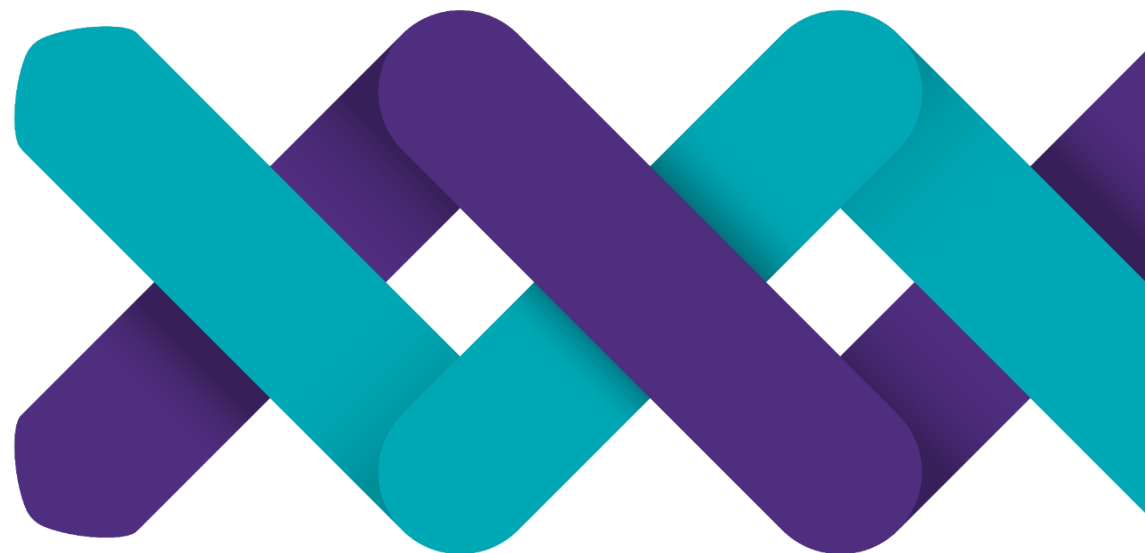
3. Members are asked to note the report.

Robert Patterson
Head of Internal Audit (03000 416554)

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Audit Progress Report and Sector Update

Kent County Council
Year ending 31 March 2019
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3 October 2018



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Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority.

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

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

Progress at September 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion was issued on the 25 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit is included as a separate agenda item.

We are still considering an outstanding 2016-17 objection.

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Meetings

We hold monthly meetings with key Finance Officers regarding emerging developments and to ensure the audit process is smooth and effective. We also hold quarterly liaison meetings with the Corporate Director of Finance to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. We will provide details of planned workshops as the dates are finalised. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	April 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Governance and Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

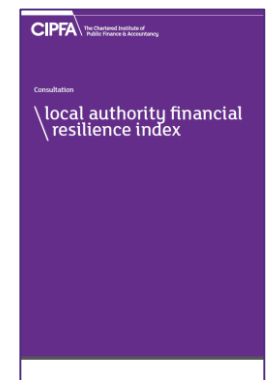
- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:
<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

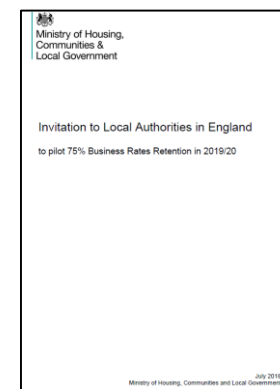
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.



Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

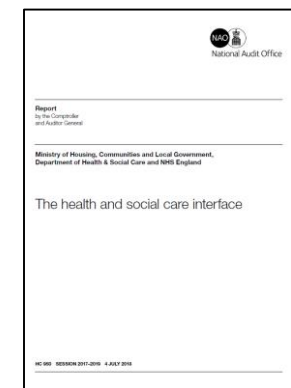
Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>



Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



The Vibrant Economy Index

a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.granthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

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 - organisation and category
 - service provider
 - date at a monthly level
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 - organisations buying similar services
 - differences in pricing
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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

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By: Peter Oakford – Cabinet Member for Finance and Traded Services
Cath Head – Head of Finance (Operations)

To: Governance & Audit Committee – 3 October 2018

Subject: Debt

Summary: To report on the Council's debt position.

1 Introduction

- 1.1 The purpose of this report is to provide Members with assurance on the Council's outstanding debt position.
- 1.2 This report focuses mainly on debt **over 6 months** old.

2 Summary and context

- 2.1 This report provides a snapshot of the adult social care and sundry debt position at a given point in time. Income is credited to the service when the invoice is raised. The level of debt is linked to our cash balances and cashflow. However, rising debt levels could result in an increase in our bad debt provision and an increase in the number of write offs; both of these could create a budget pressure. It is likely that as income rises through increases in charges, debt will also rise.
- 2.2 The overall outstanding unsecured social care debt due for payment as at the 17 July 2018 was £9,620k and the unsecured sundry debt due for payment as at 31 July 2018 was £9,064k. This is further broken down in the table below:

Table 1 – Overview of total debt as at 31 July 2018

<u>Total Debt</u>	<u>Social</u>	<u>Sundry</u>	<u>Total</u>
	<u>£k</u>	<u>£k</u>	<u>£k</u>
Overall Debt	21,126	23,261	44,387
Less Not yet due	5,106	8,397	13,503
Overdue	16,020	14,864	30,884
Secured	6,400	5,800	12,200
Total Unsecured Overdue Debt	9,620	9,064	18,684
Total Unsecured Debt over 6 months old	6,002	1,906	7,908

3. Background on Social Debt

3.1 Upon completion of the client's needs assessment, a financial assessment is undertaken to determine what they should contribute based on their 'means'. It is at that point that charging will then commence.

3.2 Unsecured social care debt

There are 2 types of unsecured social care debt:

- Residential – this relates to those clients who are in residential care, and all their disposable income and assets are taken into consideration within their charge, and they are left with a personal expenditure allowance. Generally, any client who has above the capital threshold of £23,250 will be self-funding, so are not within these debt figures, as they pay homes directly.
- Non-residential – this relates to those clients who are receiving care in their own home. The financial assessment determines the amount they can afford to pay after allowing them adequate income to cover their daily living costs as laid down in legislation. This means that some clients will be assessed and not have adequate levels of income so are not charged at all, others make a contribution, and some are able to pay for the full cost of their care. The debt referred to as unsecured therefore relates to those clients assessed to pay a contribution or the full cost.

3.3 It is worth noting that 6298 clients pay by direct debit.

4 Debt Recovery Action

4.1 Under the previous legislation local authorities held unilateral power to obtain charges on client's property without their consent to do so. Under the Care Act this power has been removed as it did not allow debtors a chance to pursue alternative methods of payment. The Care Act (2014) therefore now forms the legal framework the authority must adopt for the recovery of debts incurred under it. The changes made under the Care Act, put greater responsibility on local authorities attempting all amicable collection methods, whilst maintaining an understanding of the needs of the client and their capability to engage. Any recovery action must be taken keeping in mind the client's wellbeing and the impact any recovery action may have on the client. This reduction in powers combined with a statutory requirement for the council to provide care puts the local authority in a difficult position when dealing with consistent non-payers.

4.2 Under the Care Act the local authorities have an obligation to engage with a client, or a financial agent acting on their behalf – however liability for a client contribution falls on the client regardless of the

involvement of a voluntary financial agent. When a client is making a conscious decision to spend their incomes on goods/services other than their care the local council have little recourse other than to commence recovery proceedings.

- 4.3 In the event a client lacks the mental capacity to manage their finances and, a relative/friend is unable or unwilling to step in and become a deputy, this could lead to a panel deputy referral being made via the Court of Protection. Annex D of the Care Act advises that this process can take weeks, however a review of recently referred cases indicates it is taking 6-12 months+ for a panel deputy to be appointed in Kent. This significant delay is leading to an increasing number of cases having high value debts whilst the deputy application process is ongoing.
- 4.4 In line with the framework dictated by the Care Act, our recovery process works on an escalation basis. We have a requirement to explore all reasonable efforts before court action. This includes possible alternative action to legal proceedings, such as mediation and alternative dispute resolution. The fulfilment of these requirements leads to an elongated collections process that, ultimately, if payment continues to be avoided, leaves us with little recourse than to commence legal proceedings.
- 4.5 The prospects of recovery need to be fully reviewed before legal action can commence. The nature of this type of debt means court action is not always a feasible or effective option and could, in some cases, be throwing good money after bad. For example, if a client is purposefully spending any incomes received and has no assets – How are we going to recover any judgment obtained? The impact on credit rating, or the threat of enforcement are unlikely to have significant impact and do not necessarily act as a deterrent.
- 4.6 Prior to adopting a more aggressive collections process we must consider point 21 of the Care Act guidance, Annex D – “Local authorities must not issue threatening letters to clients demanding payment”. Whilst there is scope to adjust our process this must be aligned with the Care Act guidance. We must also consider the impact a more aggressive collections process will have on the number of complaints we receive.
- 4.7 The contribution care fees incurred under the Care Act (2014) do not form a consumer credit agreement, nor is there a signed contract specifying a chargeable interest rate. On this basis we therefore do not have a legal foundation for charging interest. We do currently charge interest on our deferred payment agreements, as these are fully signed and essentially form a loan agreement with the client. Additionally, we also charge interest on any legal cases in line with section 69 of the county courts act (1984).
- 4.8 Minimal support is received from the Department for Work and Pensions in redirecting the element of benefits that are not being used to pay for care charges to the Local Authority. Allowing clients to continually spend income elsewhere whilst ongoing care charges continue to accrue.

- 4.9 Our current collections framework does not charge costs for pre-legal recovery – however under section 69 (5) of the Care Act 2014 local authorities have the ability to charge these costs:

“The costs incurred by a local authority in recovering or seeking to recover a sum due to it under this part are recoverable by the authority as a debt due to it.”

Any changes made to our collection’s procedure mentioned in point 4.6 could be adjusted to utilise this legislation

- 4.10 The Debt Recovery Teams have introduced a number of new initiatives which are aimed at improving the service delivered. Some of these include:

- Introduction of a formalised end to end debt recovery process focusing on pro-active collections with clearly defined escalation points
- Diary allocation – Introduction of a diary system to allow the collections team greater control of debts throughout the process, also provides greater understanding into workload management
- Increased focus on Third Party Top Up (TPTU) debts – Aim to introduce a much quicker, more focused recovery process for TPTU debts, ensuring placements are reviewed at the earliest opportunity and Debt Recovery tackle these types of debt at a far earlier stage
- Introduction of consented charges – Replacing the previous Legal Settlement Agreements – When applicable securing debts against a property at an early stage, allowing recovery action/repayment plans to continue with the security obtained
- Introduction of Overseas Partners to allow continued collections from a local standpoint once KCC internal collections have proved unsuccessful
- Formalised Bona Vacantia process allowing KCC to demonstrate every recovery effort has been attempted prior to considering a write off

A Service Improvement Plan has also been introduced covering both types of debt. The Debt Recovery Teams produce regular detailed reports covering both Sundry and Client Billing, which are available on request.

- 4.11 The current annual cost of Kent County Council Debt Recovery Team is £303k consisting of one Client Financial Services (CFS) Manager, two CFS Senior Officers and six CFS Officers. The £303k represents 0.46% when compared to the £66m of forecasted income for 2018-19. The cost of this team reflects the complexities around social care debt and a need to have an in-depth knowledge of the Care Act.

- 4.12 ‘The Income Pathway’, which is a new project being developed within Adult Social Care and Health will explore the full process of charging through to debt to gain a greater understanding of the client base we have and how their wealth and benefit entitlements are changing over

time, as it does need to be recognised that if the level of charges we are raising is increasing due to increased income and capital of users, this will ultimately lead to some increase in debt.

5 Analysis of Social Care Debt as at 17 July 2018

5.1 The total Social Care Client Debt as at 17 July 2018, being the date of the most recent Client Billing run, is split as follows in Table 2:

Table 2 – Total Social Care Debt as at 17 July 2018

	A	B	C	D	E	
	0-28 Days (Not Yet Due) £k	29-56 Days £k	57-182 Days £k	183-365 Days £k	365+ Days £k	Grand Total £k
Social Care Debt	5,106	1,273	3,532	2,474	8,738	21,125

5.2 It should also be noted that the age of the debt is based on the time elapsed from the invoice date rather than the due date. Therefore, the total debt as at 17 July 2018 stands at £21.13m across 12,477 debtor accounts. This is broken down in Table 3:

Table 3 – Analysis of Social Care Debt as at 17 July 2018

<u>ASCH Debt</u>	<u>Secured</u> <u>£k</u>	<u>Unsecured</u> <u>£k</u>	<u>Total</u> <u>£k</u>
Overall Social Care Debt	6,670	14,456	21,126
Less Not yet due	270	4,836	5,106
Overdue	6,400	9,620	16,020
Residential	6,400	6,703	13,103
Non-Residential	0	2,917	2,917
Total Overdue	6,400	9,620	16,020
Bad Debt Provision		3,398	

6 Unsecured Debt Over 6 months Old

- Restriction against the property £7k
- Unsecured £5,995k
- Total Unsecured over 6 months' old: £6,002k

6.1 There are 2,159 debtors making up the total unsecured over six months' debt of £6,002k.

6.2 The decision taken by the Department of Health not to increase the minimum income guarantee (the amount of income that a client is required to be left with for their daily living), since 2016 has seen the

assessed charge for non-residential clients gradually increase over the past three years. This in turn has caused an increase in clients being charged for the full cost of their care. The impact of this has not yet been analysed.

7. Social Care debt write offs

7.1 As at 31 July 2018, £117k in Social Care write offs had been processed in ORACLE since 1 April 2018.

7.2 Table 4 details the percentage of Social care debt written off compared to the total value of invoices raised for the past 6 years.

Table 4 – Percentage of Social Care debt written off compared to total value of Social Care invoices raised

	2012 - 2013 £k	2013 - 2014 £k	2014 -2015 £k	2015 - 2016 £k	2016 - 2017 £k	2017 - 2018 £k
Total written off	188	401	472	687	388	363
Total invoice amount	61,093	67,093	60,208	59,126	60,073	62,694
% written off	0.31%	0.60%	0.78%	1.16%	0.65%	0.58%

8 Background on Sundry Debt

8.1 As and when a Budget Holder requires an invoice to be raised to collect income external to the authority they complete the paperwork in order for an invoice to be raised via the Accounts Receivable (AR) system. It is the Budget Holder's responsibility to ensure that they have the necessary paperwork evidencing that the invoice will be paid.

8.2 The current annual cost of Cantium Debt Recovery Team is £81k which comprises of three full time Recovery Officers. The £81k represents 0.03% when compared to the £270m of invoices raised in 2017-18.

9 Sundry Debt as at 31 July 2018

Table 5 – Total Sundry Debt as at 31 July 2018

	A	B	C	D	
	Not Yet Due	AR Overdue 0-60 Amount	AR Overdue 61-181 Amount	AR Overdue 182+ Amount	Total AR Outstanding Amount
	£k	£k	£k	£k	£k
Sundry Debt	8,397	8,524	4,242	2,098	23,261

9.1 There are two performance indicators that the Debt Recovery Team aims to achieve. The percentages are based on the total outstanding Sundry debt:

- **Total outstanding debt under 60 days old – greater than 75%**

(including debt not yet due for payment)

- **Total outstanding debt over 6 months old – less than 15%**

9.2 As at 31 July 2018 the KPI position was as follows:

Table 6 – Outstanding debt under 60 days old

% of Sundry debt under 60 days old	72.7%
Under 60 days old (£k)	16,921
Total debt (£k)	23,261

Table 7 – Outstanding debt over 6 months old

% of Sundry debt over 6 months	9.0%
Over 6 months (£k)	2,098
Total debt (£k)	23,261

10. Sundry debt Write Offs

10.1 Table 8 details the percentage of Sundry debt written off compared to the total value of invoices raised for the past 6 years.

Table 8 – Percentage of Sundry debt written off compared to total value of invoices raised.

	2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017	2017 - 2018
	£k	£k	£k	£k	£k	£k
Total written off	178	303	80	55	63	153
Total invoice amount	234,422	244,156	250,887	280,859	342,035	269,837
% written off	0.08%	0.12%	0.03%	0.02%	0.02%	0.06%

11 Recommendation

11.1 Members are asked to note the content of this report for assurance.

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By: Amanda Beer – Corporate Director for Engagement Organisation Design and Development

To: Governance and Audit Committee

Date: 24th October 2018

Subject: KCC Annual Customer Feedback Report 2017/18

Classification: Unrestricted

Summary: This report provides a summary of the compliments, comments and complaints recorded by the Council. The report includes statistics relating to customer feedback received by the Council and a sample of complaints considered by the Local Ombudsman.

Recommendation: Committee is asked to note the contents of this report for assurance.

1. Introduction

- 1.1 This is the Council's eighth annual report on compliments, comments and complaints.
- 1.2 Customer feedback only relates to those comments, compliments and complaints received from members of the public and our customers. It does not include internal feedback.

2. Progress in refining practices within KCC

- 2.1 A comprehensive exercise was undertaken to capture the full requirements of key stakeholders from each of the Directorates and main customer facing services. These requirements formed the specification which was then market tested and later released as an OJEU tender.
- 2.2 Following successful contracting of a provider, a customer feedback system was launched on the 1st October 2017. In line with reporting schedules, in January, Information Governance joined the system to log Freedom of Information, Subject Access and Disclosure Requests. Highways, Transportation and Waste were the final team to join on 1st April 2018.
- 2.3 Training has been provided to over 400 users of the new system and first line support is being managed through daily calls and information sharing.

- 2.4 It is anticipated that due to the launch of the system, that the 2018/19 report will be richer in content both qualitative and quantitatively, with a full year's worth of data being collected and handled in one system.
- 2.5 Exploration has begun in creating in-house training for staff involved in complaints investigation. The focus of the training is to equip staff with the tools to confidently look into issues raised by the public and carry out a robust investigation that can withstand the scrutiny of the Ombudsman should it be escalated.

3. Overview of Customer Feedback Received

- 3.1 A compliment is an expression of thanks or congratulations or any other positive remark. (Internal compliments are excluded from this process).
- 3.2 A comment is a general statement about policies, practices or a service as a whole, which have an impact on everyone and not just one individual. A comment can be positive or negative in nature. Comments may question policies and practices, make suggestions for new services or for improving existing services.
- 3.3 A complaint is an expression of dissatisfaction, whether justified or not and however made, about the standard or the delivery of a service, the actions or lack of action by the Council or its staff which affects an individual service user or group of users. This is consistent with the definitions used by other local authorities.
- 3.4 The following table gives an overview of the feedback received by KCC as a whole compared with the previous year. The increase in volumes compared to the last year can be attributed in part to more rigorous reporting and the inclusion of new services that previously did not submit returns.

Table 1 – Feedback received by KCC compared with previous year

Year	Complaints	Comments	Compliments	Local Government Ombudsman complaints
2017/2018	3,628	1,751	1,917	190
2016/2017	3,424	1,569	2,714	190
Difference in volume	+204	+182	-797	0
% increase/ Decrease	+6%	+12%	-29%	0

Appendix A offers a breakdown of customer feedback received by Directorate and service.

4. Compliance with standards

- 4.1 KCC is committed to acknowledge any complaints received within 3 working days and to provide the customer with a response within 20 working days. As a whole KCC **responded to 83%** of complaints within corporate timescales which compares to 86% the previous year.

5. Customer communications channels

- 5.1 Information on 'How to complain' is available on our website and on our Complaints, Comments and Compliments leaflets. The public can provide feedback to the Council through a number of different ways including via our online form, phone, email and through Social Media.
- 5.2 The breakdown below indicates by percentage which channel customers have chosen to communicate feedback (Compliments, comments & complaints) during 2017/2018 & 2016/2017.

Table 2: Channels used to communicate Compliments, comments & complaints

	Phone	Letter	Email	Comment card/ Face to Face	Online	Other
2017/2018	36%	8%	33%	11%	10%	2%
Volume	2819	594	2586	866	811	143
2016/2017	22%	13%	43%	13%	8%	1%
Volume	1710	1038	3298	961	599	95

- 5.3 The above tables show that there has been a movement towards telephone, this was largely due to the volume of Highway complaints that are received through the Contact Centre. This may be due the immediacy of being able to speak to someone directly and receive reassurance it will be looked into. However, this is not the case as all feedback is treated equal ensuring that no channel is given preference. Otherwise there is an increasing trend showing customers moving towards logging their feedback online.

6. Compensation across all complaints received by KCC

- 6.1 In 2017/18, £73,703 was paid in compensation, settlements, changes to the amount we charge and waived charges as a result of complaints to the organisation this includes;
- £48,370 has been paid or waived as part of local resolution in Adult Social Care and Health.
 - £4,852 has been paid out by Strategic and Corporate services including Legal Services, Insurance and Property & Infrastructure.
 - £1,331 has been paid out for Growth, Environment and Transport
 - £3,717 has been paid out for Education and Young People Services including Community Learning and Skills and Children Specialist Services
 - £15,433 additional payments following Local Government Ombudsman Decisions found against KCC.
- 6.2 It is important to note that monies paid out during the 2017/18 financial year may relate to complaints recorded in previous years. This is due to the time that elapses between the date the complaint was lodged and achieving resolution.
- 6.3 This is a decrease of £110,475 from 2016/17 when £184,178 was paid out in settlements or through waived charges.

7. Levels of complaints to the standards committee (Member complaints)

Complaints recorded in 2016/17

- 7.1 During 2017/18 the Monitoring Officer has responded to 4 complaints of alleged misconduct of the breach of the Elected Member Code of Conduct. All of the complaints were dismissed.

Number of Complaints			Outcome
2017/2018	2016/17	2016/15	
10	3	10	No Action. Dismissed by the Monitoring Officer
0	1	0	Action taken by party

8. The Local Government Ombudsman complaints review 2017/18

Overview of Ombudsman

- 8.1 In cases where a customer is unhappy with the responses received about their complaint from the Council they can exercise their right to involve the Local Government Ombudsman. The Ombudsman will investigate cases where a customer has exhausted the Council's own complaints policy and feel that their case has not been appropriately heard or resolved.
- 8.2 Each year, in June/July, the Local Government Ombudsman issues an annual review to each local authority. In his letter he sets out the number of complaints about the authority that his office has dealt with and offers a summary of statistics to accompany this.
- 8.3 The annual review statistics are publically available, allowing councils to compare their performance on complaints against their peers; copies of the Annual Review letter as well as any published Ombudsman complaints are issued to the Leader of the Council and Head of Paid Service to encourage more democratic scrutiny of local complaint handling and local accountability of public services.
- 8.4 Decision statements made in 2017/18 will have been published on the Local Government Ombudsman website three months after the date of the final decision. The information published will not name the complainant or any individual involved with the complaint. Cases in which the complainant, despite redaction of names, can be easily identified are not published.

9. KCC Performance – Ombudsman complaints

- 9.1 It should be noted that there will be discrepancies between the volume recorded by the Local Government Ombudsman and the authority. This is due to the Local Government Ombudsman recording complaints that it does not progress to Kent County Council, as it is able to resolve the issue at first point of contact, either through referral to the Council or it is identified as out of jurisdiction.
- 9.2 During 2017/18 KCC received a total of 174 decisions from the Ombudsman this included 59 referred back for local resolution.
- 9.3 The level of complaints received by KCC for the size of population, volume of services and interaction is low but each complaint is an opportunity to learn from our customers and improve our systems. We need to focus on those complaints that are upheld to ensure that lessons are learned.
- 9.4 The Ombudsman's report noted that the national average that the Ombudsman upheld is 57% of complaints they investigated, this is up nationally from 53% last year. Kent County Council's average is **39%**; this is a decrease on 63% in 2016/17. The full letter and Ombudsman statistics can be found in Appendix B.
- 9.5 This is a significant reduction in the number of complaints in which we have been found at fault. Teams throughout KCC have been working hard to work alongside

complainants to resolve issues as they arise. By conducting robust and thorough investigations into complaints, we are able to demonstrate due diligence and are therefore not upheld once escalated to the Ombudsman. We are also being clearer with customers about their rights to escalate their complaints further if they are dissatisfied.

10. Local authority report – Kent County Council

10.1 For further information on interpretation of statistics click on this link to go to <http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics>

Complaints and enquiries received

The following table examines the number of complaints received by the Ombudsman over the last three years against the LGO's service categories.

	Adult care services	Benefits and tax	Corporate and other services	Education and children's services	Environmental services	Highways and transport	Housing	Planning and development	Total
2017/18	57	0	6	99	6	20	2	0	190
2016/17	62	0	4	89	12	14	1	1	184*
2015/16	62	0	5	98	7	10	2	0	185

* This figure excludes 6 complaints received by the LGO that have not been classified against a service.

Decisions made

The following table examines the number of complaints received by the Ombudsman over the last three years and decision category given by the LGO.

	<u>Detailed Investigation Carried out</u>						
Local authority	Upheld	Not upheld	Advice given	Closed after initial Enquiries	incomplete/Invalid	Referred back for local resolution	Total
2017/18	19	30	0	55	11	59	174
2016/17	42	25	2	46	13	62	190
2015/16	34	28	1	44	3	74	185

11. Ombudsman Complaints – Themes and Outcomes

11.1 The following section examines some cases that were investigated by the Ombudsman. The complaint and the subsequent decisions are taken from the Local Government Ombudsman's website where all decisions (in which the complainant cannot be identified) are published.

11.2 Children, Young People and Education

	Children Social Care	Kent Test/ School Admission appeals	Home to School Transport/ Free School Meals	Special Educational Needs	Total
Upheld	4	1	1	2	8
Not upheld	7	2	5	0	14
Closed: out of jurisdiction/no further action or withdrawn	15	8	7	1	31
Premature	7	0	0	1	8

Children Social Care

11.3 Not upheld example – 15 016 977

Complaint - The complainant, whom I shall call Mr X, says the Council failed to deal properly with his complaint that its children's social services team has failed to properly enable his supervised contact with his children since a change of social worker in November 2015.

Decision & Outcome - The investigation of Mr X's complaint is satisfactory, and he chose not to pursue the matter to the final review panel stage of the complaints process. I consider the investigator addressed the complaint about Mr X's supervised contact sessions and consider her conclusions were properly based on information provided on this during her investigation.

11.4 Upheld example – 16 013 998

Complaint –

1. Miss X complains about the actions of the Council in Child and Family Assessment reports.

2. Miss X says the reports contained false information about her and her family and the Council shared that inappropriately. She said this was abuse against her and her family.

3. Miss X complains the Council's remedy for the admitted faults in its actions does not adequately reflect the harm done to her and her family.

Decision – I recommend the Council apologise again to Miss X for its accepted faults and clearly recognizes the impact on her of its actions, rather than referring to any 'good will' gesture.

I recommend the Council pays Miss X £600 to recognize the impact on her and her children of its actions.

These actions should be completed within one month of my final decision.

I recommend the Council looks at the Ombudsman's Guidance on Remedies, available on the LGO website, and reviews its own complaints process to incorporate suitable guidance on remedies for the future. This should be completed within three months of my final decision and evidence provided to the Ombudsman of changes made.

Outcome - The Council apologised for faults in its assessment reports and for sharing inaccurate information inappropriately. However, the Council has not properly recognised the impact of these faults on Miss X and her family in its remedy.

The Council has accepted my recommendations, so I have completed my investigation.

Education

11.5 Not upheld example – 17 013 888

Complaint –

- Mrs R complains that the Council has refused to provide transport for her son, S, to his secondary school, School B. She considers the Council's decision unfair and says the appeal panel failed to take relevant factors into account when refusing her appeal.
- She says that, for S to enjoy the social element of the school bus journey and have the reassurance of his friends, they will have to pay £480 per year. Even if they bought a young person's travel pass at £240 per year, S could not use this on the school bus. This would be a significant financial burden for the family.

Decision & Outcome - I have closed my investigation into Mrs R's complaint because I have found no fault in the way the panel considered her appeal.

11.6 Upheld example – 17 003 893

Complaint – The complainant (Mrs B) complains there was fault in the way a school admission appeal hearing was conducted in the following way:

- Panel failed to put to proof a weak prejudice case presented by the admission authority
- The Panel administrator did not forward to Mrs B a copy of a document (school plan) which the presenting officer referred to when presenting the admission authority's prejudice case

Decision - Panel did not have sufficient information to make a robust decision about school prejudice and should have adjourned the hearing to seek out further information relevant to deciding whether an extra child could be admitted to Year 3. The Presenting Officer gave new information during the hearing and the information should have been disclosed beforehand to put Mrs B in the best position to prepare her case. In the circumstances Panel should have adjourned the hearing and sought further information.

To correct fault the Ombudsman recommended, and the Council agreed to carry out the following action:

- Arrange a fresh appeal with new panel members and a different clerk as soon as is reasonably possible
- Pay the reasonable travel costs of Mrs B to and from the venue

Outcome - The agreed action suitably remedies fault. The complaint is therefore closed.

11.7 Growth, Environment and Transport

	Total
Upheld	0
Not upheld	2
Closed: out of jurisdiction/no further action	11
Premature	11

11.8 Not Upheld example – 16 012 522

Complaint - The complainant, whom I shall refer to as Mr K, complains the Council has not properly considered residents' requests for traffic calming measures on his road.

Decision & Outcome - I find there was no fault by the Council. Therefore, I have closed the complaint.

11.9 Strategic and Corporate Services

	Total
Upheld	0
Not upheld	0
Closed: out of jurisdiction/no further action	3
Premature	0

11.10 Social Care, Health & Wellbeing

	Adults
Upheld	11
Not upheld	14
Closed: out of jurisdiction/no further action or withdrawn	11
Premature	9

11.11 Not Upheld example – 17 003 899

Complaint - Ms X has complained that the Council has stopped providing her care and support at home as it says she no longer has any eligible needs. Ms X disagrees. She says she has mobility problems and needs daily visits. Ms X does not believe the Council properly assessed her and feels it has treated her unfairly.

Decisions - There is no fault with the Council's decision to end Ms X's enablement care.

11.12 Upheld example – 16 012 531

Complaint - The complainant, whom I shall refer to as Mrs F, complains the Council has failed to assess her needs properly, resulting in a significant cut in her personal budget which means it no longer meets her needs.

Decisions - I recommended the Council:

- within the next six weeks review Mrs F's care package and either produce a care and support plan which explains how 39 hours are enough to meet her needs or provides the necessary funding to do so;

•if the latter, the Council also needs to remedy any injustice arising from the failure to meet Mrs F's eligible needs since November 2016.

The Council has agreed to do this by allocating a new Case Manager to reassess Mrs F and revise her care and support plan. It will also arrange for an Occupational Therapist to assess the moving and handling requirements.

Outcome - I have completed my investigation as the Council has agreed to take the action I recommended.

12. LESSONS LEARNED

- 12.1 Where the Ombudsman has made a decision against the Council, steps are taken by the service to ensure that any lessons learned are applied across the service to improve the customer experience and avoid any further complaints of a similar nature.

13. RECOMMENDATIONS

- 13.1 The Governance and Audit Committee is asked to note the contents of this report for assurance.

Report Author:

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Appendix A – Directorate overview of Customer Feedback Received

Children, Young People and Education

All Feedback Reported

	Complaints	Comments	Compliments	Local Government Ombudsman enquiries & complaints*
2017/18	666**	1101	190	53
2016/17***	260	326	474	32
2015/16***	171	199	54	32

*Excluding premature **Specialist Children Services moved Directorates ***excluding Specialist Children Services

The below table compares the number of complaints received in 2017/18 with those received in 2015/16 and 2016/17

Service	2015/16	2016/17	2017/18
Specialist Children Service	245	269	368
Community Learning & Skills (was Adult Education)	70	86	80
Education Services	101	174	218
Total Complaints	416	529	666

Growth, Environment and Transport

All Feedback Reported

	Complaints	Comments	Compliments	Resolved Local Government Ombudsman enquiries & complaints*
2017/18	2054	509	1188	13
2016/17	1764	509	1326	17
2015/16	1450	485	1112	15

*Excluding premature

The below table compares the number of complaints received in 2017/18 with those received in 2015/16 and 2016/17

Service	2015/16	2016/17	2017/18
Environment, Planning and Enforcement	372	57	76
Economic Development	0	0	4
Highways and Transportation and Waste Management	875	1,437	1705
Libraries, Registrations and Archives	203^	270	269
Total Complaints	1450	1764	2053

(* Data not previously collected) (^ Q1 data not captured)

Social Care, Health and Wellbeing

All Feedback Reported

	Complaints	Comments	Compliments	Resolved Local Government Ombudsman enquiries & complaints*
2017/18	625	118	357	36
2016/17**	919	640	542	65
2015/16**	924	702	606	49

*Excluding premature **Includes Specialist Children Services.

The below table compares the number of complaints received in 2017/18 with those received in 2015/16 and 2016/17

Service	2015/2016	2016/2017	2017/18
Adult Social Services	679	650	625
Total Complaints	679	650	625

Strategic and Corporate Services

All Feedback Recorded

	Complaints	Comments	Compliments	Resolved Local Government Ombudsman enquiries & complaints*
2017/18	283	23	182	3
2016/17	481	74	362	3
2015/16	525	100	300	2

*Excluding premature

The below table compares the number of complaints received in 2017/18 with those received in 2015/16 and 2016/17

Service	2015/2016	2016/17	2017/18
Finance and Procurement	60	71	28
FOI	21	134	57
Gateways and Contact Point	49	56	53
Insurance *	295	144	62
Infrastructure, Property, Total Facilities Management, Business Services Centre, Schools Personnel Service	100	75	38
Other	0	1	45
Total Complaints	525	481	283

* There is a marked decrease in Insurance complaints as these now follow a different appeals process due to the scope of the Local Government and Social Care Ombudsman

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By: Peter Oakford – Deputy Leader and Cabinet Member for Finance and Traded Service

Cath Head – Head of Finance (Operations)

To: Governance and Audit Committee – 24 October 2018

Subject: **KCC INSURANCE OVERVIEW**

Classification: Unrestricted

Summary: This paper provides a summary of insurance activity for the 2017/18 financial year and other points of interest.

FOR ASSURANCE

INTRODUCTION

1. The Council's insurance programme is extensive and designed to provide increased financial control of the risks flowing from the diverse nature of the activities undertaken to meet statutory duties and support general business functions and income generating operations.
2. This report provides a review of activity for the 2017/18 financial year and other points of interest.

INSURANCE PROGRAMME

3. The insurance programme covers all directorate operations and local authority schools and is made up of several separate policies. The main four policies purchased are Employers Liability, Public Liability, Property, and Motor.
4. Following a tender of the full insurance programme effective from 1 January 2016, Zurich Municipal was awarded the contract for the majority of covers on a 5-year Long Term Agreement – expiring 31st December 2020. The hardening insurance market and the Council's claims experience (particularly in relation to liability claims) at the time resulted in a substantial increase in overall premium. These increases were exacerbated by the rise in insurance premium tax by HMRC from 6% to 9.5% in November 2015 and then to 10% in October 2016. The rate rose again to 12% on 1 June 2017.
5. £6.7m is currently reserved in respect of premiums and claims spend for the 2018 policy year. This compares to £8.2m currently reserved against 2017.

6. One of the reasons for this difference is thought to be a change to the insurance programme that has taken effect from 1 January 2018. Due to the hardening market and the potential for increased premium costs, the Council carried out an extensive review of its programme and took the decision to implement a higher excess on its Public Liability and Employer Liability policies. As of 1 January 2018, the excess on these policies has risen from £100,000 to £500,000 for each claim – thus reducing the premium spend by approximately 43%. This change also brings the Council more in-line with our neighbouring authorities – the majority of which have excess levels between £250,000 - £500,000.

This decision exposes the Council to potential additional claim spend but historical claim trends suggested that an overall saving could be achieved. Thus far indications are that this will be the case, although the 2018 policy year has not yet matured and further analysis will need to be undertaken in due course.

FUNDING OF INSURANCE PREMIUMS AND CLAIMS

7. Premiums and excess payments are met through the corporately managed Kent Insurance Fund (KIF), to which directorates and LEA schools contribute in accordance with their risk profile and claims experience. As at 31 August 2018, the KIF had a fully funded committed balance of £13.61m to meet the values for outstanding liabilities.
8. The KIF is supported by the Insurance Reserve. As at 31 August 2018 this stood at £13.45m and is held to protect the Council against future unexpected insurance costs. This includes historic claims where insurance may not be available or those associated with the unexpected increase in the cost or volume of claims, particularly where previous insurers have ceased trading or invoked a scheme of arrangement requiring contribution to the cost of claims (see para 23).

INSURANCE CLAIMS

9. Below is a summary of activity relating to the four main insurance policies during 2017/18.

Employers Liability

10. The number of claims being received remains low with only 18 new claims currently recorded for the 2017/18 financial year.

This continued pattern is thought to be due to the number of schools that have converted to academy status, the creation of several separately insured LATCO's and the enactment of the Enterprise & Regulatory Reform Act 2013. This Act provides greater protection for those employers who take their health and safety responsibilities seriously by tightening up on the legal threshold that has to be met in order to bring a claim. Kent County Council has a strong system of measures in place and has benefitted as a result.

11. The majority of the 18 claims received arise due to incidents that have occurred in schools. Most are low value but two carry a reserve currently greater than £50k (but less than £150k).
12. There are 69 open claims currently being processed across all years. The overall outstanding balance is reserved at £2.6m. £1m of this figure is reserved against the Kent Insurance Fund and the remaining £1.6m with the Council's insurer.

Public Liability

13. A total of 1760 claims have been recorded against the 2017/18 financial year to date. This is approximately 400 more than were recorded at the same time in 2016/17 and this increase is mainly due to the rise in vehicle damage claims, caused by the winter weather experienced in January and February. Of the number received, approximately 95% are highway related.
14. Vehicle damage claims due to potholes accounted for approximately 85% of all highway property damage claims in 2017/18. Decisions have now been provided for the majority of these claims, with liability being denied for just under 90%. To date £23k has been paid out in settlements compared to 15k in 2016/17.
15. 330 personal injury claims have been recorded against the 2017/18 year to date. £150k has been paid out on these claims thus far, but there is a reserve of £3.85m (£3.5m KCC / £350k ZM) for those that currently remain open.
16. The majority of PL claims received are less than £20k in value, however a number of what are known as 'large loss' claims with a value of £100k+ can also be expected. There are currently 37 £100k+ open claims with a total reserved value of £18.8m, in addition to the £2.5m already paid out. £2.7m of this figure is reserved against the Kent Insurance Fund and the remaining £16.1m with the Council's insurer.

17. Since 1st April 2017, 11 such claims have been received of which 8 are highway related. These claims have a collective reserved value of £2.7m, of which £1.9m has been set against the Kent Insurance Fund and £800k has been reserved by the Council's insurer.

The five highest value claims received result from:

- A vehicle losing control due to ice.
- A cyclist fallen from a bicycle due to an alleged pothole.
- A cyclist fallen from a bicycle due to an alleged pothole.
- A person under KCC care injured following a fall.
- Property damage due to flooding

18. There are 729 open claims currently being processed across all years with an overall reserved value of £26m. Of this figure, £9.6m is reserved against the Kent Insurance Fund and £16.4m by insurers. Whilst most claims relate to events that occurred in the past five years, there are a small number that could be described as historic.

19. Included within this figure is a significant large loss claim that arose as result of a motorcyclist accident. A decision was taken in May 2016 to concede liability on a 77.5% / 22.5% basis in the claimant's favour. Due to the complexities of the claimant's injury, compensation is likely to be paid by way of 'periodic payments', which provide an amount on an annual basis (reviewed every year). The Council's deductible for this claim is £50k, so the significant percentage will be met by the insurer.

Property

20. 184 claims were made against the property policy for 2017/18 with an estimated working reserve of £375k. School claims account for 60% of the claims received under this policy with the other 40% being made up from libraries, youth centres and working premises. The Council has paid £295k on claims to date, with all claims having fallen below the insurer excess.

Motor

21. Due to a reduction in the number of vehicles being insured, the number of claims made against the motor policy continues to fall. 157 claims were recorded for the 2017/18 financial year, with an estimated working reserve of £316k. All claims have fallen below the insurer deductible and £235k has been paid to date. The majority of these being vehicle damage only.
22. Of these claims, 51 related to highway vehicles and 47 to school vehicles. The remainder were from Social Care, Youth, and Libraries.

MUNICIPAL MUTUAL INSURANCE

23. As previously reported the Municipal Mutual Insurance Company ceased writing business in 1992 and has been operating in run-off ever since.

A solvent run-off has not been possible and as a result what is known as the 'Scheme of Arrangement' has been triggered which involves the clawing back of monies from past members of the mutual to meet the outstanding future costs of claims. The Council paid £600k in 2014 following a demand by the scheme administrator.

With significant numbers of claims for asbestos related mesothelioma and historical abuse and a surge in noise-induced deafness claims, the company's position continued to deteriorate and a further amount of £380k was paid in April 2016. An additional levy cannot be ruled out and funds have been retained for this eventuality.

This situation is not unique to KCC. Municipal Mutual Insurance insured the majority of local councils up to 1992 and all have received demands for payment relative to the value of claims settled by the insurer on their behalf.

INSURANCE BROKER

24. Following the decision to accept higher excess levels on the PL and EL policies, the contract with Arthur J Gallagher has been extended for a further 12 months and with an option to extend again until the end of 2020. Arthur J Gallagher assisted the Council with the review of its insurance programme in order that the decision on premium levels could be taken and the further extension has been deemed necessary to ensure that this change can be implemented smoothly. This has again been agreed on existing rates.

RECOMMENDATION

25. Members are asked to note this report for assurance.

Lee Manser
Insurance Manager

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By: Peter Oakford, Deputy Leader and Cabinet Member for
Finance and Trading Services
Dave Shipton, Acting Corporate Director of Finance

To: Governance and Audit Committee – 24 October 2018

Subject: **TREASURY MANAGEMENT UPDATE**

Classification: Unrestricted

Summary: To report a summary of Treasury Management activity

FOR ASSURANCE

INTRODUCTION

1. This report covers Treasury Management activity for the 3 months to 30 June 2018 and updates on any significant developments since then.

INTRODUCTION

2. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end). This report provides an additional quarterly update.
3. The Council's Treasury Management Strategy for 2018-19 was approved by full Council on 20 February 2018.
4. The Council has both borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy. This report covers treasury activity and the associated monitoring and control of risk.

TREASURY MANAGEMENT ADVISORY GROUP (TMAG)

5. The Treasury and Investments Manager produces a monthly report for members of the Treasury Management Advisory Group and a copy of the July report is attached at appendix 1.

EXTERNAL CONTEXT

6. UK Consumer Price Inflation (CPI) index remained steady over the period with the data released for July showing CPI at 2.5%, an increase from the June figure of 2.4%. ONS statistics for the three months to June 2018 show that the unemployment rate fell to 4.0%, its lowest since 1975. The employment rate was 75.6%, unchanged compared with January to March 2018 but higher than a year earlier (75.1%). Real wages excluding bonuses increased by 0.4% and including bonuses increased by 0.1% compared to a year earlier.

7. The first estimate of Q2 GDP data released in August showed economic activity marginally increasing to 0.4%. in line with Market forecasts. The Bank of England made no change to monetary policy at its meetings in May and June, however largely as expected the MPC did decide to raise the base rate by 0.25% to 0.75% in August
8. Money markets rates remained on the low side: 1-month, 3-month and 12-month LIBID rates averaged 0.39%, 0.59% and 0.87% in the quarter respectively. Equity markets rose in the period with the FTSE 100 index closing at 7,432 at the end of August.
9. Having raised rates in March, the US Federal Reserve again increased its target range of official interest rates in June by 0.25% to between 1.75% and 2% and markets now expect two further rises in 2018. Fears rose of a global trade war on the implementation by the Trump Administration of tariffs on \$200bn of imports, notably steel, aluminium, food and chemicals. Canada, the EU and China announced retaliatory tariffs as did Mexico.
10. There were a few credit rating changes during the period affecting those banks on the Council's approved counterparty list as they completed their restructures to be compliant with the UK ring-fencing requirements which come into effect in 2019. Moody's downgraded Barclays Bank Plc's long-term rating to A2 from A1 and the long-term ratings of RBS Plc, which will become the non-ring-fenced NatWest Markets Plc, to Baa2 from A3. Moody's and Fitch upgraded the long-term ratings of NatWest Bank on the view that their credit profiles are expected to improve following ring-fencing.

LOCAL CONTEXT

11. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.

BORROWING

12. At 30 June 2018 the Council held £942.6m of loans, unchanged from the balance as at 31 March 2018, as part of its strategy for funding previous years' capital programmes. The following table shows the borrowing analysed by lender.

	31/3/2018 Balance £m	2018/19 Movement £m	30/6/2018 Balance £m	Average Rate %	Average Life (yrs)
Public Works Loan Board	472.28	0.00	472.28	5.45	16.90
Banks (LOBO)	150.00	0.00	150.00	4.03	43.95
Banks and other lenders (Fixed Term)	320.32	0.00	320.32	4.07	37.00
Total borrowing	942.60	0.00	942.60	4.75	28.04

13. During August KCC repaid an £18m maturing PWLB loan using cash balances.

14. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.
15. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs and the Council's Treasury Advisor, Arlingclose has assisted it with this 'cost of carry' and breakeven analysis. The Council's strategy has enabled it to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
16. KCC continues to hold LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the period.

INVESTMENT ACTIVITY

17. The Council's average investment balances to date have amounted to £333m, representing income received in advance of expenditure plus balances and reserves held. These balances are forecast to remain relatively stable over the coming months. The investment position during the quarter is shown in the table below.

Investment Position

	31.3.18 Balance £m	Q1 2018 Movement £m	30.6.18 Balance £m	30.6.18 Rate of Return %
Money Market Fund	79.8	2.1	81.9	
Fixed Deposit	17.1	20.4	37.5	
Covered Bond	64.5	14.8	79.3	
Icelandic Recoveries o/s	0.4	0.0	0.4	
Internally managed cash	161.8	37.3	199.1	0.7
Strategic Pooled Investments	113.7	17.5	131.2	
Cashplus / Short term Bond Funds	20	-10.0	10.0	
Equity	2.1	0.0	2.1	
External Investments	139.8	7.5	143.3	4.58
Total	297.7	44.7	342.4	2.19

18. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

19. Security of capital has remained the Council's main investment objective. Against a background of increasing uncertainty and given the increasing risk of bail-in and falling returns from short-term unsecured bank investments, the Council has continued to diversify into more secure and/or higher yielding asset classes as set out in its Treasury Management Strategy Statement for 2018-19.
20. KCC's externally managed pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. During the 3 months to end June we invested an additional £10m in the CCLA property fund and £5m in the Schroders Income fund with a further £5m invested in July in the CCLA Diversified Income Fund bringing our total investment in external pooled funds to £135m.

STATEMENT OF INVESTMENTS

21. A statement of investments as at 31 July is attached in Appendix 2. This statement is circulated to members of the Treasury Management Advisory Group every Friday.

RECOMMENDATION

22. Members are asked to note this report for assurance.

Alison Mings
Treasury and Investments Manager
Ext: 03000 416488

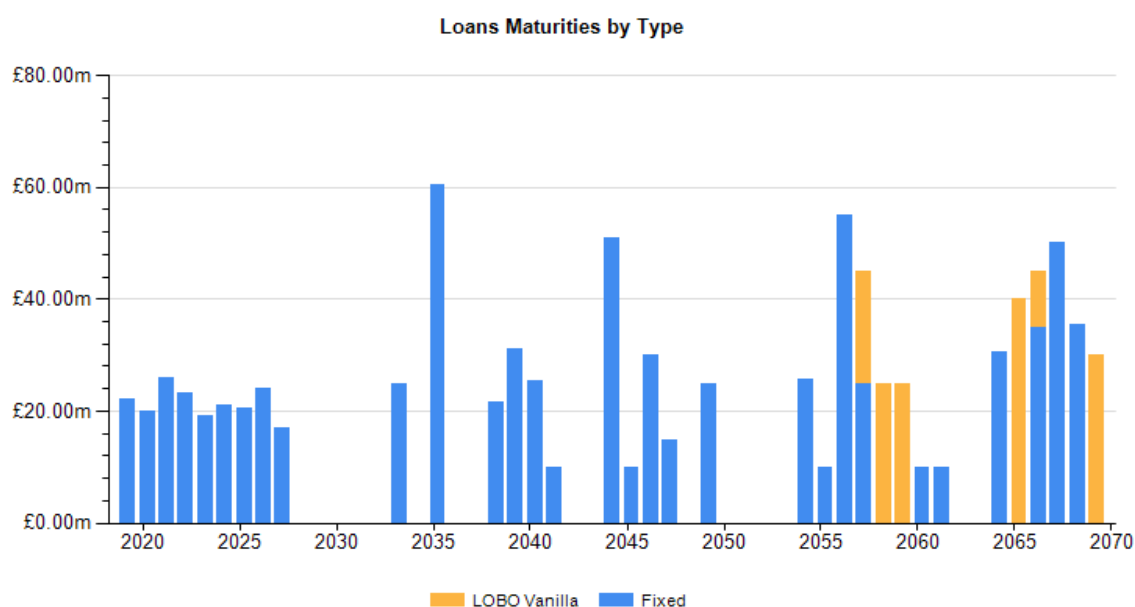
Treasury Management Report for the month of July 2018

1. Borrowing

- 1.1 The total amount of debt outstanding at the end of July was at £940.7m. The following table shows the current borrowing analysed by lender. In August KCC repaid an £18m maturing PWLB loan.

	31/07/2018 Balance £m	Average Rate %	Value weighted Average Life (yrs.)
Public Works Loan Board	472.28	5.45%	16.82
Banks (LOBO)	150.00	4.03%	43.87
Banks and other lenders (Fixed Term)	318.39	4.09%	37.12
Total borrowing	940.67	4.76%	28.01

- 1.2 The maturity profile of KCC's outstanding debt is as follows:



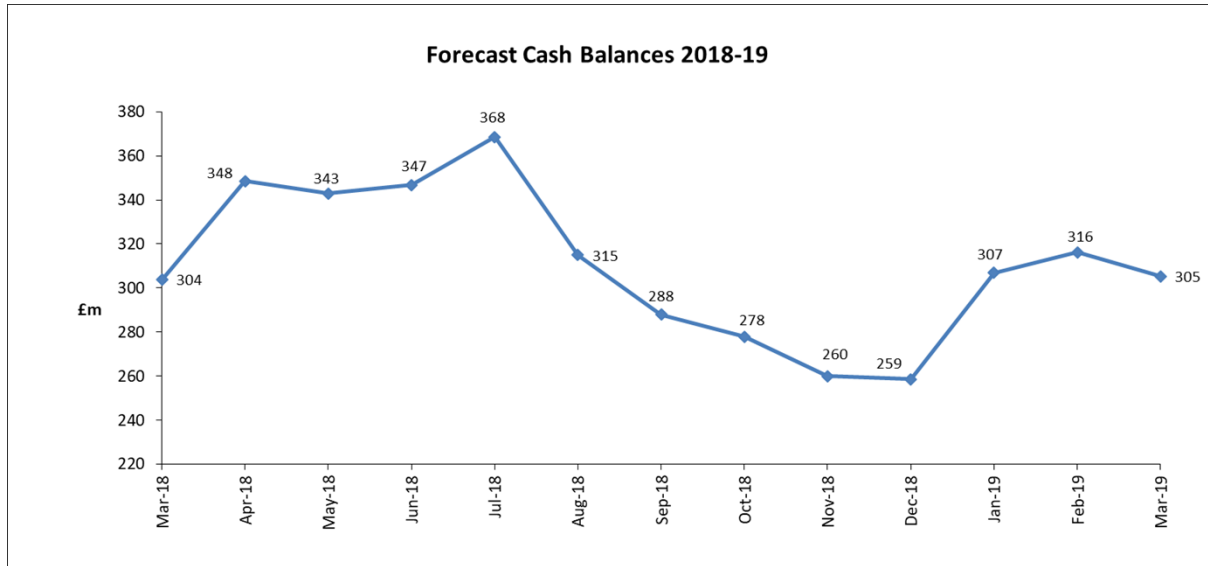
- 1.3 The Council's strategy continues to be to fund its capital expenditure from internal resources as well as consider borrowing at advantageous points in interest rate cycles.

Total long-term debt managed by KCC includes £34.95m pre-LGR debt managed by KCC on behalf of Medway Council and pre-1990 debt managed on behalf of Magistrates Courts (£0.193m).

2 Investments

2.1 Cash Balances

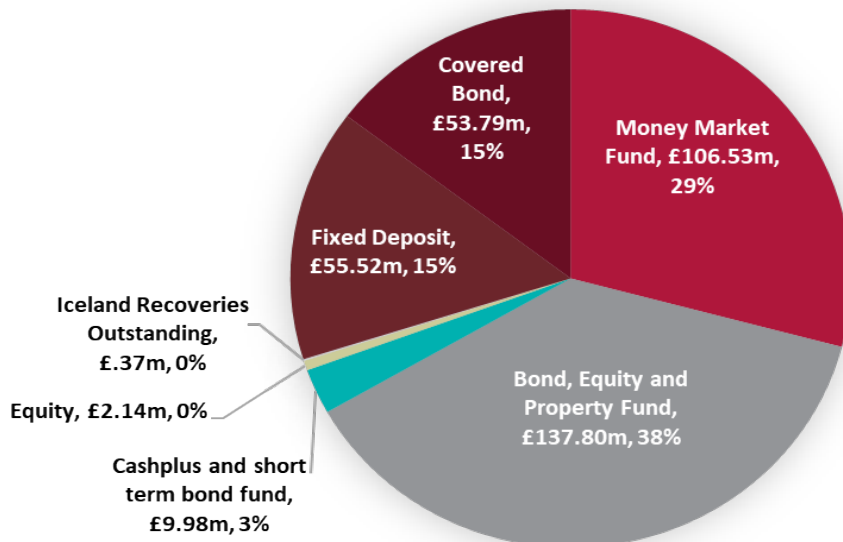
During July the value of cash under management increased by £21m to £368m. Future cashflows are forecast as follows.



2.2 Type of investment at month end

The following chart shows that at the end of July a total of £147.8m, 40.4%, of total cash was invested in external pooled funds. The increase of £5m from the end of June is due to a new investment of £5m in the CCLA Diversified Income Fund.

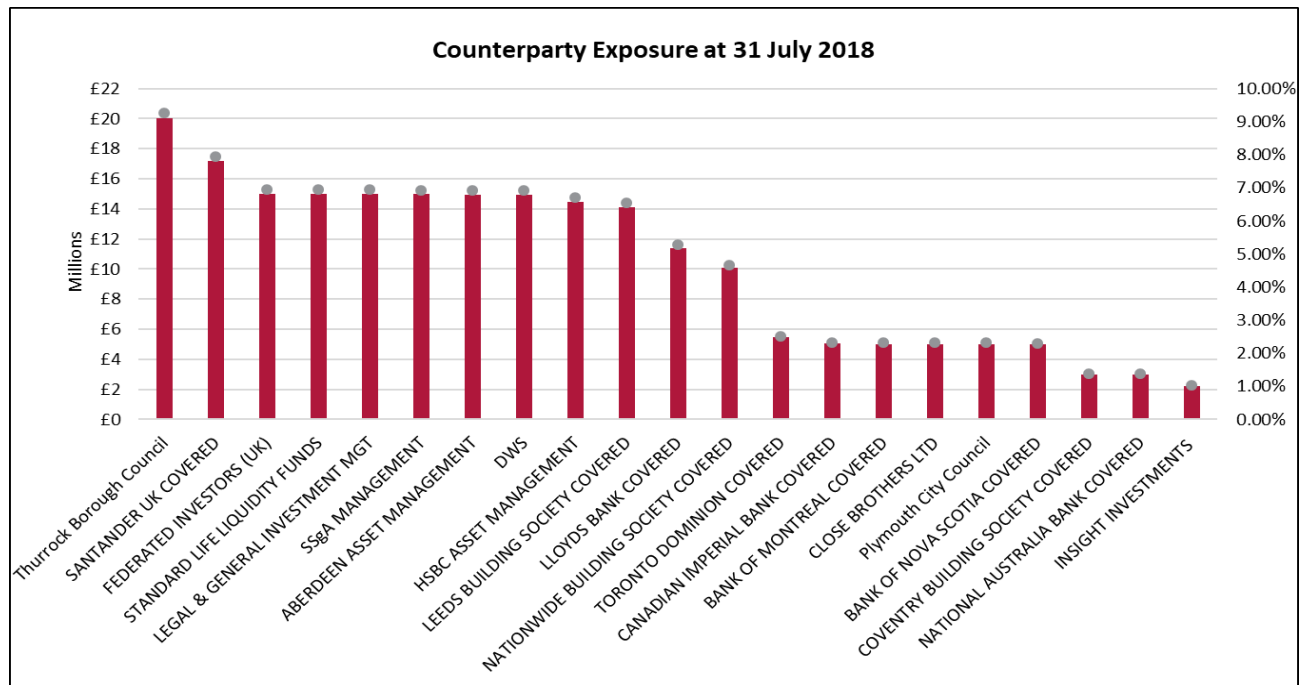
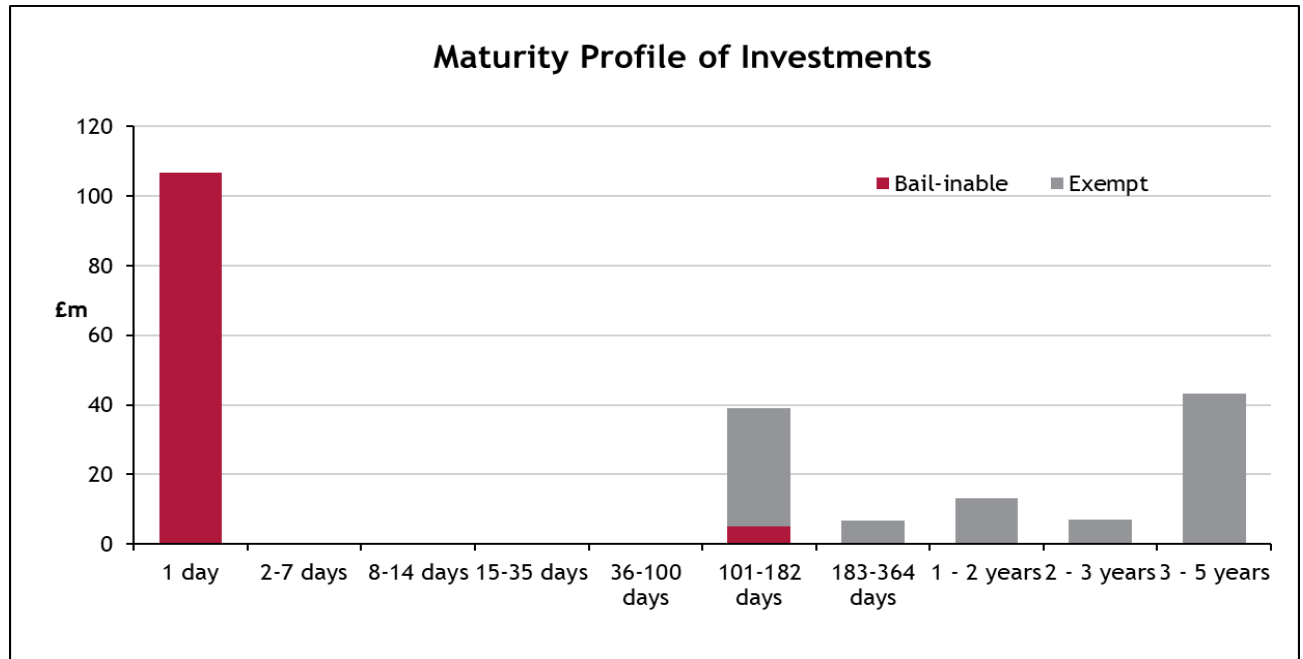
Investments as at 31 July 2018



2.3 Internally managed cash

2.3.1 The rate of return on investments held at month end was 0.71% vs the target returns 7-day LIBID of 0.3612%.

2.3.2 The maturity profile of KCC's investments and counterparty exposure are shown in the following charts.



2.3.3 Credit Score matrix

The Council's credit scores are detailed in the following table.

	Credit Rating	Credit Risk Score
Value Weighted Average	AA	3.3
Time Weighted Average	AAA	1.1

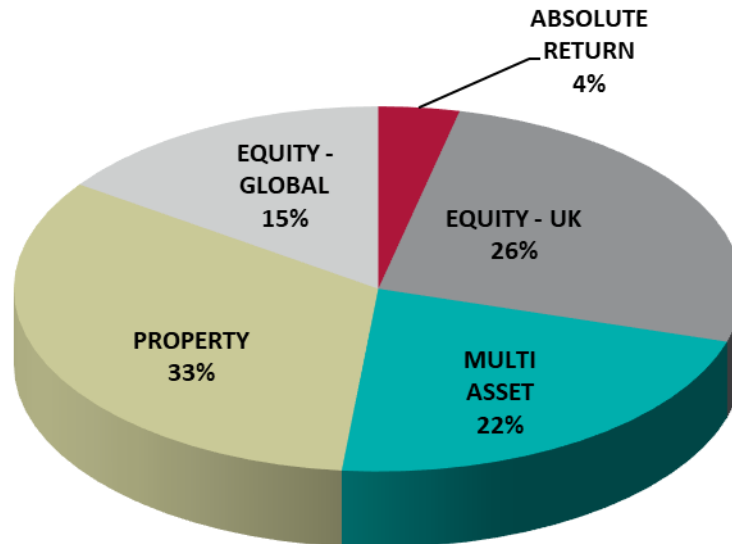
3. Externally managed Investments

3.1 The following table shows details of investments in Externally managed funds.

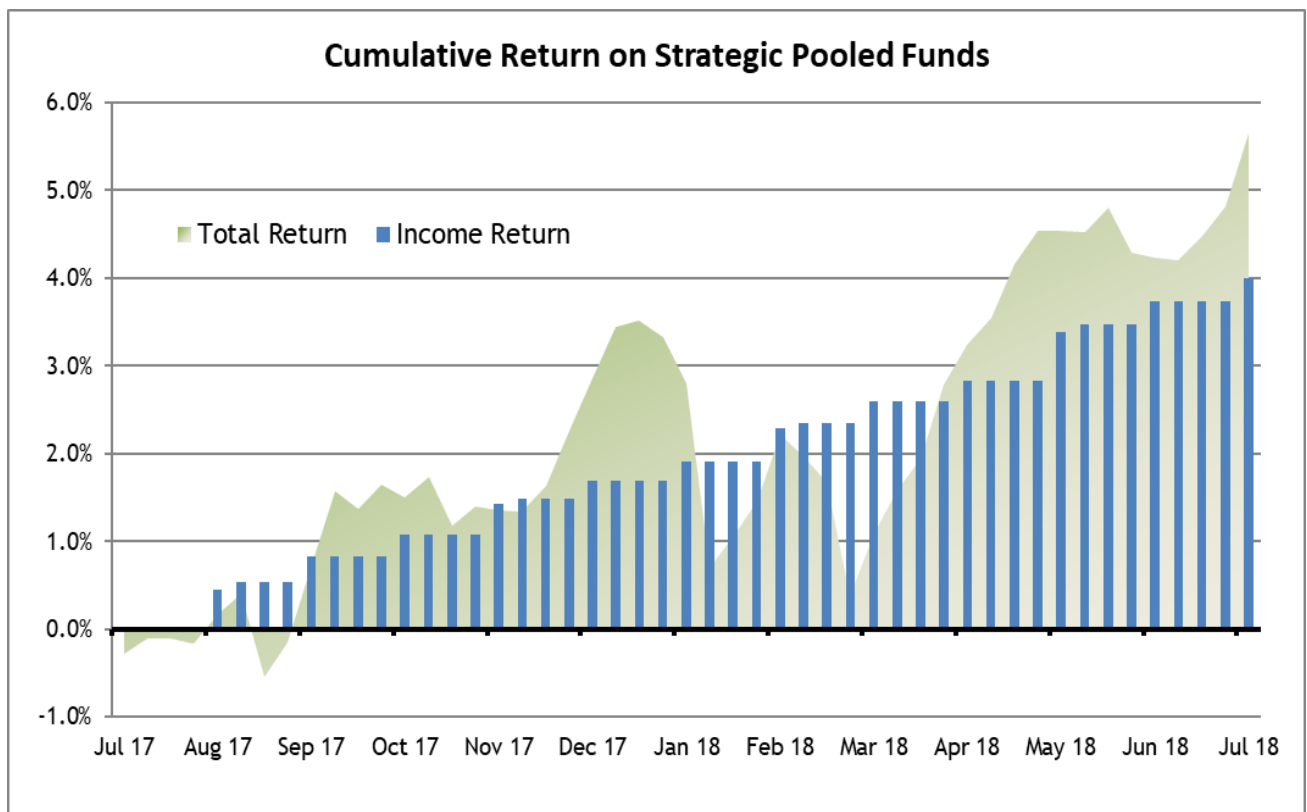
	Book cost	Market Value 31 July 2018	12 months return to 31 July 2018	
	£000's	£000's	Income	Total
CCLA Diversified Income Fund	5,000	5,024	0.00%	0.48%
CCLA Property Fund	45,000	45,602	3.74%	4.49%
Fidelity Multi Asset Income Fund	25,000	25,167	4.03%	1.86%
M&G Global Dividend Fund	10,000	10,959	3.01%	12.57%
Pyrford Global Total Return Sterling Fund	5,000	4,947	3.63%	0.67%
Schroder Income Maximiser Fund	25,000	25,665	5.95%	10.77%
Threadneedle Global Equity Institutional Income Fund	10,000	10,139	3.61%	5.00%
Threadneedle UK Equity Income Fund	10,000	10,299	3.89%	6.89%
Total Strategic Pooled Funds	135,000	137,803	4.67%	6.31%
Cashplus / Short Term Bond Funds	10,000	9,992	0.42%	0.42%
Total Bond, Equity and Property Funds	145,000	147,795	4.38%	5.91%

3.2 A breakdown of the strategic pooled funds by asset class is as follows:

Asset Class Allocation



3.3 The following chart tracks the returns earned on external funds over the 12 months to end July 2018.



Alison Mings
Treasury and Investments Manager
13 August 2018

Investments as at 31 July 2018

1. Internally Managed Investments

1.1 Term deposits, Call accounts and Money Market Funds

Instrument Type	Counterparty	Principal Amount	Interest Rate	End Date
Fixed Deposit	Plymouth City Council	£5,000,000	0.60%	29/11/2018
Fixed Deposit	Thurrock Borough Council	£20,000,000	0.60%	30/11/2018
Fixed Deposit	Close Brothers	£5,000,000	0.80%	05/09/2018
Total UK Bank Deposits		£30,000,000		
Money Market Fund	Aberdeen Sterling Liquidity Fund	£14,964,243	0.42% (variable)	n/a
Money Market Fund	Deutsche Managed Sterling Fund	£14,952,128	0.52% (variable)	n/a
Money Market Fund	Federated (PR) Short-term GBP Prime Fund	£14,985,420	0.50% (variable)	n/a
Money Market Fund	HSBC Global Liquidity Fund	£14,459,330	0.78% (variable)	n/a
Money Market Fund	Insight Sterling Liquidity Fund	£2,226,782	0.46% (variable)	n/a
Money Market Fund	LGIM Liquidity Fund	£14,980,359	0.54% (variable)	n/a
Money Market Fund	SSgA GBP Liquidity Fund	£14,972,823	0.48% (variable)	n/a
Money Market Fund	Standard Life Liquidity Fund	£14,984,569	0.77% (variable)	n/a
Total Money Market Funds		£106,525,654		
Equity and Loan Notes	Kent PFI (Holdings) Ltd	£2,135,741		n/a
Icelandic Recoveries outstanding	Heritable Bank Ltd	£366,905		n/a

1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal	Net Yield	Maturity Date
Floating Rate Note	Leeds BS FRN Covered Bond	5,000,000.00	1.0797%	01/10/19
Floating Rate Note	Toronto Dom Covered FRN Bond	5,452,202.68	1.1129%	01/02/19
Floating Rate Note	Lloyds Covered FRN Bond	1,401,376.20	0.9538%	18/07/19
Floating Rate Note	Coventry BS Covered FRN Bond	3,003,626.98	0.8605%	17/03/20
Floating Rate Note	Nationwide BS Covered FRN Bond	4,505,733.77	0.9628%	12/04/23
Floating Rate Note	Bank of Montreal Covered FRN Bond	5,006,366.28	1.0050%	17/04/23
Floating Rate Note	Santander UK FRN Covered Bond	3,752,795.61	0.9290%	13/04/21
Floating Rate Note	Lloyds Covered FRN Bond	5,008,200.58	0.8781%	27/03/23
Floating Rate Note	CIBC Covered FRN Bond	5,042,778.27	0.8982%	10/01/22
Floating Rate Note	Santander UK Covered FRN Bond	5,003,909.26	0.8388%	16/11/22

Floating Rate Note	Nationwide BS Covered FRN Bond	5,589,450.30	0.9457%	12/04/23
Floating Rate Note	Santander UK Covered FRN	5,013,550.65	0.8012%	05/05/20
Floating Rate Note	Lloyds Covered FRN	2,503,479.85	0.8835%	27/03/23
Floating Rate Note	Lloyds Covered FRN	2,504,643.39	0.8734%	27/03/23
Fixed Rate Covered Bond	Leeds BS Fixed Covered Bond	5,579,420.89	0.6263%	17/12/18
Fixed Rate Covered Bond	Santander Fixed Covered Bond	3,397,332.07	0.6524%	14/04/21
Fixed Rate Covered Bond	Bank of Nova Scotia Fixed Bond	4,987,435.66	0.8799%	14/09/21
Fixed Rate Covered Bond	NAB Fixed Covered Bond	3,002,504.31	1.1035%	10/11/21
Fixed Rate Covered Bond	Leeds BS Fixed Covered Bond	2,043,410.73	2.0293%	17/12/18
Fixed Rate Covered Bond	Leeds BS Fixed Covered Bond	1,514,308.18	1.1915%	17/12/18
		79,312,525.66		

Total Internally managed investments	£ 218,340,826
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2. Externally Managed Investments

Investment Fund / Equity	Market Value 31 July 2018	12 months return to 31 July 2018	
		Income	Total
	£000's		
CCLA Diversified Income Fund	£5,024,000	0.00%	0.48%
CCLA Property Fund	£45,602,000	3.74%	4.49%
Fidelity Multi Asset Income Fund	£25,167,000	4.03%	1.86%
M&G Global Dividend Fund	£10,959,000	3.01%	12.57%
Pyrford Global Total Return Sterling Fund	£4,947,000	3.63%	0.67%
Schroder Income Maximiser Fund	£25,665,000	5.95%	10.77%
Threadneedle Global Equity Institutional Income Fund	£10,139,000	3.61%	5.00%
Threadneedle UK Equity Income Fund	£10,299,000	3.89%	6.89%
Total Strategic Pooled Funds	£137,803,000	4.67%	6.31%
Cashplus / Short Term Bond Funds	£9,992,000	0.42%	0.42%
Total Bond, Equity and Property Funds	£147,795,000	4.38%	5.91%

3. Total Investments

Total Investments	£366,134,826
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