



AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Monday, 30th June, 2008, at 10.30 am
Medway Room - Sessions House, County
Hall, Maidstone

Ask for: **Andrew Tait**

Telephone **(01622) 694342**

Tea/Coffee will be available from 10.15am in the meeting room

UNRESTRICTED ITEMS

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

1. Substitutes
2. Declarations of Interest in items on the agenda for this meeting
3. Minutes - 5 March 2008 (Pages 1 - 4)
4. Annual Audit and Inspection Letter (Pages 5 - 20)
5. Draft Statement of Accounts (Pages 21 - 42)
6. Draft Annual Governance Statement (Pages 43 - 78)
7. Draft Statement of Accounts (Pages 79 - 164)
8. Strategic Risk Register (Pages 165 - 172)
9. Ombudsman Complaints (Pages 173 - 180)
10. Internal Audit Progress Report (Pages 181 - 192)
11. Internal Audit Reporting - Irregularities (Pages 193 - 194)
12. Review of Trading Activities within Commercial Services (Pages 195 - 222)
13. 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)

Head of Democratic Services and Local Leadership
(01622) 694002

Friday, 20 June 2008

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 at County Hall, Maidstone on Wednesday, 5 March 2008.

PRESENT: Mr C G Findlay (Chairman), Mr R L H Long (Vice-Chairman), Mr M J Angell (substitute for Mr M V Snelling), Mr D L Brazier, Mrs T Dean, Mr M J Fittock (substitute for Mrs M Newell), Mr C Hibberd (substitute for Mr R Tolputt), Mr C J Law, Mr J F London, Mr W V Newman, Mr R J Parry and Mr D Smyth.

OFFICERS: The Director of Finance, Mrs L McMullan; the Head of Financial Services, Mr N Vickers; the Director – Resources (Children, Families and Education) Mr G Ward; the Director of Law and Governance, Mr G Wild; the Head of Audit and Risk, Mrs J Dawson (with Mrs J Armstrong and Mr S Rooney); the Head of Corporate Performance, Mrs S Garton (with Mr R Fitzgerald and Mrs J Hill); and the Democratic Services Officer, Mr A Tait.

ALSO IN ATTENDANCE: Mr D Wells of the Audit Commission.

UNRESTRICTED ITEMS

1. Minutes – 4 December 2007
(Item 2)

RESOLVED that the Minutes of the meeting held on 4 December 2007 are correctly recorded and that they be signed by the Chairman.

2. Internal Audit Progress Report
(Item 4 – Report by Head of Audit and Risk)

RESOLVED that the report be noted and that the proposed changes to the format of future progress reports be approved.

3. External Audit – Update
(Item 5 – Report by Audit Commission)

(Mr M J Fittock made a declaration of Personal Interest as his wife was a beneficiary of the Kent Superannuation Fund. Mr J F London made a declaration of Personal Interest as a Member of the Kent Police Authority.)

RESOLVED that:-

- (a) the report be noted; and
- (b) a report be presented to the next meeting of the Committee concerning stand-alone companies and the risk of cross-subsidisation as well as the issues around Commercial Services' role as master/ vendor and supplier.

4. Governance and Audit Committee Assessment and Action Plan

(Item 6 – Report by Head of Audit and Risk)

RESOLVED that the approach to self-assessment set out in the report be approved.

5. Building Schools for the Future

(Item 7 – Report by Managing Director – Children, Families and Education)

(Mr D L Brazier and Mr R J Parry each made a declaration of Personal Interest as Members of the Project Approval Board)

RESOLVED that the report be noted and that a further report be presented to the next meeting of the Committee on the financial aspects of the project.

6. Debt Management

(Item 8 – Report by Acting Director of Finance)

(Mr C Hibberd made a declaration of Prejudicial Interest as a shareholder of Transco. He left the meeting and took no part in the discussion of this item).

- (1) A confidential note relating to a debt write-off greater than £10k was circulated to Members of the Committee for information.
- (2) RESOLVED that the report be noted.

7. Internal Audit Reporting – Irregularities

(Item 9 – Report by Head of Audit and Risk)

RESOLVED that the report be noted.

8. Risk Management

(Item 10 – Report by Head of Audit and Risk)

RESOLVED that the report be noted and that the Risk Register be referred to the relevant Policy Overview Committees for approval/amendment.

9. KCC Annual Plan 2008/09

(Item 11 – Report by Director of Business Solutions and Policy)

RESOLVED that approval be given to the Director of Business Solutions and Policy (in consultation with the Chairman, Vice Chairman, Labour and Liberal Democrat Spokesmen of the Committee) to discharge the County Council's responsibility to check the compliance of the KCC Annual Plan with statutory reporting requirements prior to its publication by 30 June 2008.

10. Internal Audit Plan

(Item 12 – Report by Head of Audit and Risk)

RESOLVED that:-

- (a) approval be given to the proposed Internal Audit Plan set out in the Appendix to the report; and
- (b) the constituent sections of the Plan be referred to the Members of the relevant Policy Overview Committees for information.

11. Data Quality Policy
(Item 13 – Report by Director of Law and Governance)

RESOLVED that:-

- (a) approval be given to the Data Quality Policy set out in the Appendix to the report; and
- (b) a further report be submitted to the Committee in September 2008.

08/c&g/auditcommittee/030508/Minutes

This page is intentionally left blank

Item 4:

By: Director of Business Solutions and Policy
To: Governance and Audit Committee – 30 June 2008
Subject: ANNUAL AUDIT AND INSPECTION LETTER
Classification: Unrestricted

Summary:

This report attaches a copy of the Audit Commission's 'Annual Audit and Inspection Letter'.

FOR INFORMATION

1. Introduction

1.1 This report attaches a copy of the 'Annual Audit and Inspection Letter' issued by the Audit Commission.

2. Status of the Annual Audit and Inspection Letter

2.1 The 'Annual Audit and Inspection Letter' provides an overall summary of the Audit Commission's assessment of the authority, drawing on audit, inspection and performance assessment work. In the report it summarises findings and conclusions from the statutory audit, which have previously been reported by our appointed auditors.

2.2 The 'Annual Audit and Inspection Letter' has been prepared by the Commission's Relationship Manager for KCC who will attend this meeting to present his report and to answer any questions.

2.3 It is addressed to Members as it is the responsibility of the council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money.

2.4 'The Annual Audit and Inspection Letter' provides an overall summary of the Audit Commission's assessment of the council using performance indicators covering the financial year 2006/07 and the Direction of Travel which includes service improvements up to March 2008.

2.5 It does not take into account any findings from the recent Corporate Assessment (which has been published separately from and subsequently to the 'Annual Audit and Inspection Letter'). It does draw on the other elements of the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter was presented to this committee in June 2007.

3. Publication

3.1 Following its presentation to this committee meeting the Audit Commission is required to publish KCC's 'Annual Audit and Inspection Letter' on its website. KCC must do the same on its website as well as circulate it to all Members of the County Council.

4. Recommendation

4.1 Members are asked to NOTE the report.

Contact officer: Sue Garton, Head of Corporate Performance, Chief Executives Dept.
Tel: 01622 (22) 1980
Email: sue.garton@kent.gov.uk

Annual Audit and Inspection Letter

Kent County Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2008

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Key messages	4
Action needed by the Council	4
Purpose, responsibilities and scope	5
How is Kent County Council performing?	6
The improvement since last year - our Direction of Travel report	7
Service inspections	8
The audit of the accounts and value for money	10
Looking ahead	12
Closing remarks	13
Availability of this letter	13

Key messages

- 1 Kent County Council is improving strongly. The Council continues to make significant improvements against local priorities. Children's education is good, including the attainment of the lowest achieving children. It has also helped vulnerable and older people so that they can live independently and reduced admissions to residential care. It has been successful in creating new jobs and reducing the number of people killed or seriously injured on the road. Securing value for money and improving efficiencies is at the heart of service improvement. 59 per cent of the Council's key performance indicators improved in 2006/07, such as the percentage of 15 year olds achieving five or more GCSE's grade A* to C.
- 2 The Council's track record of delivering improved services is strong. It has achieved 76 per cent of the targets set out in the KCC Next Four Years document. Prospects for improvement are excellent with robust improvement plans in place to continue developing innovative services, including the current high costs for waste disposal. It is building its capability to deliver its priorities by continuing to deliver efficiencies and strengthening partnership working.

Action needed by the Council

- 3 The Council is subject to a Corporate Assessment and subject to the results of that assessment will be required to agree an appropriate improvement plan.

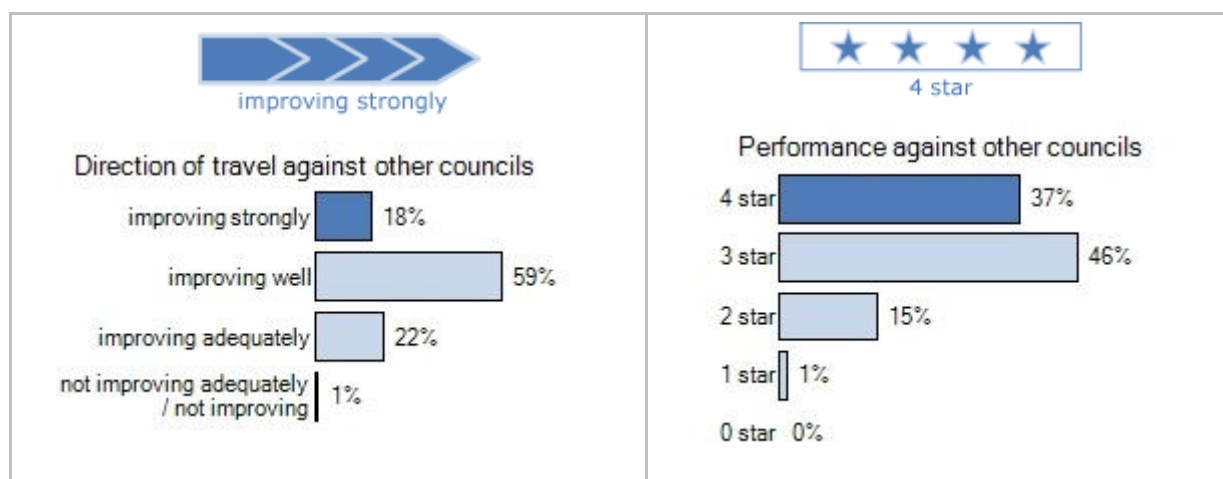
Purpose, responsibilities and scope

- 4 This report provides an overall summary of the Audit Commission's assessment of the Council using performance indicators covering the financial year 2006/07 and the Direction of Travel which includes service improvements up to March 2008. It does not take into account any findings from the recent Corporate Assessment (which is to be published separately) but does draw on the other elements of the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 5 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 6 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Council is planning to publish it on its website.
- 7 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, they review and report on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 8 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 9 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Kent County Council performing?

- 10 The Audit Commission’s overall judgement is that Kent County Council is improving strongly and we have classified Kent County Council as four-star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1



Source: Audit Commission

- 11 The detailed assessment for Kent County Council is as follows.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving Strongly
Overall	
Corporate assessment/capacity to improve	4 out of 4
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2007	4 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	4 out of 4
Housing	n/a
Environment	3 out of 4
Culture	3 out of 4
Benefits	n/a
Fire (relevant County Councils only)	n/a

*(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)*

The improvement since last year - our Direction of Travel report

- 12 Kent County Council is **improving strongly**

Service inspections

- 13** Kent County Council delivers a good Supporting People programme with promising prospects for improvement. The programme is delivered through a well-managed, skilled team supported by clear work plans. Service users have been engaged in shaping aspects of the programme. The programme supports some high quality services for a broad range of client groups and a programme of strategic reviews has led to some new provision for some traditionally excluded groups. However, until recently, health has not been consistently involved in the Supporting People programme at a strategic level and there are weaknesses in performance management of the programme. There are still long waiting times for floating support in some districts and some providers are continuing to apply restrictive practices and referral arrangements. Some groups do not yet benefit directly from the programme and a county-wide approach to move-on arrangements is under-developed. Understanding of the needs of BME groups and other hard to reach groups is still developing.
- 14** Prospects for improvement are promising. There is a strong track record of managing change within the Council and the directorate and the early stages of the Supporting People programme were successfully implemented. Service reviews have delivered improvements and challenging standards are set for new contracts. The programme has clear direction and there are shared objectives and ambitions with partners. Plans are in place to address identified weaknesses. There is a strong approach to financial and risk management and capacity is enhanced through a modern approach to procurement. Partnership and cross-authority working contributes to the effectiveness of the programme. However, until recently there has been little progress in developing new services to meet service priorities identified in the five-year strategy and customer-focused outcomes from the recent raft of strategic reviews are limited. There is insufficient focus on performance management of the programme by the governance bodies and strategic understanding of the programme among some district and county councillors requires further development.
- 15** An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

- 16 Ofsted's annual performance assessment of services for children and young people scored the overall effectiveness of children's services as Grade 3 and judged the services for children and young people as good and improving. The weaknesses identified in last year's annual performance assessment had been addressed by well thought out actions which have led to improvement in a number of key indicators. The integration of children's services is making a significant contribution to improving the health and well-being of children and young people. The council makes a good contribution towards improving outcomes for children and young people in enjoying and achieving, being healthy, staying safe and making a positive contribution. The Children and Young People's Plan is well-constructed and a thorough review of the plan demonstrates that the council has a clear and accurate view of its own strengths and weaknesses. The council has outstanding capacity to improve its services further.
- 17 The findings of the 2007 annual performance assessment (APA) process by the Commission for Social Care Inspection (CSCI) were that: Delivering outcomes are Good (formerly Serving People Well); and Capacity for Improvement is Excellent. The Star Rating was: three-star. Delivering Outcomes was judged on seven criteria - Improved health and emotional well-being; Improved quality of life; Making a positive contribution; Increased choice and control; Freedom from discrimination or harassment; Economic well-being; and Maintaining personal dignity and respect. All of these were scored Good. Capacity to Improve was judged on two criteria: Leadership; and Commissioning and use of resources, both of which were scored Excellent. Typical strengths and areas for improvement, for example, to improving people's health and sense of well being, included a good range of clear, accurate, accessible information and individual advice and support, robust long-term planning, as well as a variety of expanded intermediate care services, which has supported social care to keep delayed discharges from hospital to a reasonable level. However, delayed discharges from hospital due to health needs are still very high and the number of drug misusers sustained in treatment is lower than the average for other similar councils.

The audit of the accounts and value for money

- 18 Your appointed auditor has reported separately to the Governance and Audit Committee on the issues arising from the 2006/07 audit and has issued:
- an audit report, providing an unqualified opinion on your accounts;
 - a conclusion on your vfm arrangements to say that these arrangements are adequate; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 19 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial standing (including the strength of the Council's financial position).
 - Internal control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 20 For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2

Element	Assessment
Financial reporting	4 out of 4
Financial management	4 out of 4
Financial standing	4 out of 4
Internal control	3 out of 4
Value for money	4 out of 4
Overall assessment of the Audit Commission	4 out of 4

(Note: 1 = lowest, 4 = highest)

- 21 The Council has maintained its scores in the five Use of Resources elements. The Council should be commended for its performance in achieving these Use of Resources scores.

Financial Statements Audit

- 22 Your appointed auditor has reported the detailed findings from their audit of the financial statements in their 2006/07 Report to those charged with governance. Some of the more significant matters identified in this report, included:
- pension liabilities;
 - accounting for PFI Schemes;
 - value of landfill allowances;
 - pension SORP;
 - review of Fund Manager/Custodian Internal Control Reports; and
 - late payment of pension contributions.

Additional services

- 23 Your appointed auditor has completed several pieces of targeted performance work during 2006/07. The additional work completed included:
- A Review of Highways Management;
 - A Value for Money Review of the Schools Clusters Arrangement;
 - A Value for Money Review of Libraries;
 - A Review of Waste Management;
 - A Value for Money Review of Learning Disability Day Care;
 - Review of Carbon Management Policies; and
 - The Provision of Risk Management Training.
- 24 The results of the above reviews identified that value for money was generally being achieved across the services reviewed. However, recommendations were made on how further efficiencies and improvements could be made in these areas. Management have responded positively to these findings and where appropriate have agreed action plans to address the points identified.
- 25 The detailed findings and recommendations from these reviews have been reported to management and members as appropriate.

Looking ahead

- 26 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 27 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 28 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 29 This letter has been discussed with officers and a copy of the letter will be presented at the Governance and Audit committee at its meeting on 30 June 2008. Copies need to be provided to all Council members.
- 30 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 3 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Internal Control Recommendations Report	May 2007
Annual Governance Report	September 2007
Opinion on financial statements	July 2007
Value for money conclusion	July 2007
Annual audit and inspection letter	March 2008

- 31 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

- 32 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Stephen Mead
Relationship Manager

18 March 2008

This page is intentionally left blank

May 2008

Kent County Council

Internal Audit Annual Report 2007/08 – Draft



Contents

Section	Page
I. Introduction	3
II. Overall summary.....	5
III. Scope, responsibility and assurance.....	10
Appendix A - Summary of individual internal audit projects (limited or minimal assurance).....	11
Appendix B - Detailed Analysis of internal audit projects in 2007/2008	16

I. Introduction

Purpose of this report

This report summarises the work that the Authority's Internal Audit and anti-fraud service has undertaken during 2007/08. It also highlights the key issues with respect to internal control, risk and governance arising from that work.

Overview of work done

The original Plan for 2007/08 included a total of 64 projects. We have communicated closely with senior management throughout the year, to ensure that the projects *actually* undertaken continue to represent the best use of our resources in the light of new and ongoing developments in the Authority.

As a result of this liaison, some changes were agreed to the Plan during the year. Some projects have been added to or deleted from the Plan, others have been carried forward from the previous years plan, and the timing of a number of others has been changed. Consequently, the total number of projects undertaken in 2007/08 was actually 87. At the time of preparing this report (early May), the position on these was as follows:

- 70 – final report/assurance work completed
- 17 – in draft and in the process of being finalised

During the course of the year Internal Audit undertook an Authority wide risk and control mapping exercise to streamline the audit planning process and ensure that the assurance activity was truly aligned to the business and corporate risks. The exercise fed into the six month audit plan from September 2007 to March 2008.

The risk and control mapping exercise enabled management to assign a score both to the inherent and the residual level of risk within each area of the business. By identifying areas of risk where management believes there to be a high level of control, we were then able to focus our internal audit resource to provide assurance that those controls were operating effectively during the year, or to highlight where improvements were required. The risk mapping exercise has also been used as the basis for the 2008/2009 plan.

Internal Audit also undertook 24 investigations relating to potential fraud by management or any other third parties, none of which were significant to the control and risk framework for KCC.

Internal audit performance

At the Audit Committee meeting on 3 March 2004, Members agreed to receive regular reports on Internal Audit's performance against a range of indicators. For those measures where information is available, performance is shown below:

Performance Indicator	Target	Actual
Productivity and Efficiency		
available time spent on direct audit work	80%	80.25%
draft reports completed within 10 days of finishing fieldwork	89%	96%
Preparation of annual plan	By March	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AAS	Met
Quality of Service		
Average Client satisfaction score	70%	93%
Staff Management		
Staff with professional qualifications (including trainees)	60%	67%

Internal Audit is currently developing a new set of performance indicators for the 2008/2009 year seeking to demonstrate continuous improvement in the service. These will be formally agreed with the Director of Finance as well as the Governance and Audit Committee and will measure performance under the following categories;

- Quality
- Effectiveness
- Efficiency.

II. Overall summary

Objectives of Internal Assurance Projects

The majority of projects we undertake are designed to provide assurance to management on the operation of the Authority's internal control environment. Most projects include our recommendations and agreed actions with management that will, if implemented, further enhance the environment and the operation of the controls in practice.

Other projects are designed to provide specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible. Our internal audit work and findings are informed by the investigations and fraud risk management work carried out under the anti-fraud element of the plan as well as the risk management framework of the Authority.

Our work plan is derived from management's assessment and evaluation of risks as documented in the corporate and directorate risk registers and, since September 2007, from the detailed risk mapping exercise undertaken across the Authority during the summer of 2007. We prepared an internal audit plan based on the risk profile taking into account; discussions with the Chief Executive, Directorate Managing Directors and Resource Directors, Audit Committee Chair and Members and the External Auditors.

There were a number of key changes from previous years in the planning and delivery of internal audit during 2007/08, including:

- The internal audit partnership established with PricewaterhouseCoopers during 2007/08
- Closer liaison with external audit in planning of material system audits, ensuring that the Audit Commission could place full reliance on the work of internal audit
- Greater integration between risk management responsibilities and the Internal Audit function to ensure that it is truly aligned to the business and corporate risks.

The risk mapping and planning process carried out during the year identified a small number of areas within the Authority where further internal audit coverage is required. Those areas have been included within the 2008/09 audit plan and are set out below:

- IT risk and governance arrangements
- Procurement/Contracting

Overall Assessment

The Head of Internal Audit is required to provide the accounting officer with an opinion on the overall **adequacy and effectiveness** of the Authority's:

- Risk management
- Internal Control
- Governance processes.

This is collectively referred to as "**the system of internal control**".

Based on the work that internal audit has performed, and taking into account the individual strengths and weaknesses identified, substantial assurance can be provided on the adequacy of the overall governance and risk management processes and the internal controls at KCC.

Management has responded positively to recommendations made to strengthen controls in the areas that were reviewed and many of these are already being implemented.

The Authority has demonstrated its commitment to improving system and processing controls as well as general risk management awareness and effective governance arrangements. We also noted that management accepted and implemented a number of key Internal Audit recommendations and engaged in open and challenging discussions about points raised in our Internal Audit reports. All these points are indicative of an improving system of internal control.

However, the Authority still has some areas that if addressed, will further strengthen the system of internal control. We have summarised these, along with key areas of strength, for each of the three categories of the Authority's 'system of internal control' below.

Governance

We reviewed the Authority's governance arrangements by comparing them

with the 6 principles of the CIPFA SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). We found that the governance arrangements are largely in accordance with both the core and supporting principles. The Framework also identifies requirements which the local code of governance should include. Although KCC has not yet updated its governance code we have found that Authority-wide practices already meet most of those requirements.

Guidance on the Governance of Partnerships was presented to the June 2007 Governance and Audit Committee. A consultation exercise then took place with the formally approved policy and guidance being issued to the directorates during the year. An audit was undertaken to determine whether partnerships arrangements complied with the guidance. The audit assurance was Substantial. However, it was identified that further clarification is needed when determining what constitutes a 'significant' or 'major' partnership as well as further improvement required in the risk management of partners (detailed below).

Internal Audit will be carrying out reviews of governance arrangements on specific partnerships in 2008/09.

Risk Management

We reviewed Authority-wide risk management arrangements through interviews with a range of Managing Directors, Directors and Heads of Service Areas and by reviewing relevant documentation including risk management guidance, risk registers, risk reports and minutes of meetings.

Across directorates we found a high level of risk awareness, particularly in relation to operational risks. Interviewees were generally aware of the Authority's risk management framework and adhere to its principles.

Taking into account the findings of internal audit and other external assessments, it is evident that risk is generally well managed throughout the Authority. However, in accordance with the Authority's commitment to continuous improvement we have identified a number of ways in which risk management arrangements can be strengthened, contributing to greater proactive consideration, identification and management of risk.

Our suggestions for strengthening risk management arrangements relate to the following areas:

- Risk management guidance: good quality risk management guidance is available on the intranet and risk management training has been provided to over 200 staff, however we found that the guidance is not routinely used and engagement with the risk management framework is largely informal.
- Risk identification: greater use could be made of workshops when refreshing the risk register during business planning and of team meetings to review and refresh risk registers on a regular basis throughout the year.
- Management of risk with partners: formalised and agreed risk management arrangements are not in place in most of the Authority's key strategic partnerships. Ideally these would be formalised for all partnerships for which the Authority is the lead partner and partnerships to which it contributes financially or in terms of officer time. Formal risk management arrangements include creating and regularly updating a partnership risk register.
- Use of risk registers: we found that the identification and articulation of specific risks, the source of the risk and potential consequences could be improved in many of the risk registers. This would improve the usefulness of the risk register as a management tool. Directorates should be provided with assistance to help them address this.
- Aggregate risk: aggregate risk is the total risk an organisation is exposed to. The Authority is not unique in being unable to establish its aggregate risk; however we believe it would benefit from being able to do so, particularly as it is an organisation that is open to innovation and taking risks. .
- Directorate Risk Management Coordinators (DRMC): DRMCs usually belong to the directorate business management unit and fulfil an administrative role in ensuring the risk register is updated once or twice

annually. We believe directorates would benefit from having specialist risk champions to challenge and support management in order to embed a more proactive and systematic approach to the management of risk throughout the Authority (at corporate, directorate, divisional and service areas).

Internal Controls

Overall, our work has not identified significant weaknesses in the overall internal control environment. Controls are generally in place and operating effectively, however there were some exceptions noted from our reviews during the year. From our audits our main findings indicating where improvements were required included:

- The process around recruitment and CRB checks. During 2007/08 Internal Audit has undertaken reviews in CED, KASS, Communities and CF&E on recruitment and CRB checks. Although some areas had good controls in place, there were still areas where the relevant checks were not being carried out, in particular on volunteers. In addition there were not always processes in place to follow up staff where CRB checks were required. The sample of schools visited, during the year however, showed a big improvement in the CRB checking process. Senior management, including the Chief Executive and Director of Personnel have personally overseen the implementation of recommendations made which has been confirmed in a follow up audit carried out in March 2008
- Business Continuity Planning and Disaster Recovery was raised in the 2006/2007 Statement of Internal Control and although individual Business Continuity Plans are being completed and tested, not all have not been finalised and there is further work required to embed this fully across the Authority
- Kent Adult Social Services (KASS) continue to face a number of operational challenges with regard to the SWIFT system, which they have identified and are actively working toward resolving. This includes inherent weak security (password) controls within the system and limited audit trails being available to monitor user activity. The suite of reports

available to users also requires further development in order to allow the quality of the data held by the system to be analysed / monitored in more detail.

Furthermore, more clearly defined performance targets are required for the support provided by the application vendor. *(report currently in draft)*

Summary of Internal Audit Reviews

Opinions	No. of Projects (Final Reports)
High	12 (17%)
Substantial	41 (59%)
Limited	11 (16%)
Minimal	2 (3%)
Not Applicable	4 (6%)
Total	70

Limited or Minimal opinions were given to:

- *Trading Companies (Limited)*
- *Car Expenses Interrogation (Limited)*
- *Follow-up ICT Disaster Recovery (Limited)*
- *Follow-up Procurement of Consumables (Limited)*
- *Imprest Accounts (Limited)*
- *Commercial Services Insurance Funds (Limited)*
- *Domiciliary Care TDM (Limited)*

- *Former Self Funders (Limited)*
- *KHS Coastal Protection Loans (Limited)*
- *Fastlane Youth Centre Statistics System (Limited)*
- *Property Rent Income (Limited)*
- *CRB Disclosure Checks for Volunteers (Minimal)*
- *Appointment to Payment of New Staff - Recruitment (Minimal)*

Each of the above audits have been reported in summary to G&AC during the year, with management responses to the issues and recommendations raised. Follow up audits are planned for each area in the 2008/09 audit plan.

Appendix A sets out the summary of each of the above reports for information and Appendix B list all internal audits and the overall assurance rating for them.

Anti Fraud service

Internal Audit undertook 24 investigations relating to potential fraud by management or any other third parties, none of which were significant to the control and risk framework for KCC.

As part of Internal Audit's anti fraud strategy, we have carried out a random selection of checks on staff and Members' expense forms. No fraudulent claims were identified, although some issues were identified regarding the completion of claims, and the relevant managers were informed of this. In 2008/09 we will continue to carry out random checks and will include checks on Members' claims. This is at the request of the Standards Committee. In addition, using an interrogation tool we will target specific claims for review, for example claims for high mileage/expenses,

Internal Audit has published three editions of Irregular Happenings which highlights 'scams' that staff should be aware of, as well as detailing

information where staff have been subject to disciplinary or criminal procedures as a result of irregularities committed.

Fraud awareness training has been delivered to over 200 members of staff during 2007/08. This has helped to highlight potential fraud risks to managers.

Liaison with External Audit

We have continued to work very closely with the External Auditors and have developed a very good working relationship with them. They have, as appropriate, relied upon our audit work as part of their external audit of the Authority.

2007/2008 Acknowledgements

We are grateful for the assistance and cooperation provided by the Authority's staff during the course of our work. This has been much appreciated, in particular, the ongoing assistance and support of the Governance and Audit Committee and the Director of Finance.

III. Scope, responsibility and assurance

Scope

We prepared our internal audit plan based upon a variety of key factors including:

- Evaluation of the Authority's risks using risk registers and the risk mapping exercise
- Review of existing key data, for example:
 - The Authority's overall strategy
 - Budgetary information
 - Departmental business plans
 - Best Value performance plans
 - Audit Commission's requirements
- Interviews with senior management across the Authority.

Responsibilities of management and of internal auditors

It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework established by management to examine, evaluate and

report on accounting and other controls over operations. Internal audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot be held responsible for internal control failures.

Whilst we have planned our work so that we have a reasonable expectation of detecting significant control weakness, internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities, which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Internal audit's role includes assessing the adequacy of the internal control environment put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Our comments and assessments made in this report are based upon the results of our internal audits undertaken in accordance with the agreed Audit Plan.

It should be noted that the assurance expressed within this report can never be absolute. It is not a guarantee that all aspects of control are adequate. The most that internal auditors can provide to the S151 Officer and the Governance and Audit Committee is a reasonable assurance based on the work performed.

Appendix A - Summary of individual internal audit projects (limited or minimal assurance)

Trading Companies

Scope

The objective of this audit was to assess how KCC's trading companies were complying with the Trading Order.

Overall Assessment (Final) - Limited

The audit confirmed that many of the requirements and associated controls set out in the Trading Order Statutory Guidance, relating to companies' primary objectives, management structure, recruitment, procurement, transparency of accounting and KCC support were in place and were operating effectively. However there were areas requiring improvement;

- Development of a policy for KCCs interest in local authority companies, covering the setting up and governance of the companies
- There was no record to identify all trading companies and therefore, the extent of KCC's interest
- It was not clear that people managing existing companies are fully aware of the requirements of the Trading Order.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Car expenses interrogation

Scope

The objective of the audit was to carry out an analysis of employees' mileage payments from September 2006 to October 2007 to identify inconsistencies in the payments to staff and to establish whether they were the result of any system based errors.

Overall Assessment (Final) - Limited

The findings of the audit confirmed that Employee Services had made a concerted effort to check the data quality of the standing data and they have identified and corrected errors found in the system.

The main finding of the audit was that there were errors in employee data that had not been identified by the testing carried out by Employee Services and there is therefore a risk that staff may still be paid the incorrect mileage rate.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

ICT Disaster Recovery – Follow Up

Scope

The objective of the audit was to follow up a previous audit which reviewed the Authority's arrangements for ICT disaster recovery plans (DRPs).

Overall Assessment (Final) - Limited

The findings in the original audit identified that arrangements for DRPs were sporadic and inconsistent and that the situation had been caused by the lack of formally devised and documented Business Recovery Plans (BCPs). Recommendations were made to improve controls. However, this follow up audit found that none of the recommendations made had been implemented.

The directorates have formed a Cross Directorate Working Group to address this.

Procurement of Consumables – Follow Up

Scope

The objective of this audit was to assess the status of previously agreed management actions to improve controls over the procurement of consumables.

Overall Assessment (Final) - Limited

The audit highlighted that officers with purchasing responsibilities spend a large proportion of their budget, approximately 72% with external suppliers compared to internal purchases and that the amount of spend with external suppliers (that could be spent internally) remains high at just over £2m.

Subsequent to this review the 'Spending the Council's Money' procurement strategy and guidance was issued and training has been provided to a number of staff throughout the Authority. The Procurement Unit also carries out regular reviews of spend in the Authority

Property Rent Income

Scope

The audit reviewed the rent collection and review process in E&R, KASS and CMY as well as the role the Property Group undertakes in managing for CED and parts of CFE.

Overall Assessment (Final) - Limited

The arrangements throughout KCC for the review and collection of rents was found to require improvement, particularly around the need to ensure that up to date information on properties is maintained and that annual reviews of rents are undertaken.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Fastlane System

Scope

The audit reviewed the controls and processes in place to ensure that the system is secure and data held is complete, accurate and valid.

Overall Assessment (Final) - Limited

Fastlane is the system used to collect personal data of young people using the facilities of the Youth Service. The data will be used to complete statutory returns that are required by the National Youth Agency. Strong password controls have been implemented within the application process however; the processes and procedures to govern access and the change management process have not been formally documented. In addition, an internal problem/incident resolution process needs to be established.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Use of Imprest Accounts Review

Scope

An audit to review compliance with the use and management of imprest accounts.

Overall Assessment (Final) - Limited

Imprest accounts are used throughout KCC in order to provide the facility for making local cash and cheque payments. Internal Audit had been made aware of a number of incidences of potential irregularity involving inappropriate use of accounts, inadequate record keeping and lack of supervision and independent review of the accounts. During this review twenty establishments were visited as and the following weaknesses were identified:

- Payments that should have been made via the Accounts Payable system had been made through imprest accounts
- Staff remuneration had been made through the imprest accounts
- Staff used their own personal credit/debit cards to make purchases and were reimbursed through the imprest accounts
- Most transactions were supported by receipts, however, staff did not always present valid VAT receipts meaning that KCC cannot reclaim VAT paid from HM Revenue & Customs.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Review of Former Self Funders

Scope

The scope of the audit was to review processes in place to ensure that KCC policy in relation to former self funders was being complied with to help minimise the cost to KCC.

Overall Assessment (Final) - Limited

Former self funders are service users who have previously paid for their own social care but whose capital has reduced below the set threshold (£21,000 for 2006/07). If they have been assessed as having eligible needs they become entitled to financial assistance from the Authority.

KCC has a policy in relation to former self funders and the business objective is to ensure that KCC minimises costs for residential care arising from former self funders. The findings showed that care managers are aware of the policy and follow it to the point of trying to secure top up funding where possible. However, it was not evident that consideration is given to moving a client to a home within KCC's guide price and there is a lack of documentation to demonstrate if an assessment has been to determine if a move would be detrimental to the service users.

There were variations in working practises across the districts which indicate a varying level of scrutiny having been applied to the decision making process.

There are robust processes for including expenditure relating to former self funders in the current year's forecast, although the information is not collated or reported consistently.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Commercial Services Insurance Fund

Scope

The Kent Insurance Fund (KIF) was established by KCC to provide cover against existing and future claims. It is self funding and made up of two active funds. The scope of this audit covered only Property, combined liability and Motor and focussed on premiums due and the processing of claims.

Overall Assessment (Final) - Limited

The audit confirmed that there were controls in place, premiums were collected promptly and reflected in the accounts and genuine claims or settlements were adequately and promptly processed. Key issues identified included:

- The actual cost from the Risk Management & Insurance Section is not known until the year end, with the risk that the premiums charged may not be sufficient to cover the full cost of the Fund
- Recoveries from third party insurers may not be promptly processed which could result in lost income and an adverse impact on the cash flow
- Delays in processing excess charge invoices could lead to a loss of income and an increase in disputed invoices.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Appointment to Payment of New Staff

Scope

This review focussed on the approach to ensure that the process of appointing staff through to payment is routinely complied with.

Overall Assessment (Final) - Minimal

Documentation for a sample of 30 new employees who had joined KCC between April 2006 and July 2007 was tested. The key findings of the audit were;

- There is a failure in the administrative process to ensure that CRB checks are properly carried out
- The CRB section has a record of the need for a check but the application information has not been returned by the employee for more than three months since the original request and therefore remains outstanding

A follow up audit has subsequently taken place and we can report that there has been a significant improvement made with respect to the compliance with existing controls.

Transaction Data Matching (TDM) for Domiciliary Care

Scope

The scope of the audit was to ensure that payments are only made for services supplied and are accurate and correctly accounted for. KASS spends over £30m per year providing domiciliary care services.

Overall Assessment (Final) - Limited

The testing took place in three districts. One of the benefits of the TDM system is that it produces variation reports to check any differences between the service delivery orders (for domiciliary care) and payments charged/made to suppliers.

Variation reports are produced for each district on a weekly basis and some variations are checked and cleared. However, 53% of the variations in our sample had not been investigated and there was a large backlog of variations waiting to be resolved.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Financial Management of Coastal Protection Loans

Scope

The scope of the audit was to review the financial management of loans arranged by maritime authorities (five Kent districts) in which KCC contributes 50% of the repayments.

to work with KCC.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Overall Assessment (Final) Limited

The key areas requiring further improvement included;

- KCC does not have any influence over the loans arranged by the districts and the loans obtained may not represent value for money
- KCC could be paying higher interest rates than necessary
- Overpayments may be made to the districts as there is no process to check the accuracy of loan repayments or to ensure that the loan is still valid.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Assurance Definitions

Limited Assurance

The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation. This is because, key controls exist but they are not applied, Or there is significant evidence that they are not applied consistently and effectively.

Minimal Assurance

The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control, or there is evidence that there is significant non-compliance with key controls

CRB Checks for Volunteers (Communities)

Scope

The purpose of the audit was to review the processes for ensuring that volunteers (where appropriate) are CRB checked.

Overall Assessment (Final) – Minimal

Key issues identified in the audit included;

- 370 volunteers in the Home Library Service had not been subject to CRB clearance
- A lack of consistency regarding imposing restrictions on volunteers awaiting clearance
- Although not part of CRB checks, the audit identified that a number of volunteers' records did not contain one or both of the two references required

Appendix B - Detailed Analysis of internal audit projects in 2007/2008

Project – Directorate	Progress at May 2008	Overall Assessment	Project – Directorate	Progress at May 2008	Overall Assessment
Authority Wide					
Trading Companies	Completed	Limited	Corporate Governance Health Check	Draft	High
BS57799	Completed	High	Risk Management Framework	Draft	Substantial
Telephone PBX	Completed	Substantial	Property Rent Income	Completed	Limited
Follow up ICT Disaster Recovery	Completed	Limited	Software Legitimacy	Draft	Limited
Follow up to the Procurement of Consumables	Completed	Limited	Schemes of Delegation	Completed	Substantial
Medium Term Planning	Completed	High	ICT Governance	Draft	Substantial
Risk Management	Completed	High	Consultants Follow Up	Work in progress	
Imprest Account	Completed	Limited			
Virus Protection	Completed	Substantial			
Corporate Governance Public Consultation	Completed	Substantial			
Corporate Governance Ethical Standards	Completed	Substantial			
Governance of Partnerships	Completed	Substantial			
Purchase Cards	Completed	Substantial			

Project – Directorate	Progress at May 2008	Overall Assessment	Project – Directorate	Progress at May 2008	Overall Assessment
Chief Executive's Department					
VAT provision of asylum seekers services	Completed	Substantial	Payroll follow Up CRB & Recruitment	Completed	Substantial
Physical Security & Environmental Controls	Completed	Substantial	Fixed Assets	Draft	Substantial
VAT payments to providers of Care (Adult Social Services)	Completed	Substantial	Treasury Management	Draft	Substantial
Technical Administration of the Oracle Financial, HR & Payroll System	Completed	Substantial	Schools Payroll	Draft	Substantial
Commercial Services CODA	Completed	Substantial	Property/Contract Monitoring	Completed	Substantial
Commercial Services Insurance Funds	Completed	Limited	Kent Public Service Network Project	Completed	Substantial
Year end Accounting Processes	Completed	Substantial	Oracle Application Security	Draft	Limited
Payroll/Recruitment/Accounting – Appointment to payment of staff	Completed	Minimal	Network Security	Draft	Substantial
Accounts Payable	Completed	Substantial	Wireless Network Security	Draft	Limited
Schools' Personnel Service – CRB and recruitment checks in schools	Completed	High	Payroll Car Expenses System	Completed	Limited
Commercial Services Laser Income	Completed	High	Data Protection Commercial Services	Completed	Substantial
Legal services Electronic Document Security	Completed	Substantial	Accounts Receivable	Draft	Substantial
Unix Operating System	Completed	Substantial			
One Office SWAPS & Trading Systems Replacement	Completed	Not Applicable			
Corporate Property - Classcare	Completed	Not Applicable			

Project – Directorate	Progress at May 2008	Overall Assessment	Project – Directorate	Progress at May 2008	Overall Assessment
Children Families and Education					
Foster & Adoption Payments	Completed	Substantial	Swift pre Implementation Review	Completed	Substantial
Schools Advisory Service	Completed	High	Domiciliary Care TDM	Completed	Limited
Student Awards	Completed	High	Former Self Funders	Completed	Limited
Attendance & Behaviour Safer Schools	Completed	Substantial	Residential Care Mental Health Payments	Completed	Substantial
Schools Managed Capital Projects	Completed	Substantial	Voluntary Organisations	Completed	Substantial
Sharing of Information on Children	Completed	Substantial	Supporting People Administration Grant	Completed	Substantial
Eligibility of Payments to unaccompanied asylum seeking children	Completed	Substantial	Section 31 Westview	Completed	High
Reimbursement of Schools' Maternity pay	Completed	Substantial	Health Debts	Completed	Substantial
Billing and external contract services billing systems	Completed	Substantial	Care Management	Completed	Not Applicable
Payments to Private Providers	Completed	High	CRB checks agency staff & volunteers	Draft	Substantial
Eligibility for Foster & Adoption Allowances	Completed	Substantial	Swift System Security	Draft	Not Applicable
PLASC	Completed	Not Applicable			
CRB Recruitment Checks in Schools	Completed	Substantial			
Follow Up to financial control Children's Centres	Completed	Substantial			
Compliance & financial Management in Schools	Work in Progress				

Project – Directorate	Progress at May 2008	Overall Assessment	Project – Directorate	Progress at May 2008	Overall Assessment
Environment and Regeneration					
Transport Network Management	Completed	Substantial	Youth & Community	Completed	High
KHS Coastal Protection Loans	Completed	Limited	Libraries	Completed	Substantial
Kingshill Development Fund	Completed	High	Community Safety Revenue Budget Management	Completed	Substantial
Review of a Major Road Scheme – East Kent Access Phase 1	Completed	Substantial	Fastlane Youth Centre Statistics System	Completed	Limited
Revenue Budget Monitoring	Completed	High	CRB Disclosure Checks for Volunteers	Completed	Minimal
Waste LATS	Completed	Substantial	Funding for Sports Development	Draft	High
Contract Procurement	Completed	Substantial	Health & Safety	Draft	Substantial
Key					
High	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.				
Substantial	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.				
Limited	The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation. This is because, key controls exist but they are not applied, Or there is significant evidence that they are not applied consistently and effectively.				
Minimal	The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control, Or there is evidence that there is significant non-compliance with key controls.				
Not Applicable	Internal audit advice/guidance no overall opinion provided.				

By: Head of Audit and Risk **Item 5**
Governance and Audit Committee – 30 June 2008

Subject: DRAFT HEAD OF AUDIT AND RISK ANNUAL REPORT

Classification: Unrestricted

Summary:

This report contains the draft Head of Audit and Risk Annual Report for review and approval.

FOR APPROVAL

Introduction

1. This report summarises the work that the Authority's Internal Audit and anti-fraud service has undertaken during 2007/08. It also highlights the key issues with respect to internal control, risk and governance arising from that work.
2. The Head of Internal Audit is required to provide the accounting officer with an opinion on the overall adequacy and effectiveness of the Authority's:
 - Risk management
 - Internal Control
 - Governance processes.
3. This is collectively referred to as "the **system of internal control**". The assessment of the control environment has an impact on what is recorded in the Annual Governance Statement, which must be disclosed in the Authority's final accounts.

RECOMMENDATION

4. Members are asked to APPROVE the draft Head of Audit and Risk Annual Report.

Janet Dawson - Head of Audit and Risk
Extension 4614

This page is intentionally left blank

By: Head of Audit and Risk **Item 6**
Governance and Audit Committee – 30 June 2008

Subject: DRAFT ANNUAL GOVERNANCE STATEMENT

Classification: Unrestricted

Summary: This report contains the Draft Annual Governance Statement for review and approval.

FOR APPROVAL

Introduction

1. Kent County Council is required to prepare an Annual Governance Statement (AGS) with effect from 2007/08. The requirement was introduced in the Good Governance Framework, CIPFA SOLACE 2007, which sets out six principles of corporate governance underpinned by a number of supporting principles and specific requirements.
2. The AGS should include an evidence-based overview of how the Authority has adopted the principles of the Framework and adheres to its requirements.
3. The statement must be signed by the Lead Member for the Authority and the Chief Executive and included in the Authority's final accounts.

BACKGROUND PAPERS

4. Full details of the evidence base are provided and include the following;
 - Head of Internal Audit annual opinion (summary of internal audit assurance work for 2007/2008)
 - Managing Directors' assurance statements on Risk, Governance and Internal Control
 - Detailed list of risk and governance arrangements in place and operating in the Council throughout the year.

RECOMMENDATION

5. That the help and support provided by officers during this process be acknowledged.
6. Members are asked to APPROVE the draft Annual Governance Statement.

Janet Dawson
Head of Audit and Risk
Extension 4614

Annual Governance Statement

Scope of responsibility

Kent County Council (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. KCC also has a

duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

In 2004 KCC approved and adopted a code of corporate governance, which is consistent with the principles of governance set out in the CIPFA *Good Governance Standard* (2004). This is included in the Constitution and is available on our website. KCC is in the process of updating the code of governance so that it explains how KCC has complied with CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

This statement explains how KCC has complied with the CIPFA SOLACE Framework, identifying areas in which our governance arrangements can be strengthened. This statement also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

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

The governance framework has been in place at the Authority for the year ended 31 March 2008 and up to the date of approval of the annual report and statement of accounts. The governance framework is aligned with the principles of good governance set out in CIPFA SOLACE Governance Framework (*Delivering Good Governance in Local Government*, 2007). The Authority is committed to fulfilling its responsibilities in accordance with the highest standards of good governance, underpinned by the ethical behaviour of officers and members.

The Governance Framework

Fundamental to the success of the Authority is engagement with citizens and service users in the development of the Authority's vision, priorities and intended outcomes. The Authority's vision was developed in consultation with over 40 partners, including district councils and local businesses. It is comprised of 9 themes, each with its own vision and monitored through a number of targets which links the vision to corporate and directorate plans and strategies, including Kent Agreement (the Public Service Agreement) and its 12 'stretching targets'. The Authority will report on progress towards the vision

annually and during this process will take the opportunity to consider whether the vision needs to be refreshed. It is agreed that the vision is likely to be refreshed on a 5 year cycle.

The Authority has a Residents Panel, runs campaigns on local issues and regularly consults with its service users and stakeholders. Consultation takes place at many levels including corporate consultation, directorate and service specific consultation and consultation with partners. For example, the Children, Families and Education directorate consulted with about 40,000 children to inform the directorate plan. Also, the Authority has a Customer Care charter which is in the process of being reviewed, following feedback from customers.

The Council and the Leader are responsible for ensuring Best Value throughout the Authority. The objectives and targets through which this will be achieved are set out each year in the 'Annual Plan'. Authority-wide and directorate specific processes are in place to monitor progress against the objectives and targets on a regular basis. The Authority is rated 4 Star by the Audit Commission and assessed as 'improving strongly'.

The Constitution of Kent County Council sets out the roles and responsibilities of: the Overview and Scrutiny Committees; the Standards Committee; the Executive and the Council. It also sets out functions delegated by the Council to Committees and Officers and includes the Member and Officers Code of Conduct.

The Members Code of Conduct sets out the obligations of Members, how personal and prejudicial interests should be managed and 10 general principles governing Members' conduct. On election Members were made aware of the Code of Conduct during their induction process. It has since been revised and was communicated to Members.

The Code of Conduct for Employees is available on the Authority's intranet site and is included in the Constitution. It explains that citizens and service users expect high standards of conduct of all Authority employees and provides guidance on how to achieve this. Employees are made aware of this Code of Conduct through the corporate induction process.

The Standards Committee is responsible for ensuring that decisions are made with consideration of appropriate ethical standards.

The Constitution contains a statement on Resource Management Responsibilities which includes the Authority's Financial Regulations such as its Standing Orders and the Scheme of Financial Delegation. These are prepared and maintained by the Chief Finance Officer and Chief Executive and endorsed by the Leader and the Governance and Audit Committee.

The Governance and Audit Committee is comprised of 13 members representing the 3 main political parties. Its' responsibilities are set out in the Constitution and include:

- Monitoring the Authority's compliance with key controls and relevant standards
- Ensuring all Best Value processes comply with legal and audit requirements
- Discussing the basis of the annual audit with the external auditors and Cabinet
- Receiving reports from the external auditor on their work
- Overseeing the work of Internal Audit
- Overseeing the Authority's complaints procedure and receiving reports from the Complaints Ombudsman
- Agreeing the risk management policy and monitoring the effectiveness of risk management.

The Governance and Audit Committee meets 4 times annually to discharge its responsibilities.

2008 saw the launch of the 'Strategy for Staff' which was developed with the objective of enabling staff to feel pride in themselves and the work they do at the Authority, thus achieving their full potential and providing excellent customer service. This will be achieved through: developing an excellent workforce; continuous improvement; providing excellent management and inspiring leadership; facilitating open communication and engagement with staff and providing a rewarding career structure and remuneration package. The Authority is committed to providing a healthy, lively and vibrant work environment where staff feel supported and enabled to work effectively, safely and with fun.

The Authority's Whistleblowing Policy was launched by Personnel and Development in April 2006 and is available on the Authority's intranet site. It encourages members of staff to raise concerns if they become aware of behaviour which is likely to breach legislation, including health and safety legislation. The policy explains how members of staff can raise concerns internally and externally and steps that will be taken by the Authority after an individual has 'blown the whistle'.

The Authority has dedicated considerable resource to understanding its partnership governance arrangements. In April 2007 Partnership Guidance was approved which defines a key partnership, classifies partnerships and sets out the fundamental considerations when establishing a partnership and in managing a partnership, including partnership risk management. In June 2007, Internal Audit reported a list of 'major' and 'significant' partnerships to the Governance and Audit Committee and by August 2007 had completed a formal risk assessment of those partnerships in accordance with the Partnership Guidance. The audit found that partnership governance arrangements are largely appropriate, although, the Authority is committed to improve further the management of partnership risk.

Internal control environment

The internal control environment is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Council has demonstrated its commitment to improving system and processing controls as well as general risk management awareness and effective governance arrangements. Management has accepted and implemented a number of key Internal Audit recommendations and engaged in open and challenging discussions about points raised in Internal Audit reports and other assurance reports. All these points are indicative of an improving internal control environment.

Overall, there are no significant weaknesses in the overall system of internal control and controls are generally in place and operating effectively, however there are some areas where improvements are required and the Authority is committed to delivering these improvements over the next year. The areas include:

- The process around recruitment and CRB checks. During 2007/08 Internal Audit has undertaken reviews in CED, KASS, Communities and CF&E on recruitment and CRB checks. Although some areas had good controls in place, there were other areas where the relevant checks were not being carried out, in particular on volunteers. In addition, processes were not always in place to follow up staff where CRB checks were required. The sample of schools visited, during the year however, showed a big improvement in the CRB checking process. Senior management, including the Chief Executive and Director of Personnel and Development have personally overseen the implementation of recommendations, which has been confirmed in a follow up audit carried out in March 2008.
- Business Continuity Planning and Disaster Recovery was raised in the 2006/2007 Statement of Internal Control and although individual Business Continuity Plans are being completed and tested, not all have not been finalised and there is further work required to embed this fully across the Authority.

- Kent Adult Social Services (KASS) continue to face a number of operational challenges with regard to the SWIFT system, which they have identified and are actively working toward resolving. This includes inherent weak security (password) controls within the system and limited audit trails being available to monitor user activity. The suite of reports available to users also requires further development in order to allow the quality of the data held by the system to be analysed / monitored in more detail.

Furthermore, more clearly defined performance targets are required for the support provided by the application vendor. *(report currently in draft)*

Review of effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of committees and management within the Authority with responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by work undertaken by the external auditors and other review agencies and inspectorates.

In recent years Internal Audit has reviewed Authority-wide governance arrangements or specific elements of the Authority's governance arrangements. In 2007/08 Internal Audit reviewed the Authority's governance arrangements against the requirements of the CIPFA SOLACE Governance Framework. It found that overall governance arrangements are appropriate and made a number of minor recommendations for improvement.

The Governance and Audit Committee has an ongoing role in the review of the effectiveness of the Authority's governance framework. Throughout the year it has received and considered reports regarding the work of Internal Audit and External Audit and on Risk Management, Complaints, Treasury Management and Value for Money. In March the committee agreed to self-assess its effectiveness using an Audit Committee effectiveness questionnaire provided by the Head of Internal Audit and Risk. The results of this exercise are not yet known.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by Members of the Council. It endeavours to address any concerns regarding Members conduct and will deal with any reports from the Standards Board of England. During 2007/08 the Standards Committee considered the appointment of independent members from other Standards Committees to deal with specific allegations or complaints, considered the findings of the Internal Audit on Ethical Standards and resolved that the proposed new Code of Conduct for Members be recommended to the Authority for adoption.

The Cabinet Scrutiny Committee meets monthly to scrutinise the decisions taken by Cabinet or individual Cabinet Members. The Committee Chair and Spokesmen decide which decisions require scrutiny and decisions that are not in accordance with the approved policy or budget are automatically referred for scrutiny.

Committee members scrutinise decisions by questioning the relevant Cabinet Member and Managing Director. Citizens and stakeholders can participate in this process by: attending meetings as they are held in public; suggesting decisions for scrutiny and submitting written comments on decisions already called in for scrutiny.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

There are no significant governance issues. However, the review of our governance arrangements has enabled us to identify elements of the governance framework which we are committed to strengthen further, such as:

- Further embedding of and engagement with the Council's risk management framework

- Management of risk with partners
- Training and development opportunities for Members
- Continued improvement to the internal control environment, with specific focus on the areas detailed above

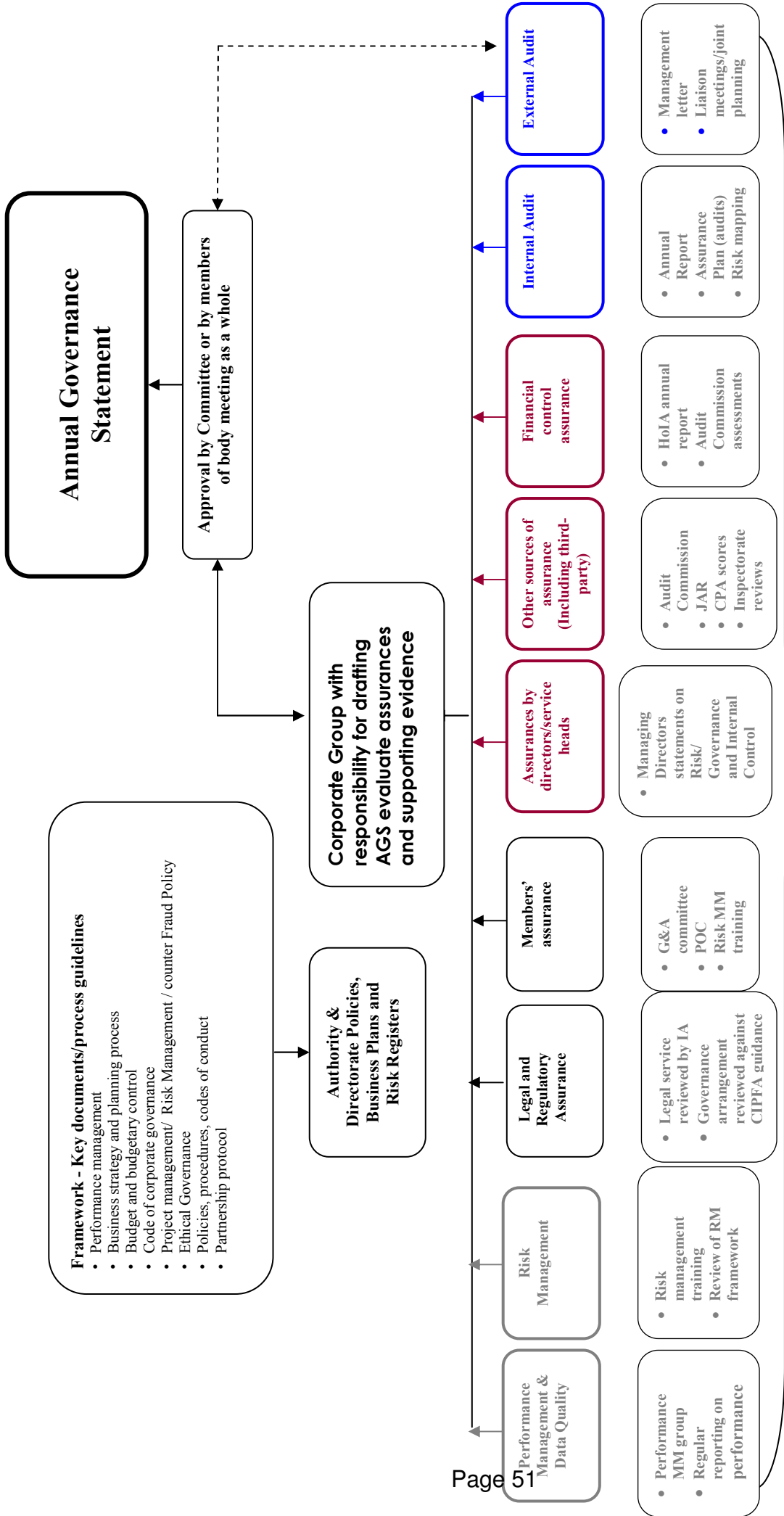
Additionally, we recognise that we need to complete the revision of the Code on Governance and publish it as soon as is possible.

We propose over the coming year to take steps to address the above matters to enhance further our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Leading Member (or equivalent) & Chief Executive (or equivalent) on behalf of [the authority]

This page is intentionally left blank



MANAGING DIRECTORS/DIRECTORS STATEMENTS

KENT COUNTY COUNCIL

MANAGING DIRECTOR'S/DIRECTOR'S STATEMENT ON INTERNAL CONTROLS AND RISK MANAGEMENT PROCESSES FOR YEAR ENDED 31 MARCH 2008

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, members and senior officers are responsible for putting in place proper risk management processes and internal controls to ensure the proper stewardship of the resources at its disposal.

As Director of Business Solutions & Policy I have responsibility for maintaining a system of risk management; and of sound internal controls; within the Business Solutions & Policy Unit to support the achievement of Corporate and Directorate objectives.

The risk management system identifies principal risks and the existing internal controls in place to manage the risks. It puts action in place to test key controls and if appropriate new controls are introduced in order to manage them more efficiently, effectively and economically. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I am also responsible for reviewing the effectiveness of the system of internal controls in place during 2007/08. My review has taken into account the following

- (i) Outcomes from risk assessment and evaluation
- (ii) Self-assessments of key service areas within the department
- (iii) Internal audit reports and results of follow ups regarding implementation of recommendations
- (iv) Outcomes from reviews of services by other bodies including, Inspectorates, external auditors etc
- (v) Linkage between business planning and the management of risk

Improvements have been made to controls in certain areas during the year as follows:

- Processes and procedures implemented to manage the recruitment and use of contractors have been extended further to make full use of the framework contract established by KCS.
- To ensure alignment of ICT outcomes with service priorities the Enterprise Architecture (EA) methodology developed and implemented

during the course of 2006/7 continues to be maintained. The approach has had significant influence on the structure and approach to service delivery informing the further development of SLA's with service directorates. Dialogue and cooperation with the cabinet office on the cross government enterprise architecture has been progressed and will be sustained through participation in the local government CIO Council.

- Structured, hierarchical governance processes, informed by the requirements highlighted by the enterprise architecture are now fully implemented. Participation at all levels comprises cross directorate representation with strategy, funding and prioritization dependencies firmly embedded within governance structure. To further reduce risk, the emphasis of work undertaken by groups within the governance structure has shifted towards proactive and preventative approaches and the work of these groups is anticipated to increase during 2008/09.
- The structures and approach to risk management and control has been raised where the council works with partners. All partnerships arising through the work of the Business Solutions & Policy Unit have adopted and implemented formal risk management practices.
- External gateway review has been used extensively on projects identified as potential high risk to the authority. This approach will be maintained for ongoing and new projects during 2008/09.
- Increasing use of web services integrates council technology with direct service accessed by members of the community. The cross-directorate channels sub-group has taken the lead on determining how direct services delivered electronically can be prioritized and maintained alongside internal demand. This group has been fully integrated with the governance processes referenced above.
- We have anticipated and influenced emerging strategy and opportunities for collaboration with government agencies and local stakeholders.
- Actively engaged directorates and corporate departments to identify current and future needs for innovation in order to secure opportunities for KCC to participate in local and national innovation activities.
- Advocate and worked with external stakeholders to build support for KCC's innovation priorities and maximize partnership working.
- A short personnel review of the European Affairs Group was undertaken following the relocation of the team in to the Chief Executive's Department. The key findings of the review were implemented to ensure a clear orientation of the team's work in support of corporate objectives.
- The increased emphasis on partnership working required enhanced levels of integration and interoperability, including improvements to structures and to risk management and control. This was achieved through the development of the second Local Area Agreement, of which a key part was the completion of new governance arrangements for the Kent Partnership and for the LAA itself. The second action related risk

management of partnerships. Following the launch of new KCC policy guidance on 'Risk Management of Key Partnerships' the Governance and Audit Committee commissioned an audit to test the extent of compliance. The subsequent action plan will be corporately led by the Business Solutions & Policy Unit.


- A cross directorate team, which included the Chief Executive, was established to evaluate the strengths and weaknesses in KCC's performance against the corporate assessment framework to ensure that KCC retains its 4 star rating. The team was enhanced by the full time secondment of a senior officer to project manage the corporate assessment preparation process and to manage the inspection.
- Due to the diverse nature of the functions within Business Solutions & Policy the ICT function has developed and is maintaining its own comprehensive BCP which will be referenced in the Units wider plan. Work is ongoing on the enhancement of the Business Continuity Plan for the remaining functions of the Business Solutions & Policy Unit taking into account the specific needs of those teams.

and I have also identified certain areas where key internal controls will need to be introduced or enhanced. These are as follows: -

- Within technical environments certain risks are ever present and remain a constant. These are incorporated above and through applying an approach of continuous improvement additional actions to further mitigate risk for 2008/09 will be identified on an ongoing basis.
- Increased dependency of direct service on technology infrastructure has increased the risk to service in the event of technology failure. Existing provision will be reviewed over the coming year to ensure that this remains appropriate. This will include assessment of supply sources, location of infrastructure and balance of risk between the council and private sector provision.
- Appropriate levels of resourcing are critical for direct service to be sustained. Work will continue with CED and directorate representatives to move towards delegated budgets where directorate demand has a direct correlation with support costs. This approach will deliver the optimum balance between return on investment and service levels.
- KCC finds itself in a fast-moving legislative environment as a consequence of the new Local Government and Public Health Act and related Government policy initiatives, this is alongside the anticipated impact of the Government's new 'Governance of Britain' legislative programme. As a consequence, Corporate Policy will be introducing new mechanisms to anticipate and react to these changes and to ensure the Authority is well placed to develop an informed and strategic approach to managing these changes.

- Governance arrangements for the Kent Partnership and its working groups will be implemented and will progress the audit action across all directorates within the agreed timescales.
- To undertake and/or sponsor performance improvement activity by developing and implementing a Corporate Improvement action plan (following CPA and anticipating CAA) including ongoing corporate benchmarking and Peer Review activity
- To monitor and recommend corrective action on key areas of performance for KCC and the Kent Partnership, based on monitoring progress on KA2, T2010 and NISPIs

Action plans to introduce these improvements have been developed and I am satisfied that these steps will enhance the system of internal controls and will be monitoring to ensure their implementation and operation. I am also satisfied that except for these matters a sound system of internal control has been in place throughout the financial year and is ongoing.

Signed:.....

Managing Director/Director: Director of Business Solutions & Policy

Date: 11 April 2008.....

KENT COUNTY COUNCIL
COMMUNITIES DIRECTORATE

**Managing Director's Statement on Internal Controls, Governance and Risk
Management Processes for Year Ended 31 March 2008**

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this accountability, members and senior officers are responsible for putting in place proper risk management processes and internal controls to ensure the proper stewardship of the resources at its disposal.

As Director responsible for Communities, I have responsibility for maintaining a system of risk management; suitable governance arrangements and of sound internal controls, to support the achievement of Corporate and Directorate objectives.

The Governance arrangements in place ensure that services are measured in terms of the quality of services for users, are delivered in accordance with the authority's objectives and for ensuring they represent the best use of resources. Roles and responsibilities are clearly defined with clear delegation arrangements.

The risk management system identifies principle risks and the existing internal controls in place to manage the risks. It puts action in place to test key controls and if appropriate new controls are introduced in order to manage them more efficiently, effectively and economically. The system of internal controls is designed to manage, rather than eliminate, risk and to minimize impact, it can therefore only provide reasonable and not absolute assurance of effectiveness.

I am also responsible for reviewing the effectiveness of the system of internal controls in place during 2007/08. This has taken into account the following factors:

- Outcomes from risk assessment and evaluation
- Self-assessments of key service areas within the Directorate.
- Internal audit reports and results of follow-ups regarding implementation of recommendations
- Outcomes from reviews of services by other bodies including Inspectorates, and external auditors
- Linkage between business planning and the management of risk

Improvements have been made, during 2007/08, to controls in the following areas:

Strategic project control and assurance of value for money. The capital programme is a good reflection of Communities priorities; realistic timescales are in place; and project board models of governance are being applied. Lessons have been learned from the Internal Audit post implementation review of capital projects and are being built into current practice. The principle of applying value for money analysis to policy development has been established and put in practice.

Use of single systems: Improvements have been put in place to standardise the budget monitoring system. Information held on the Enterprise property database has been reviewed and a process for progressively cleansing and updating is being established

Linkage between objectives and risk management. As well as an overarching Directorate risk register, all service units now have risk registers, which relate to operational objectives. Controls have been mapped and new actions identified as appropriate

Business continuity planning. BCP is well established in the Community Safety and Regulatory Service divisions and in the past 6 months other units have undertaken some initial BC assessment.

I have also identified certain areas where key internal controls will be enhanced in 2008/09. In some cases they represent a continuing drive for improvement following progress in 2007/08:

Business continuity. It will be a matter of priority that business continuity plans are fully in place for all units and that a programme of testing underway, starting in October.

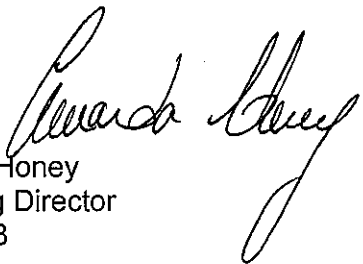
Single systems. A focus on this will continue in order that the single system approach being taken in the Directorate towards financial information is extended into operational management information

Risk management. The good progress made in 2007/08 on identifying risks and controls at service unit level will followed up in to ensure cost-effective monitoring of these controls. Integration of risk management principles into the planning for all major projects and developments will be promoted.

Criminal Records Bureau checks for volunteers. Following an internal audit report in 2007/08, which gave minimal assurance of control in part of the Directorate, measures have already been put in place to rectify weaknesses. These improvements will be reviewed in 2008/09.

In May and June 2008 the Authority will receive reports and recommendations arising from recent external inspections. Should any recommendations indicate weakness in governance arrangements or internal control in the Directorate these will also be addressed during 2008/09.

Amanda Honey
Managing Director
April 2008



MANAGING DIRECTORS / DIRECTORS STATEMENTS

KENT COUNTY COUNCIL

MANAGING DIRECTOR'S/ DIRECTOR'S STATEMENT ON INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT PROCESSES FOR YEAR ENDED 31 MARCH 2008

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, members and senior officers are responsible for putting in place proper risk management processes, governance arrangements and internal controls to ensure the proper stewardship of the resources at its disposal.

As a Managing Director / Director I have responsibility for maintaining a system of risk management; suitable governance arrangements; and of sound internal controls; within my Directorate to support the achievement of Corporate and Directorate objectives.

The governance arrangements in place ensure that services are measured in terms of the quality of services for users, are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Roles and responsibilities are clearly defined and communicated with clear delegation arrangements.

The risk management system identifies principal risks and the existing internal controls in place to manage the risks. It puts action in place to test key controls and if appropriate new controls are introduced in order to manage them more efficiently, effectively and economically. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I am also responsible for reviewing the effectiveness of the system of internal controls in place during 2007/08. My review has taken into account the following

- (i) Outcomes from risk assessment and evaluation
- (ii) Self-assessments of key service areas within the department
- (iii) Internal audit reports and results of follow ups regarding implementation of recommendations
- (iv) Outcomes from reviews of services by other bodies including, Inspectorates, external auditors etc
- (v) Linkage between business planning and the management of risk

Improvements have already been made to controls in certain areas during the year as follows: -

Children's Trust Arrangements:

The further development of children's trust arrangements at a county and local Level have included the development and implementation of the Kent Children's Trust Governance Framework and related Partnership Agreement. Agreed in November 2007, the Framework sets out arrangements to ensure the KCT is effective and accountable in improving outcomes.

We continue to develop systems to ensure we have captured information and data to inform planning needs including MOSAIC, the Kent Children and Young Peoples' Survey (currently being undertaken for a second year), and the Joint Strategic Needs Assessment, which has been undertaken with multi-agency partners. A revised version of the CYPP is currently being developed as an overarching strategic framework describing the priorities and activities for the Kent Children's Trust Board.

SEN Transport:

- AEN and Resources and Transport Integration Unit make every effort to ensure that the service provided is a quality one that guarantees the safety, health and well being of the child or young person. Additionally, Transport Integration's procurement procedures are designed to secure value for money through economies of scale arrangements and the tendering process.
- A survey of all parents and carers was undertaken in spring 2007, in order to inform a review of its policy with a view to developing one policy that covers all groups of children and young people. From this survey, two main areas were identified for further investigation. This has enabled the AEN and Resources and Transport Integration Unit to create a new single Kent Policy on Transport for Children, Families and Education.
- In recognition of the needs and vulnerability of young people with learning difficulties, the Local Authority has decided to extend access to transport to escorts where they are needed to enable young people to travel safely as part of the Kent freedom Pass Pilot Scheme. The new policy takes into account the New Transport Provisions which were inserted in the Education Act 1997, and which came into effect in September 2007.
- The new Kent Policy on Transport for Children, Families and Education will provide clarity around the need for standards for providers in order to ensure that the arrangements in place take account of the specific needs of the children and young people who are being taken to and from school. This policy will mitigate the likelihood of any harm befalling the vulnerable groups outlined previously within the SEN Transport Policy.

School Attendance and Achievement of Looked after Children:

CFE continues to pursue a multi-agency action plan to promote the educational achievement and attendance of Looked After Children. Key actions include:

- The Kent Pledge setting out our commitments to LAC, including support for education.
- A number of services in place to ensure quick access to education and regular attendance at school
- Local action plans to promote the educational achievement of LAC in each cluster.
- Training for Governing Bodies, Designated Teachers, social workers and health staff.
- Increasing take up of LAC lead Governor role and model school policy.
- Foster carer training and support for carers to promote children's achievement.
- Multi-agency 'team around the child' model of support within our specialist fostering schemes, promoting health, education and stability for children with complex needs.
- Mentoring service for LAC, promoting children's motivation and achievement. The scheme, delivered by Rainer on behalf of KCC, is also supported by

DCSF as part of a national pilot mentoring programme for LAC. External evaluation in progress.

- Easter / summer holiday study support and sport taster sessions for LAC, provided in partnership with Kent Cricket Club and Margate, Ebbsfleet and Buckmore Park FC.
- 220 personal computers purchased this year for LAC.
- Targets for continuing improvement of educational outcomes for LAC being negotiated within Kent Agreement 2.

Business Continuity Planning:

CFE has established a Resilience Group, which is representative of all levels of staff across all CFE divisions. The Resilience Group has made significant progress, undertaking a Business Impact Assessment process, which will lead to the development of Business Continuity Plans for each division in the next year.

I have also identified certain areas where key internal controls still need to be enhanced. These are as follows: -

Local Children's Services Partnerships (LCSPs)

To strengthen children's trust arrangements at the local level Kent is introducing 23 LCSPs from September 2008. These local partnerships will focus on improving outcomes for local children and young people within the framework of the Kent CYPP. The local partnerships will promote integrated working and processes and bring together professionals from across children's services. They will also have a key role to ensure active participation of children, young people and families in identifying needs, developing and evaluating services.

We will need to ensure that the introduction of the LCSPs results in a structure that is fit for purpose, ensuring that there is no disruption to front line services and that a high standard of service is maintained.

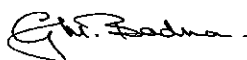
Integrated Commissioning Framework

An overarching commissioning framework has been developed to enable integrated planning, delivery and evaluation of services for children's young people and families. The framework sets out principles, definitions and values to underpin all integrated commissioning activity. Arrangements that are in place to develop commissioning models and guidance will need to be carefully managed to ensure that we continue to deliver effective and efficient services, and improve outcomes for Children and young people and their families.

Action plans to introduce these improvements have been developed and I am satisfied that these steps will enhance the system of internal controls and will be monitoring to ensure their implementation and operation. I am also satisfied that except for these matters a sound system of internal control has been in place throughout the financial year and is ongoing.

Signed

Managing Director / Director



Date 24 April 2008

ENVIRONMENT & REGENERATION DIRECTORATE

MANAGING DIRECTOR'S STATEMENT ON INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT PROCESSES FOR YEAR ENDED 31 MARCH 2008

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, members and senior officers are responsible for putting in place proper risk management processes, governance arrangements and internal controls to ensure the proper stewardship of the resources at its disposal.

As a Managing Director I have responsibility for maintaining a system of risk management, suitable governance arrangements, and of sound internal controls within my Directorate to support the achievement of Corporate and Directorate objectives.

The governance arrangements in place ensure that services are measured in terms of the quality of services for users, are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Roles and responsibilities are clearly defined and communicated with clear delegation arrangements.

The risk management system identifies principal risks and the existing internal controls in place to manage the risks. It puts action in place to test key controls and if appropriate new controls are introduced in order to manage them more efficiently, effectively and economically. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I am also responsible for reviewing the effectiveness of the system of internal controls in place during 2007/08. My review has taken into account the following

- (i) Outcomes from risk assessment and evaluation
- (ii) Self-assessments of key service areas within the department
- (iii) Internal audit reports and results of follow ups regarding implementation of recommendations
- (iv) Outcomes from reviews of services by other bodies including, Inspectorates, external auditors etc
- (v) Linkage between business planning and the management of risk

Improvements have already been made to controls in certain areas during the year as follows: -

- The KHS Alliance Board receive regular monthly reports via the KHS Measuring Success group that set out performance against key performance indicators which include financial, scheme delivery and

insurance measures. This report is shared with Members and with the E&R Policy Overview Committee.

- Internal Audit have undertaken reviews of our revenue monitoring, medium term financial planning (as part of an authority-wide exercise) and Landfill Allowance Trading Strategy. For the first two the audit assurance was high and for the last one the audit assurance was substantial, and the recommendations of the audits are being implemented.
- A peer review of the planning and delivery of our capital programme was undertaken and recommendations are being implemented.

I have also identified certain areas where key internal controls still need to be enhanced or where a major project is likely to pose significant risks. These are as follows: -

- The replacement of our operational financial system MIDAS is a major task and risk management will be an integral part of the delivery programme.
- The schemes of delegation to officers and Members are in some cases not as clear and unambiguous as they could be and an internal review will be undertaken to review and improve them.

Action plans for both of these projects have or are being developed and I am satisfied that these steps will enhance the system of internal controls and will be monitoring to ensure their implementation and operation. I am also satisfied that except for these matters a sound system of internal control has been in place throughout the financial year and that it is ongoing.

Signed

Managing Director / Director

Date

**KENT COUNTY COUNCIL
ADULT SOCIAL SERVICES DIRECTORATE**

**MANAGING DIRECTOR'S
Annual Governance Statement 2007/08
FOR YEAR ENDED 31 MARCH 2007**

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, members and senior officers are responsible for putting in place proper risk management processes and internal controls to ensure the proper stewardship of the resources at its disposal.

As a Managing Director for Kent Adult Social Services I have responsibility for maintaining a system of risk management; and of sound internal controls; within my Directorate to support the achievement of Corporate and Directorate objectives.

The risk management system identifies principal risks and the existing internal controls in place to manage the risks. It puts action in place to test key controls and if appropriate new controls are introduced in order to manage them more efficiently, effectively and economically. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I am also responsible for reviewing the effectiveness of the system of internal controls in place during 2007/08. My review has taken into account the following

- (i) Outcomes from risk assessment and evaluation
- (ii) Self-assessments of key service areas within the department
- (iii) Internal audit reports and results of follow ups regarding implementation of recommendations
- (iv) Outcomes from reviews of services by other bodies including, Inspectorates, external auditors etc
- (v) Linkage between business planning and the management of risk

Improvements have already been made to controls in certain areas during the year as follows:

- (a) Following the development last year of the new Adult Social Services Risk register, this has been updated and been embedded into our unit business plans. We believe it is important to have the risk register as part of the unit plans as it makes a clear link between risk management and business planning. It also has the added function of being a way of keeping members updated to our register. As with last year the risk register has been developed within a Corporate Framework using a 5x5 scoring system to help evaluate risk.
- (b) The Directorate has used the preparation for the Corporate Assessment as a tool to identify areas in need of development.
- (c) This year the Directorate has made significant changes to the structure of our Business Plans. They now reflect more fully the way in which we structure our business and this has enabled us to strengthen the 'golden thread' between the high level unit plans and personal action plans.
- (d) We continue to involve the Adult Social Services Policy Overview Committee in the management of risk. Discussion of our top risks is now an agenda along with the regular

updates on the Directorate's Performance. A new addition to the Adult Social Services Policy Overview Committee is regular budget monitoring reports.

- (e) We continue to offer local briefings for Members. These are on a District basis and are undertaken to a regular pattern. Furthermore, the 'protocol on consultation for closure and variation of use' has now been amended to include early consultation with local members, prior to public consultation
- (f) Continued to involve the public in the development of our priorities and services. This year the public have been involved in the development of an older people strategy – Active Aging.
- (g) Implemented SWIFT. This has been undertaken within a tight framework of controls and monitoring. Given the huge scale and complexity of this project, both in terms of technical complexity and quality control, The Strategic Management Team has closely overseen the implementation. The Corporate ICT Board has monitored the progress regularly.
- (h) Improved our use of service user feedback in the monitoring of contracts with the Private and Voluntary Sectors.
- (i) A review of Direct Payments has been undertaken to understand the implications of the rapid increase in the number of people taking up Direct Payments.
- (j) Full implementation of Specialist Finance Teams, which are now beginning to develop links with Districts and DWP as outlined in T2010 action plan for Target 56.
- (k) The NHS in Kent now has 2 PCTs, which have the same boundaries as our Areas. We have developed close working relationships with the new PCTs – these are necessary to deliver the priorities identified in the White Paper '*Our health, our care, our say: a new direction for community services*'. A major piece of work has been the Joint Strategic Needs Assessment which has enabled the County Council and The Health Service in Kent to identify areas of need and to formulate joint priorities as a result of the assessment.
- (l) During 2007/08 successful negotiations took place with the PCTs in Kent regarding old debts for joint funded services and clients. The outstanding debts have in the main been cleared now
- (m) An example (among many) of the developing partnership with Health is the Whole Systems Demonstrator (WSD). This is a DoH programme, which will examine the effect of TeleHealth and Telecare. The programme is of national significance and will be evaluated by a team of independent academics commissioned by the DoH. This is a partnership programme with both West Kent and Eastern Kent & Coastal PCTs
- (n) Value For Money Review - Day Care opportunities for people with Learning Disabilities. This was a major review, which involved Price Waterhouse. The review was constructively received, shared with Members and is underpinning the change programme in this area of work.
- (o) We continue to use the Investors In People mechanisms to ensure that we have a competent workforce. The standards around induction and supervision policies are rigorously implemented. We are fully engaged in the revised standard on demonstrating the value of training to the organisation.
- (p) The Directorate recognises its important role in developing a strong workforce across the social care sector and has been working closely and effectively with the Independent Sector to achieve this.
- (q) It is to be noted that all the areas of internal control that were identified for enhancement in last years statement have been improved.

I have also identified certain areas where key internal controls still need to be enhanced. It is to be noted that some of these issues are similar to last year. Controls for these areas have been enhanced but given the nature of the issues and the possible significant impact a keen focus needs to be kept on these areas. Areas for further enhancement of controls are as follows: -

- (a) Active Lives for Adults (ALFA). This is a major cultural change programme, which will see a shift in emphasis away from 'managing care packages' and towards supporting people in identifying how best to meet their own needs. It will transform all front line services and deliver significant efficiencies. It will be essential to ensure that this kept on track to deliver the necessary changes to meet future challenges. This was also a focus for last year. It needs to have continued focus given the innovative nature and size of the project
- (b) SWIFT – the implementation of SWIFT has been a major project, which has needed a close focus given its size and complexity. This has been the largest project of this nature in a Social Services Directorate in the Country. During the next year it will be important to ensure that it is bedded down and has good standards of data quality. The Directorate's Strategic Management Team will continue to play a major role in closely overseeing the process of bedding down SWIFT. The Corporate Board will monitor regularly. There is a robust risk plan within the project, which is reviewed and updated regularly and shared with SMT.
- (c) Review of our relationship and contracting arrangements with voluntary and private organisations. This is an ongoing issue, which was part of last year's statement and we continue to make improvements. However the issues outlined below make it essential that we focus on this looking for further improvements. These include:
- Increase in demand for services, which demographic analysis suggests will continue indefinitely.
 - Increase in expectations – improvements in service delivery are often in tandem with an increase in expectations from the public about the quality of services
 - The pressure on prices from the geographical location of Kent in the affluent South East and on the borders of London.
 - In order to continue to deliver services we will become increasingly reliant on Voluntary and Private Organisations to provide more services and must ensure we have the tools in place to control and manage these contractual relationships.
- (d) On going relationship with the Health Economy. The introduction of two PCTs and the Joint Strategic Needs Assessment offer new opportunities to develop preventative services in partnership, however it will be important to ensure that adequate resources are directed towards this objective.
- (e) Recent correspondence from Central Government and CSCI have indicated, without consultation, that the Managing Director has a wider responsibility for all adults in residential care including those people in provision run by the Health Service. The placement of people in Kent by other authorities is already identified as an area of major risk with a programme of controls. However, this wider responsibility indicates the need for more enhanced controls in this area, including getting clear guidance from Government about these expectations. The Multi-Agency Safeguarding Vulnerable Adults Committee for Kent & Medway has begun to look at this issue in further detail.
- (f) Valuing People Now. As part of this review the Local Authorities nationally are taking the lead on Learning Disabilities, including the transfer of resources and those people placed in NHS units. The Directorate is determined that the principles of person centred planning will be paramount in meeting the needs of those people transferring from the NHS. This will be a significant challenge for which effective planning is underway.
- (g) Business Continuity Planning is an area identified within our risk register, for which there is an action plan which has been developed, but will need on going focus.

Action plans to introduce these improvements have been developed and I am satisfied that these steps will enhance the system of internal controls and will be monitoring to ensure their implementation and operation. I am also satisfied that except for these matters a sound system of internal control has been in place throughout the financial year and is ongoing.

Signed

A handwritten signature in black ink, appearing to read 'C. All' or similar, written in a cursive style.

Managing Director

28 April 2008

KENT COUNTY COUNCIL

DIRECTOR OF LAW AND GOVERNANCE'S STATEMENT ON INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT PROCESSES FOR YEAR ENDED 31 MARCH 2008

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, members and senior officers are responsible for putting in place proper risk management processes and internal controls to ensure the proper stewardship of the resources at its disposal.

As Director of Law and Governance I have responsibility for maintaining a system of risk management; suitable governance arrangements; and of sound internal controls; within Legal & Democratic Services to support the achievement of Corporate and Directorate objectives.

The governance arrangements in place ensure that services are measured in terms of the quality of services for users, are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Roles and responsibilities are clearly defined and communicated with clear delegation arrangements.

The risk management system identifies principal risks and the existing internal controls in place to manage the risks. It puts action in place to test key controls and if appropriate new controls are introduced in order to manage them more efficiently, effectively and economically. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

As Monitoring Officer, I have a key role in the enforcement of the ethical framework. This involves the application by the Council of a Code of Member Conduct through the Standards Committee in order to promote and maintain high standards of conduct. Responsibilities include investigating complaints and reporting to the Standards Committee for them to take appropriate action, including suspension.

I am also responsible for ensuring the lawfulness of the Council's decision-making process, and continue to oversee *vires* issues. This extends to advice on whether decisions taken by the Executive are within council policy or are "key" decisions. If the Executive acts outside council policy, I refer the matter to the Scrutiny Committee, which has powers to challenge such decisions and refer them to full Council for a final decision.

I have statutory responsibility for receiving a record of decisions and reasons from the Executive and making them available (unless confidential) for public inspection.

As Monitoring Officer, I have access to every part of the Council's organisation, and to reports, decisions, records and background papers.

I am also responsible for reviewing the effectiveness of the system of internal controls in place in Legal & Democratic Services during 2007/08. My review has taken into account the following:

- (i) Outcomes from risk assessment and evaluation

- (ii) Self-assessments of key service areas within the Unit
- (iii) Internal audit reports and results of follow ups regarding implementation of recommendations
- (iv) Outcomes from reviews of services by other bodies including, Inspectorates, external auditors, etc
- (v) Linkage between business planning and the management of risk

Legal Services is distinct from most other sections of the Council because:

- (i) It operates as an in-house consultancy (with external clients) and so its job is to advise and support its clients on deals that they want to do, rather than do deals itself. The matters that Legal Services does in its own name are limited to those necessary for running the business (e.g. buying a digital dictation system)
- (ii) The vast majority of the higher graded staff in Legal Services are professionally qualified solicitors and barristers who are well trained and regulated by their professional body and
- (iii) It has obtained (and maintains) all the management quality standards that are appropriate to its business.

We have in place the following specific procedures:

- (i) In accordance with the requirements of LEXCEL and ISO:9001-2000 we have in place a Quality Manual that specifies risk assessments in respect of files opened for clients and other procedures to ensure that matters are progressed properly. The Quality Manual also specifies a rolling programme of internal audits of compliance with the set procedures.
- (ii) A regular programme of seeking views of clients through client questionnaires
- (iii) A detailed time-recording system which shows us where we are throughout the year with regard to income earned.
- (iv) Budget managers meet with the Legal Services' accountant as often as necessary to ensure that budget forecasts fit the expected reality.
- (v) Business plan approved by members
- (vi) We are a practice regulated by the Law Society

We are therefore thoroughly controlled and regulated.

Improvements have already been made to controls in certain areas during the year as follows:

- (vii) The Quality Manual has been revised to fit new quality audit requirements and to simplify it
- (viii) We regularly and frequently review our procedures in order to build in improvements in process and outcomes

- (ix) we have put in place a committee management system (to enhance and improve on the previous one which was no longer fit for purpose)

I have not identified any areas where key internal controls still need to be enhanced. If and when I identify any these they will be addressed.

I am satisfied that a sound system of internal control has been in place throughout the financial year and is ongoing.

Signed – Geoff Wilde

Director of Law and Governance

Date 13 March 2008

This page is intentionally left blank

MANAGING DIRECTORS / DIRECTORS STATEMENTS

KENT COUNTY COUNCIL

MANAGING DIRECTOR'S/ DIRECTOR'S STATEMENT ON INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT PROCESSES FOR YEAR ENDED 31 MARCH 2008

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, members and senior officers are responsible for putting in place proper risk management processes, governance arrangements and internal controls to ensure the proper stewardship of the resources at its disposal.

As a Managing Director / Director I have responsibility for maintaining a system of risk management; suitable governance arrangements; and of sound internal controls; within my Directorate to support the achievement of Corporate and Directorate objectives.

The governance arrangements in place ensure that services are measured in terms of the quality of services for users, are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Roles and responsibilities are clearly defined and communicated with clear delegation arrangements.

The risk management system identifies principal risks and the existing internal controls in place to manage the risks. It puts action in place to test key controls and if appropriate new controls are introduced in order to manage them more efficiently, effectively and economically. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I am also responsible for reviewing the effectiveness of the system of internal controls in place during 2007/08. My review has taken into account the following

- (i) Outcomes from risk assessment and evaluation
- (ii) Self-assessments of key service areas within the department
- (iii) Internal audit reports and results of follow ups regarding implementation of recommendations
- (iv) Outcomes from reviews of services by other bodies including, Inspectorates, external auditors etc
- (v) Linkage between business planning and the management of risk

Improvements have already been made to controls in certain areas during the year as follows: -

- Enhancement of systems and processes to support managers in Criminal Records Bureau checks for newly recruited staff. Development of a pan-KCC policy on CRB checks.

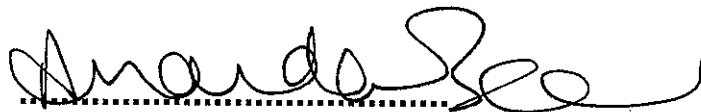
- Introduction of a business process to ensure that an officer register of interests is kept up to date
- Delivery of Phase 2 of an Equal Pay Review for Kent Scheme staff
- The introduction and trial of manager and employee self-service on Oracle HR to strengthen the accuracy and currency of personnel data
- Move from paper-based to electronic HR and payroll processes to enhance security and accuracy of data input and capture
- Development of a database and internal reporting of Job Evaluation outcomes to ensure consistency across KCC
- Introduction of risk assessment of dismissal decisions to minimize liability to KCC
- Equality Impact Assessments carried out on policies and procedures to ensure compliance (validated by Level 3 of Equality Standard)

and I have also identified certain areas where key internal controls still need to be enhanced. These are as follows: -

- Baseline diversity information for current staff to strengthen workforce monitoring
- Improvement to processes and systems used in the payment of employee expenses
- Improvement to the management process for the payment of overtime

Action plans to introduce these improvements have been developed and I am satisfied that these steps will enhance the system of internal controls and will be monitoring to ensure their implementation and operation. I am also satisfied that except for these matters a sound system of internal control has been in place throughout the financial year and is ongoing.

Signed



Director

Amanda Beer

Date

.....^{15th} May 2008

Summary of new action being taken to address any weaknesses

- Data cleansing of officers expenses and strengthen controls to ensure correct payment
- Review arrangements for the payment of overtime, including developments of self service, to minimise potential for incorrect payments.

Overall conclusion

Regular, ongoing communication has been vital in developing strategies to achieve continuous improvement in our service, and to address those areas of risk where Personnel and Development has a significant impact.

The Personnel and Development Risk register is used to support business planning and delivery.

An audit carried out by PWC identified that strong risk management practices are in place.

We will continue this, as well as identify measures to monitor and evaluate the effectiveness through the risk management process..

Amanda Beer
Director of Personnel and Development

May 2008

DIRECTORS STATEMENTS

KENT COUNTY COUNCIL

DIRECTOR'S STATEMENT ON INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT PROCESSES FOR YEAR ENDED 31 MARCH 2008

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, members and senior officers are responsible for putting in place proper risk management processes, governance arrangements and internal controls to ensure the proper stewardship of the resources at its disposal.

As a Director I have responsibility for maintaining a system of risk management; suitable governance arrangements; and of sound internal controls; within my directorate to support the achievement of corporate and directorate objectives.

The governance arrangements in place ensure that services are measured in terms of the quality of services for users, are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources. Roles and responsibilities are clearly defined and communicated with clear delegation arrangements.

The risk management system identifies principal risks and the existing internal controls in place to manage the risks. It puts action in place to test key controls and if appropriate new controls are introduced in order to manage them more efficiently, effectively and economically. The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I am also responsible for reviewing the effectiveness of the system of internal controls in place during 2007/08. My review has taken into account the following

- (i) Outcomes from risk assessment and evaluation
- (ii) Self-assessments of key service areas within the department
- (iii) Internal audit reports and results of follow ups regarding implementation of recommendations
- (iv) Outcomes from reviews of services by other bodies including, Inspectorates, external auditors etc
- (v) Linkage between business planning and the management of risk

Improvements have already been made to controls in certain areas during the year as follows:

- * Quality, currency and availability of information
- * Non performance of contractors
- * Communication with client directorates

and I have also identified certain areas where key internal controls still need to be enhanced. These are as follows:

- * Business Continuity
- * Effects of climate change on KCC estate and Property Group activities
- * Revise Legionella policy to reflect changes in legislation
- * Revise Asbestos policy to reflect changes in legislation

Action plans to introduce these improvements have been developed and I am satisfied that these steps will enhance the system of internal controls and will be monitoring to ensure their implementation and operation. I am also satisfied that except for these matters a sound system of internal control has been in place throughout the financial year and is ongoing.

Signed

..... Mike Bentley

Director

..... DIRECTOR OF PROPERTY

Date

..... 18 April 2008

Item No 7

By: The Director of Finance
To: Governance and Audit Committee – 30 June 2008
Subject: DRAFT STATEMENT OF ACCOUNTS 2007-08
Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2007-08.

FOR DECISION

1. INTRODUCTION

- 1.1 The draft Statement of Accounts of the County Council for 2007-08 is attached. These need to be approved by Members by 30 June 2008, prior to the issue of the external auditor's report and publication of the Statement of Accounts (Accounts).
- 1.2 Members are encouraged to scrutinise these Accounts and ask questions.
- 1.3 If any Member of this Committee has any questions in relation to these Accounts, then they can be raised prior to the meeting of the Committee with Cath Head, Chief Accountant, who will be happy to meet with any Member or group of Members to give a more detailed explanation of these Accounts. Alternatively, questions can of course be asked at this meeting.

2. STATEMENT OF ACCOUNTS - CONTENTS

- 2.1 The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which has approval from the Accounting Standards Board as a Statement of Recommended Practice (SORP).
- 2.2 The format of the primary statements within the Accounts has not changed significantly to last year's. However, there have been some changes in the accounting around capital and financial instruments in the move to become Generally Accepted Accounting Practice (UK GAAP) compliant. These changes are outlined in Appendix 1.
- 2.3 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

Foreword Pages 1-4

- 2.4 The details of the revenue outturn are shown on Pages 1 and 2. This shows an underspend of £7.9m, plus a £5m underspend on schools, giving a total underspend in the year of £12.9m. The reasons for these underspends were detailed in the Final Outturn report to Cabinet on 16 June.
- 2.5 The net income figures for the budget and outturn for the Operations, Resources and Skills Portfolio on page 1 of the Accounts are the result of funding for schools, and the corresponding expenditure is shown in the delegated schools budget line.
- 2.6 There has been no reduction in the level of general revenue reserves and these still stand at £25.8m. This is deemed to be an acceptable level based on the current budget and the Council's identified risks by the Director of Finance. Specific reserves and schools' reserves are detailed in paragraphs 2.23 to 2.25 in this report.
- 2.7 The capital expenditure for 2007-08 was £46.7m less than budgeted, which reflects the re-phasing of capital projects across all services. The capital reserves of £60.3m will be used to fund the re-profiling of the 2007-08 and future years' capital programme.
- 2.8 Schools have £17m of capital reserves.
- 2.9 The Insurance Fund continues to be fully funded, in accordance with Financial Reporting Standard (FRS) 12.

Statement of Responsibilities Page 5

- 2.10 This statement sets out the respective responsibilities of the Authority and the Director of Finance in relation to the production of the final accounts.

Annual Governance Statement Pages 6-9

- 2.11 The new Annual Governance Statement builds upon the previous Statement of Internal Control. It identifies areas in which our governance arrangements can be strengthened and meets the requirements of the Accounts and Audit (Amendment) Regulations 2006 (A & A(A)R 2006) in relation to the publication of a statement on internal control.
- 2.12 We are responsible for putting in place proper arrangements for the governance of our affairs and facilitating the effective exercise of our functions including the management of risk. The attached Accounts therefore include such a statement on pages 6 to 9. It confirms that, during the financial year 2007-08, overall Corporate Governance arrangements and internal controls in the Authority were in place and effective in terms of business as well as financial risk. It also confirms that areas where controls

need to be developed or improved are known about and are being actioned. This will be discussed in more detail elsewhere on this agenda.

Auditor's Report Pages 10-11

- 2.13 Within the Accounts and Audit Regulations 2003 we are required to open the accounts for public inspection. This enables a member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2007-08 Accounts commenced on the 9th June and ends on the 4th July. The appointed auditor day is the 7th July where electors can request a meeting to raise questions about the Accounts.
- 2.14 The external auditors will provide an independent opinion as to whether the Statement of Accounts presents fairly the financial position of Kent County Council at 31 March 2008 and its income and expenditure for the year ended 31 March 2008. The audit started in May and is progressing well. A member of the Audit team will provide a verbal update on progress at this meeting. Following approval of the Accounts by Members, the external auditor will issue a report when the audit is completed. The Accounts are expected to be formally signed on 23 July, assuming no material errors are found that remain uncorrected. Pages 10-11 are blank to accommodate this report.

Accounting Policies Pages 12-15

- 2.15 Our accounting policies remain consistent with the Statement of Recommended Practice (SORP). There have been minor changes to these to accommodate the 2007 SORP changes, predominantly around fixed assets.

Income and Expenditure Account Page 16

- 2.16 The Income and Expenditure Account is accompanied by a set of explanatory notes. The account shows, in the format required by the Accounting Code of Practice, the income and expenditure for the year 2007-08. The revenue budget underspend in 2007-08 is transferred into the rolling budget reserve and is included in the Statement of Movement on the General Fund Balance and can be seen in detail in the Reconciling Items for the Statement of Movement on the General Fund as part of the net transfer to/from earmarked reserves.
- 2.17 The Accounting Code of Practice states that we must reflect the cost of using assets in the provision of services. We do this by including depreciation and impairment within the net expenditure line for each of the service headings shown in the income and expenditure account. The deferred government grant credits are also reflected in the service lines. However, these charges do not impact on the Council Tax payer. The impact is therefore neutralised by entries made in the Statement of

Movement on the General Fund Balance and can be seen in detail in the Reconciling Items for the Statement of Movement on the General Fund. This means that the revenue account is only charged with the true interest costs from borrowing and the statutory provision for the repayment of debt.

- 2.18 Note 13 on page 30 details the turnover and profit/loss of Kent Top Temps Ltd and Kent County Facilities Limited trading as InsideOut. We have agreed with our auditors that this is not material enough to warrant the creation of Group Accounts for KCC. The accounts of KTT Ltd are separately audited and will be available at Companies House in due course.
- 2.19 Note 16 on page 32 summarises the position on Landfill Allowance Trading Scheme (LATS). The accounting entries for this are embedded in the Income and Expenditure Account and Balance Sheet. The estimated residual allowance of £5 per tonne gives a net income of £792k, which is represented in the balance sheet by debtors and creditors with the opposite entry being the balance in an earmarked reserve. This reserve represents the value of cumulative unsold Landfill Allowance permits and is only realised when and if these permits are actually sold.

Balance Sheet and Notes

- 2.20 The Balance Sheet statement sets out the financial position of the Authority as at 31 March 2008 and is accompanied by explanatory notes. The statement shows the balances and reserves at the Authority's disposal, its long term indebtedness, and the fixed and net current assets employed. The principal movements on the balance sheet are described below.
- 2.21 Long-term assets have increased by £83m. This is due to three factors:
- Our significant levels of capital investment
 - The revaluation of our land and buildings. Note 17 details the basis of the valuation
 - An increase in long term investments.
- 2.22 Current Liabilities are up by £87m. This is due to an increase in overdrawn bank balances, which are off-set by investments held within current assets. This is a managed position and is informed by our cash-flow projections. There is also an increase in our level of general creditors as shown in Note 20.
- 2.23 Long-term liabilities have increased by £11m, which is due to:
- An increase in our long-term borrowing of £65m, due to the borrowing required to fund our capital programme, partially off-set by debt repayment through 2007-08
 - An increase of £22m written to the Government grant deferred account
 - A reduction in our 'pension fund deficit' of £74m. Note 25 provides the information on this movement.
- 2.24 Our net worth has increased from £703m to £809m. The gains and losses in our net worth are shown in the Statement of Total Recognised Gains and

Losses (STRGL) on page 18 and reflect the movement in our net worth between 2006-07 and 2007-08. The make up of the various reserves, accounts and balances shown in the balance sheet is on page 20 and in more detail on pages 42 to 47 in Note 24.

Total Movements in Reserves

- 2.25 Earmarked revenue reserves total £86m, including £7.9m in the rolling budget reserve. Cabinet have considered the use of this reserve at their June meeting and will be considering it in the July Cabinet meeting as well. Details of each of the earmarked reserves are shown on Pages 43 and 44 of the Statement of Accounts.
- 2.26 Schools' reserves continue to grow. Schools now hold £67.6m of revenue reserves and £17m of capital reserves. In addition, there is £11.7m of unallocated schools' budgets that will be allocated to schools during 2008-09, based upon decisions by the Schools Forum and its sub-groups.
- 2.27 Capital reserves stand at £60.3m and are needed to fund the re-phasing of the 2007-08 capital programme into future years. In addition to this, we do have funding within the current assets part of the balance sheet, which reflects our treasury management policy of borrowing when it is right to do so, and not specifically when that funding is needed to fund capital expenditure.

Cash Flow Statement Page 19

- 2.28 This statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows that there has been a net cash outflow of £80.4m.

Pension Fund Accounts Pages 61-72

- 2.29 These are a summarised extract of a more detailed statement produced for the Pension Fund.

Glossary Pages 73-74

- 2.30 A glossary of some of the terms used within the Accounts is provided.

Other Issues

- 2.31 Each year, our external auditors have to produce an Annual Governance Report setting-out how the audit went operationally, highlighting areas of concern, and listing all errors that they have found in the Accounts that we have decided not to adjust in the final Accounts. The list is known as the Statement of Unadjusted Differences (SUD), and the report is formally known as the ISA260.
- 2.32 This year has again proved to be a significant challenge particularly in light of the accounting for and changes to fixed assets and financial instruments.

However, this challenge has been met and we presented the attached draft of the Accounts to the Audit Commission on 6 June. Prior to that, the Audit Commission had already audited the Chief Executive's Dept, Commercial Services, Environment and Regeneration and had commenced Communities directorate accounts. The audit of Kent Adult Social Services, Children Families Health and Education began week commencing 9 June. All the paperwork requested by the auditors has been available to them, and the professionalism of their audit approach has been exemplary. Inevitably, there will be a number of issues. These will be reflected in the auditors' Annual Governance Report, which may also include issues where there is a differing approach recommended by the Audit Commission compared to our own. We will then need to decide whether or not to amend the Accounts to reflect those items. In deciding, we will take into account the time involved in correcting the errors compared to the benefit of making the corrections. The final decision on this will be subject to the approval of the Chairman of this Committee. If we decide not to correct any or some of the errors, the contents of the Annual Governance Report will be presented to the next meeting of this Committee for Members information and endorsement of our decision.

3. Annual Minimum revenue Provision (MRP) Statement

- 3.1 There have been changes to the capital regulations in 2007-08. In the new regulations, the detailed rules for making a provision are replaced with a duty for the authority to make an amount of MRP which it considers "prudent". The regulations do not actually define what "prudent" is, but make recommendations as to the interpretation of the term. The changes apply from 2007/08 onwards.
- 3.2 We are required to submit a statement on our policy of making MRP to full council or delegated committee. Any revision to the original statement must also be issued to that committee.
- 3.3 For 2007-08, which is based on 2006-07 spend, we have retained the old method of calculating MRP, which we are allowed to do for this year only. This calculated MRP on the basis of 4% of our adjusted Capital Finance Requirement.
- 3.4 For 2008-09, which is based on 2007-08 spend, we plan to use the asset life method for assets funded from loan unless it is prudent to do otherwise. This method makes provision over the estimated life of the asset for which the borrowing is taken and should not change even after revaluation. This method allows for an "MRP holiday" on new assets i.e. MRP provision does not come into force until the asset is operational. The impact of these changes is still being calculated.

4. RECOMMENDATION

Members are asked to:

- 4.1 Consider and approve the Statement of Accounts for 2007-08 subject to the Chairman, Shadow Chairman and Liberal Democrat Spokesperson being informed of any changes which may be made to the Accounts following completion of the external audit.
- 4.2 Note the recommendations made in the Annual Governance Report.
- 4.3 Note the proposed changes to the calculation of MRP and agree to review this in September.

Cath Head
Chief Accountant
Ext: 1135

Lynda McMullan
Director of Finance
Ext: 4550

Appendix 1

- The Fixed Asset Restatement Account (FARA) has been replaced with the Revaluation Reserve and the Capital Finance Account has been replaced with the Capital Adjustment Account (CAA). The balance on the FARA has been transferred to the CAA and the Revaluation Reserve started 2007-08 with a balance of zero.
- All positive revaluations have been posted to the Revaluation Reserve as a gain but downward valuations have been posted to the Income and Expenditure Account as impairment and then reversed out through the Statement of Movement on the General Fund Balance (SMGFB) to mitigate the impact on council tax. This is because there cannot be a negative balance on the Revaluation Reserve for individual assets.
- In previous years postings to the FARA included spend which was legitimately capital spend but was considered not to add pound for pound value. This included schools delegated expenditure which amounted to £39m in 2006-07. In 2007-08, this spend amounted to £45m and this has had to be broken down into the relevant categories of assets and posted accordingly to the balance sheet. This resulted in an increase of £8.6m to Vehicle Plant and Equipment, £13.6m to deferred charges which are charged through the Income and Expenditure account and then removed through the SMGFB and £22.4m added to buildings or work in progress.
- This change in the treatment largely accounts for the deficit on the Income and Expenditure account - £29m for impairment relating to downward valuations, £23m increase in deferred charges, a loss on the sale of fixed assets, primarily academies, of £63m, offset by an increase in government grants and contributions going through the income and expenditure account of £33m and an increase in the demand on the collection fund of £29m.
- As part of the move to UK GAAP compliant accounts we have had to adopt the requirements of Financial Reporting Standards 25, 26 and 29 in relation to financial instruments. These are very complex reporting standards with resulting disclosures appearing in the accounts on pages 54 to 58. One of the requirements was to create a new account – the Financial Instruments Adjustment Account (FIAA). This can be found on the bottom half of the balance sheet and contains the balance of deferred premiums, previously appearing on the top half of the balance sheet and any impairment relating to soft loans and guarantees.
- A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes both the most straightforward financial assets and

liabilities such as trade receivables and trade payables and the most complex ones such as derivatives and embedded derivatives.

- The reporting standards require these assets and liabilities to be recognised and derecognised accordingly. Financial assets and financial liabilities should be measured initially at fair value less the transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

This page is intentionally left blank

Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2007-08 and the overall financial position of the Council. This foreword aims to give a general guide to the main features of the information reported within the rest of the Accounts and provides a summary of the Council's overall financial position.

The framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Accounting Standards Board and the Government.

The accounting arrangements of any large organisation such as Kent County Council are complex, as is local government finance. These Accounts are presented as simply as possible whilst recognising that it is necessary for some technical terminology to be used. To help you understand the Accounts, the main statements are supported by explanatory notes and a glossary of terms used is shown on pages 73 and 74.

The Accounts consist of:

- An Income & Expenditure account, page 16, which shows income and expenditure for all services.
- A Statement of the Movement on the General Fund Balance on page 17.
- A Statement of Total Recognised Gains and Losses, page 18.
- The Balance Sheet, pages 19 and 20, which sets out the financial position of Kent County Council as at 31 March 2008.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 21.
- The Pension Fund Accounts - an extract from the more detailed published statement, pages 61 to 72.
- Notes to support the above primary statements pages 22 to 60.

Revenue Budget and Outturn

In February 2007 the Council approved a net revenue budget for 2007-08 of £741.729m. In addition £7.740m of 2006-07 underspending was rolled forward and added to the budget. The final outturn position for the year against the revised budget is set out in the table below together with the sources of income from which the Council's net revenue expenditure was financed.

PORTFOLIO	Budget	Outturn	Variance
	£'000s	£'000s	£'000s
Operations, Resources & Skills (CFHE) - (Non Delega	-799,700	-799,449	251
Children, Families & Educational Achievement	101,978	101,677	-301
Kent Adult Social Services	271,996	273,493	1,497
Environment, Highways & Waste	121,751	120,139	-1,612
Regeneration & Supporting Independence	8,949	7,889	-1,060
Communities	55,013	56,143	1,130
Public Health	562	248	-314
Corporate Support	27,126	26,415	-711
Policy & Performance	3,253	3,046	-207
Finance	105,736	99,174	-6,562
	-103,336	-111,225	-7,889
Delegated Schools Budgets:			
Operations, Resources & Skills (CFHE) - (Delegated Schools)	852,805	847,821	-4,984
	749,469	736,596	-12,873
FUNDED BY:-			
Reserves (rolling budget reserve)	7,740	7,740	0
Formula Grant	228,685	228,685	0
Council Tax	513,044	513,044	0
Total Funding	749,469	749,469	0
NET OUTTURN POSITION	0	-12,873	-12,873

Foreword

The net underspending within the portfolios of £7.889m (excluding £4.984m delegated schools underspend) has been carried forward and will be added to the 2008-09 budget to support the re-scheduling of projects and to focus upon achieving the Council's key priorities and service improvements.

Schools

In total, schools underspent against their delegated budgets by £4.984m. This includes £5.307m of underspending of delegated schools budgets, partially offset by £0.323m of overspending on the unallocated schools budget, largely in respect of premises costs and the reorganisation funding. The closure of schools during the year, with an overall net surplus balance, resulted in the transfer of £0.770m from the delegated schools revenue budget reserves to the unallocated schools budget. Schools now have some £67.627m of revenue reserves and there is £11.733m of unallocated schools budget reserves.

Revenue Reserves

The general reserve position at 31 March 2008 is £25.8m, which is unchanged from the position as at 31 March 2007.

Capital

Capital expenditure is defined as expenditure on purchase, improvement or enhancement of assets, the benefit of which impacts for longer than the year in which the expenditure is incurred. Capital expenditure for the year was £248m. The expenditure analysed by portfolio was:-

PORTFOLIO	Budget £'000s	Outturn £'000s	Variance £'000s
Operations, Resources & Skills (CFHE)	112,182	98,627	-13,555
Children, Families & Educational Achievement	5,483	4,214	-1,269
Kent Adult Social Services	5,791	4,828	-963
Environment, Highways & Waste	86,989	77,656	-9,333
Regeneration & Supporting Independence	8,450	5,774	-2,676
Communities	5,621	4,593	-1,028
Corporate Support	2,386	2,172	-214
Policy & Performance	543	506	-37
Finance	4,533	3,297	-1,236
	<u>231,978</u>	<u>201,667</u>	<u>-30,311</u>
Devolved Capital to Schools	62,717	45,736	-16,981
	<u>294,695</u>	<u>247,403</u>	<u>-47,292</u>
Property Enterprise Fund		596	596
TOTAL	<u><u>294,695</u></u>	<u><u>247,999</u></u>	<u><u>-46,696</u></u>

Expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £30.311m less than cash limits. The underspend reflected re-phasing of capital expenditure plans across all services. These unspent capital resources will be carried forward into 2008-09 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2007-08 was £45.7m and at 31 March 2008 schools have in hand some £17m of devolved capital funding, which will be carried forward to 2008-09 as part of the overall schools reserves position.

The Property Enterprise Fund which was established in 2006-07 has an approved maximum permitted deficit of £10m to be funded by temporary borrowing, but is expected to be self-funding over a period of 10 years.

In 2007-08, £0.596m was spent through the Property Enterprise Fund, which was funded by capital receipts generated through the Fund from the disposal of non-operational property. In addition, the Fund generated a further £5.894m of capital receipts from the disposal of non-operational property, which were used to fund a regeneration project in East Kent (Eurokent Access Road), provide budgeted funding support to the Medium Term Plan, and pay off some of the £2.714m temporary borrowing required in 2006-07, from the approved £10m temporary borrowing facility. At the end of 2007-08, the Property Enterprise Fund had a deficit of £0.828m.

Details of the main items of capital expenditure are shown on page 36 and 37, and details of the financing of capital expenditure are on page 35.

The Fixed Asset Restatement Account (FARA) has been replaced with the Revaluation Reserve and the Capital Finance Account has been replaced with the Capital Adjustment Account (CAA). The balance on the FARA has been transferred to the CAA and the Revaluation Reserve started 2007-08 with a balance of zero.

Capital Reserves

At 31 March 2008 the Council has earmarked and other capital reserves of £60.3m as shown on page 20.

Insurance Fund

Financial Reporting Standard (FRS) 12 requires that full provision should be made for all known insurance

Based on current estimates of the amount and timing of fund liabilities the insurance provision at 31 March 2008 is established at a level sufficient to meet all known insurance claims where the likely cost can be estimated and there is reasonable certainty of payment. It is therefore in accordance with the requirements of FRS 12. Details can be found on page 41.

Pension Fund

Local Authorities are required to comply with the disclosure requirements of FRS 17 - Retirement Benefits. Under FRS 17, the Authority is required to reflect in the primary statements of the Accounts, the assets and liabilities of the Pension Fund attributable to the Council and the cost of pensions. FRS 17 is based on the principle that the Council should account for retirement benefits when it is committed to give them even though the cash payments may be many years into the future. This commitment is accounted for in the year that an employee earns the right to receive a pension in the future. These disclosures are reflected in the Income and Expenditure Account, the Balance Sheet and the Statement of Movement in Reserves.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2007-08, earlier years and for future years. The balance currently stands at £1,017.2m as shown on the balance sheet on page 19 and detailed in Note 22.

Future capital expenditure will be financed from borrowing, revenue contributions, sale of surplus fixed assets, capital grants and contributions, and relevant funds within earmarked reserves.

Further information about the Accounts can be obtained from Cath Head, Chief Accountant.

Telephone Maidstone (01622) 221135 or e-mail cath.head@kent.gov.uk.

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance;
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- to approve the Statement of Accounts.

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on 30 June 2008 on behalf of Kent County Council.

Councillor Charles Findlay
Chairman of the Governance and Audit Committee
July 2008

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), and is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2008.

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

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Director of Finance has also:

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

Certificate of the Director of Finance

I certify that the Statement of Accounts set out on pages 16 to 70 present fairly the financial position of Kent County Council at 31st March 2008 and its income and expenditure for that year.

Director of Finance
July 2008

Scope of responsibility

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

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

In 2004 KCC approved and adopted a code of corporate governance, which is consistent with the principles of governance set out in the CIPFA *Good Governance Standard* (2004). This is included in the Constitution and is available on our website. KCC is in the process of updating the code of governance so that it explains how KCC has complied with CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

This statement explains how KCC has complied with the CIPFA SOLACE Framework, identifying areas in which our governance arrangements can be strengthened. This statement also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

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

The governance framework has been in place at the Authority for the year ended 31 March 2008 and up to the date of approval of the annual report and statement of accounts. The governance framework is aligned with the principles of good governance set out in CIPFA SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). The Authority is committed to fulfilling its responsibilities in accordance with the highest standards of good governance, underpinned by the ethical behaviour of officers and

The Governance Framework

Fundamental to the success of the Authority is engagement with citizens and service users in the development of the Authority's vision, priorities and intended outcomes. The Authority's vision was developed in consultation with over 40 partners, including district councils and local businesses. It is comprised of 9 themes, each with its own vision and monitored through a number of targets which links the vision to corporate and directorate plans and strategies, including Kent Agreement (the Public Service Agreement) and its 12 'stretching targets'. The Authority will report on progress towards the vision annually and during this process will take the opportunity to consider whether the vision needs to be refreshed. It is agreed that the vision is likely to be refreshed on a 5 year cycle.

The Authority has a Residents Panel, runs campaigns on local issues and regularly consults with its service users and stakeholders. Consultation takes place at many levels including corporate consultation, directorate and service specific consultation and consultation with partners. For example, the Children, Families, Health and Education directorate consulted with about 40,000 children to inform the directorate plan. Also, the Authority has a Customer Care charter which is in the process of being reviewed, following feedback from customers.

The Council and the Leader are responsible for ensuring Best Value throughout the Authority. The objectives and targets through which this will be achieved are set out each year in the 'Annual Plan'. Authority-wide and directorate specific processes are in place to monitor progress against the objectives and targets on a regular basis. The Authority is rated 4 Star by the Audit Commission and assessed as 'improving strongly'.

The Constitution of Kent County Council sets out the roles and responsibilities of: the Overview and Scrutiny Committees; the Standards Committee; the Executive and the Council. It also sets out functions delegated by the Council to Committees and Officers and includes the Member and Officers Code of Conduct.

Annual Governance Statement

The Members Code of Conduct sets out the obligations of Members, how personal and prejudicial interests should be managed and 10 general principles governing Members' conduct. On election Members were made aware of the Code of Conduct during their induction process. It has since been revised and was communicated

The Code of Conduct for Employees is available on the Authority's intranet site and is included in the Constitution. It explains that citizens and service users expect high standards of conduct of all Authority employees and provides guidance on how to achieve this. Employees are made aware of this Code of Conduct through the corporate induction process.

The Standards Committee is responsible for ensuring that decisions are made with consideration of appropriate ethical standards.

The Constitution contains a statement on Resource Management Responsibilities which includes the Authority's Financial Regulations such as its Standing Orders and the Scheme of Financial Delegation. These are prepared and maintained by the Chief Finance Officer and Chief Executive and endorsed by the Leader and the Governance and Audit Committee.

The Governance and Audit Committee is comprised of 13 members representing the 3 main political parties. Its responsibilities are set out in the Constitution and include:

- Monitoring the Authority's compliance with key controls and relevant standards
- Ensuring all Best Value processes comply with legal and audit requirements
- Discussing the basis of the annual audit with the external auditors and Cabinet
- Receiving reports from the external auditor on their work
- Overseeing the work of Internal Audit
- Overseeing the Authority's complaints procedure and receiving reports from the Complaints Ombudsman
- Agreeing the risk management policy and monitoring the effectiveness of risk management.

The Governance and Audit Committee meets 4 times annually to discharge its responsibilities.

2008 saw the launch of the 'Strategy for Staff' which was developed with the objective of enabling staff to feel pride in themselves and the work they do at the Authority, thus achieving their full potential and providing excellent customer service. This will be achieved through: developing an excellent workforce; continuous improvement; providing excellent management and inspiring leadership; facilitating open communication and engagement with staff and providing a rewarding career structure and remuneration package. The Authority is committed to providing a healthy, lively and vibrant work environment where staff feel supported and enabled

The Authority's Whistleblowing Policy was launched by Personnel and Development in April 2006 and is available on the Authority's intranet site. It encourages members of staff to raise concerns if they become aware of behaviour which is likely to breach legislation, including health and safety legislation. The policy explains how members of staff can raise concerns internally and externally and steps that will be taken by the Authority after an individual has 'blown the whistle'.

The Authority has dedicated considerable resource to understanding its partnership governance arrangements. In April 2007 Partnership Guidance was approved which defines a key partnership, classifies partnerships and sets out the fundamental considerations when establishing a partnership and in managing a partnership, including partnership risk management. In June 2007, Internal Audit reported a list of 'major' and 'significant' partnerships to the Governance and Audit Committee and by August 2007 had completed a formal risk assessment of those partnerships in accordance with the Partnership Guidance. The audit found that partnership governance arrangements are largely appropriate, although, the Authority is committed to improve further the management of partnership risk.

Internal control environment

The internal control environment is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Council has demonstrated its commitment to improving system and processing controls as well as general risk management awareness and effective governance arrangements. Management has accepted and implemented a number of key Internal Audit recommendations and engaged in open and challenging discussions about points raised in Internal Audit reports and other assurance reports. All these points are indicative of an improving internal control environment.

Overall, there are no significant weaknesses in the overall system of internal control and controls are generally in place and operating effectively, however there are some areas where improvements are required and the Authority is committed to delivering these improvements over the next year. The areas include:

- The process around recruitment and CRB checks. During 2007/08 Internal Audit has undertaken reviews in CED, KASS, Communities and CFH&E on recruitment and CRB checks. Although some areas had good controls in place, there were other areas where the relevant checks were not being carried out, in particular on volunteers. In addition, processes were not always in place to follow up staff where CRB checks were required. The sample of schools visited, during the year however, showed a big improvement in the CRB checking process. Senior management, including the Chief Executive and Director of Personnel and Development have personally overseen the implementation of recommendations made following an audit of Payroll, which has been confirmed in a follow up audit carried out in March 2008.
- Business Continuity Planning and Disaster Recovery was raised in the 2006/2007 Statement of Internal Control and although individual Business Continuity Plans are being completed and tested, not all have not been finalised and there is further work required to embed this fully across the Authority.
- SWIFT is a key system within KASS and has been implemented during the year. Control improvements are planned but still in progress and as a result have not been operating effectively throughout the year. *(Actual finding to be confirmed – report currently in draft)*

Review of effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of committees and management within the Authority with responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by work undertaken by the external auditors and other review agencies and inspectorates.

In recent years Internal Audit has reviewed Authority-wide governance arrangements or specific elements of the Authority's governance arrangements. In 2007/08 Internal Audit reviewed the Authority's governance arrangements against the requirements of the CIPFA SOLACE Governance Framework. It found that overall governance arrangements are appropriate and made a number of minor recommendations for improvement.

The Governance and Audit Committee has an ongoing role in the review of the effectiveness of the Authority's governance framework. Throughout the year it has received and considered reports regarding the work of Internal Audit and External Audit and on Risk Management, Complaints, Treasury Management and Value for Money. In March the committee agreed to self-assess its effectiveness using an Audit Committee effectiveness questionnaire provided by the Head of Internal Audit and Risk. The results of this exercise are not yet known.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by Members of the Council. It endeavours to address any concerns regarding Members conduct and will deal with any reports from the Standards Board of England. During 2007/08 the Standards Committee considered the appointment of independent members from other Standards Committees to deal with specific allegations or complaints, considered the findings of the Internal Audit on Ethical Standards and resolved that the proposed new Code of Conduct for Members be recommended to the Authority for adoption.

The Cabinet Scrutiny Committee meets monthly to scrutinise the decisions taken by Cabinet or individual Cabinet Members. The Committee Chair and Spokesmen decide which decisions require scrutiny and decisions that are not in accordance with the approved policy or budget are automatically referred for scrutiny.

Committee members scrutinise decisions by questioning the relevant Cabinet Member and Managing Director. Citizens and stakeholders can participate in this process by: attending meetings as they are held in public; suggesting decisions for scrutiny and submitting written comments on decisions already called in for scrutiny.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

There are no significant governance issues. However, the review of our governance arrangements has enabled us to identify elements of the governance framework which we are committed to strengthen further, such as:

- Further embedding of and engagement with the Council's risk management framework
- Management of risk with partners
- Training and development opportunities for Members
- Continued improvement to the internal control environment, with specific focus on the areas detailed above

Additionally, we recognise that we need to complete the revision of the Code of Governance and publish it as soon as is possible.

We propose over the coming year to take steps to address the above matters to enhance further our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual

By Order of the Council

Leader

Chief Executive

On behalf of Kent County Council



General

The Accounts of Kent County Council have been compiled in accordance with the 2007 Code of Practice on Local Authority Accounting, Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) relevant to local authorities.

Basis on which creditors and debtors at year end are included in the Accounts

Kent County Council's Accounts are kept on an accruals basis, in accordance with the Code of Practice.

In order to account for expenditure and income attributable to the financial year in respect of goods and services received or rendered, amounts are included in the Accounts based on actual invoices received or raised after the end of the financial year. Where actual amounts are not known estimates are included based on a professional assessment of the value of goods and services received or rendered, calculated using best available information regarding the prices or rates applicable.

Provisions and Reserves

It is the policy of Kent County Council to make provisions in the Accounts where there is a legal or constructive obligation to make a payment but the amount or timing of the payment is uncertain. The most significant provision made is for insurance claims and details of the Insurance Fund can be found on page 41 of the Accounts. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

Kent County Council holds general fund reserves as a consequence of income exceeding expenditure, budgeted contributions to reserves or where money has been earmarked for a specific purpose. These reserves are set at a level appropriate to the size of the budget and the level of assessed risk.

In the Income and Expenditure Account, expenditure met from reserves is included in the cost of services. Transfers to and from reserves are shown in the Statement of Movement on the General Fund balance. Details of the Authority's reserves are shown in the notes to the Accounts on pages 42-47.

Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. In this context enhancement means work that has substantially increased the life, value or use of the assets. Work that has not been completed by the end of the year is carried forward as "assets under construction". Assets acquired under finance leases that have been capitalised are included in the Balance Sheet together with the outstanding obligation to make future rental payments.

Valuation of Fixed

The Authority has a policy in place to revalue 20% of its assets each year. All assets will therefore be revalued at least every five years. Assets will also be revalued following significant works occurring on that asset or some event that may impact on the value of that asset. Revaluation gains are written to the Revaluation Reserve and revaluation losses will be written to the Income and Expenditure Account as impairment where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Statement of Movement on the General Fund Balance so that there is no impact on council tax. As this is the first year of the Revaluation Reserve there has been no gain with which to offset any negative revaluations so the impact on the Income and Expenditure account has been high. Impairment caused by a clear consumption of economic benefits e.g. physical damage, is recognised in the service revenue account, so is charged against net cost of services. It is then removed through the Statement of Movement on the General Fund Balance so that it does not have an impact on council tax.

Accounting Policies

Assets are valued as follows: -

- Non operational property is valued on the basis of open market value and is included in the balance sheet at the lower of net current replacement cost or net realisable value.
- Operational property is included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use.
- Vehicles, plant and equipment are valued at the lower of net current replacement cost or net realisable value in existing use.
- Infrastructure, community assets and work in progress are valued at depreciated historical cost.

Loss on Disposal of Fixed Assets

Property assets are revalued to recognise the capital receipt received for the sale with the following exceptions; items that are not held on the balance sheet e.g. strips of land, which will be recognised as a gain, and assets that are removed from the asset register for nil consideration e.g. transferred assets or assets that are demolished - these will be shown as a loss in the income and expenditure account. Gains and losses on the sale of vehicles, plant and equipment will be recognised in the income and expenditure account.

Depreciation

Depreciation is calculated on a straight-line basis over each asset's useful economic life and is charged to the relevant service revenue account in the year following completion of the asset.

The periods over which assets are depreciated are as follows:

Land	- nil
Buildings	- 60 years
Vehicles, plant and equipment	- 3-15 years
Temporary classrooms	- 20-25 years
Roads & other Highways infrastructure	- 20 years
Community assets	- nil
Work in progress	- nil
Surplus & non operational property	- nil

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation and the depreciation that would have been chargeable based on their historical cost .

Capital receipts

Income from the disposal of fixed assets is credited to the Usable Capital Receipts Account. Conditional receipts are not included in these figures until it is prudent to do so.

Accounting for financial assets and

Financial reporting standards 25, 26 and 29 have been built into the 2007 SORP. These standards require authorities to recognise and de-recognise their financial assets and liabilities. In particular overhanging premiums are required to be written to the general fund and then reversed through the Statement of Movement on the General Fund Balance to the Financial Instruments Adjustment Account to mitigate the effect on council tax.

Support service and central department costs

The cost of support services and central department costs are allocated to services on the following basis in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP):

- Office accommodation - on the basis of floor area used by various services
- All other support costs - on the basis of time spent in the delivery of services to other departments or in with other measures which reflect the level of service provided.

Stocks and stores

Stock is valued at the lower of cost or net realisable value. Spending on consumable items is accounted for in the year of purchase.

Deferred charges

Deferred charges represent expenditure which may be properly capitalised, but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account. Capital expenditure on assets that do not belong to the council such as Voluntary Aided schools are charged here and are written out in the year. These charges are reversed out to the Capital Adjustment Account through the Statement of Movement on the General Fund Balance to mitigate any impact on council tax.

Intangible Assets

Assets that do not result in the creation of a tangible asset, but are identifiable and are controlled by the Council, e.g. software licences, are classified as intangible assets. This expenditure is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the life of the asset. For software licences this is normally between 3 to 5 years.

Accounting for Value Added Tax

VAT is separately accounted for in accordance with SSAP 5 and is not included as income or expenditure of the County Council, except where it is not recoverable, e.g. on the purchase of motor cars where there is an element of private use by staff.

Government grants

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account or, in the case of capital grants, to a government grants deferred account if appropriate. Capital grants not put to the government grants deferred account are added to the general government grants line on the income and expenditure account and are then removed through the Statement of Movement on the General Fund Balance to negate the effect on council tax. Amounts are released from the government grants deferred account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate over the useful economic life of the asset.

If a specific revenue grant is not spent within the year it is allocated, and is not available for use on services other than those which it was intended for, then it is normally treated as a receipt in advance. However, if it is available for use on other services and not time limited, it is treated as an underspend.

Leasing

Finance and operating lease rentals paid during the year and an estimate of the undischarged operating lease obligations are shown as Note 9 to the Income and Expenditure Account and within Note 17 to the Balance Sheet. Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease. Operating lease rentals are charged as revenue expenditure in the year to which the rental relates.

Pensions

The Council participates in two different pension schemes. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

- Teachers

The Authority contributes to the Teachers' Pension Scheme at rates set by the scheme actuary and advised by the Scheme Administrator. The scheme pays benefits on the basis of pre-retirement salaries of teaching staff. While the scheme is of the Defined Benefit type, it is accounted for as a Defined Contribution Scheme under the requirements and exemptions of Financial Reporting Standard 17, 'Retirement Benefits' (FRS 17).

- Other employees

Subject to certain qualifying criteria, non-teaching employees of the Council are eligible to join the Local Government Pension Scheme.

The pension costs that are charged to the Council's Accounts in respect of these employees are equal to the contributions paid to the funded pension scheme for employees.

Statutory provisions limit the Council to raising council tax to cover the cash payable to the pension fund in the year. Therefore, an appropriation is made in the Statement of Movement on the General Fund Balance to the Pensions Reserve to remove the notional debits and credits for retirement benefits.

Investments

The investments in the County Council's accounts are shown at cost. The policy on investments relating to the Pension Fund can be found on page 60.

PFI Accounting Policy

The County Council has several long term PFI contracts including Westview and Westbrook which are two recuperative care facilities, Swan Valley Community School, a contract for the refurbishment and redevelopment of six schools and a contract to provide residential housing. It is our policy to write out the proportion of the assets that have been transferred and create a prepayment to recognise this transfer of our assets. This is then written down over the life of the contract. We also create a long term debtor to recognise the residual value of the asset returning to us at the end of the contract, which is built up over the life of the contract. Where buildings transferred are demolished, these are written out as a disposal and the loss charged to the Income and Expenditure Account.

The transactions relating to PFI contracts have been accounted for in accordance with the requirements of 'Application Note F - Private Finance Initiative and similar contracts as an amendment to FRS5 (Reporting the substance of transactions)'.

Income and Expenditure Account

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes transactions measuring the value of fixed assets consumed i.e. depreciation and the real projected value of retirement benefits earned by employees in the year.

	Notes	Year ended 31 March 2008			2006-2007
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Net Expenditure £'000
Service					
Regulatory Services and Emergency Planning		9,845	3,291	6,554	6,884
Court Services		3,244	375	2,869	1,991
Arts & Libraries		29,883	2,679	27,204	25,115
Waste Management		58,626	3,298	55,328	50,701
Environmental, Planning and Other Services		70,144	25,101	45,043	28,467
Childrens and Education		1,361,860	1,150,235	211,625	103,048
Highways, Roads and Transport Services		101,215	9,322	91,893	83,295
Adults Services		456,700	167,615	289,085	371,960
Corporate and Democratic Core		29,838	17,148	12,690	11,912
Non Distributed Costs		17,283		17,283	16,254
Net Cost of Services	1	2,138,638	1,379,064	759,574	699,627
Loss on the disposal of fixed assets				65,165	2,215
Precepts and Levies	2			570	560
Net Surplus on trading accounts	3			-4,617	-4,693
Interest payable and similar charges				55,591	54,425
Contribution by Medway to Loan Debt- Principal & Interest				-5,337	-5,586
Interest and Investment Income				-16,352	-13,328
Pensions interest cost and expected return on pensions assets	4			15,000	16,900
Net Operating Expenditure				869,594	750,120
This was financed by:					
General Government Grants				-325,117	-288,661
Non-Domestic Rates Redistribution				0	0
Demand on Collection Fund				-513,044	-483,745
Net General Fund Surplus(-)/ Deficit				31,433	-22,286

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as benefits are earned.
- Loss on disposal of fixed assets

The General Fund Balance compares the council's spending against the council tax it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure. This reconciliation statement summarises the differences between the outturn on the Income and Expenditure account and the General Fund Balance.

	Notes	At 31 March 2008 £'000	At 31 March 2007 £'000
(Surplus)/deficit on the Income & Expenditure Account		31,433	-22,286
Amount required by statute to be debited/(credited) to General Fund		-31,433	22,286
Increase in General Fund balance for the year		0	0
General Fund balance brought forward		-25,835	-25,835
General Fund balance carried forward		-25,835	-25,835

Reconciling Items for the Statement of Movement on the General Fund

Amortisation of intangible assets		-1,441	-1,444
Depreciation and impairment of fixed assets		-112,002	-85,552
Government Grants deferred		16,857	16,080
Government Grants and Contributions received		96,432	63,497
Write down of deferred charges		-34,836	-11,990
Net loss on sale of fixed assets		-65,165	-2,215
Differences relating to changes in Financial Instruments		48	0
PFI adjustments re transfer of assets		3,134	441
Net charges made in accordance with FRS17	4	-80,100	-84,100
		-177,073	-105,283
Provision for the payment of external loans		40,051	36,231
Direct revenue financing		13,396	8,554
Contributions to/(from) the Pension Reserve	4	82,500	71,700
		-41,126	11,202
Net transfer to/(from) earmarked reserves		9,693	11,084
Net additional amount required to be debited/(credited) to General Fund Balance		-31,433	22,286

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

	At 31 March	At 31 March
	2008	2007
	£'000	£'000
(Surplus)/deficit for the year on the Income and Expenditure Account	31,433	-22,286
(Surplus)/deficit arising on revaluation of fixed assets	-87,117	-189,091
Actuarial (gains)/losses on pension fund assets and liabilities	-71,240	-94,130
(Surplus)/deficit arising on revaluation of soft loans	811	0
Movement of deferred premiums in line with regulations.	20,040	0
Total recognised (gains)/loss for the year	-106,073	-305,507

Balance Sheet

The County Fund Balance Sheet shows the financial position of Kent County Council as a whole at the end of the year. Balances on all accounts are brought together and items that reflect internal transactions are eliminated.

	Notes	31 March 2008		31 March 2007	
		£'000	£'000	Restated £'000	£'000
Fixed assets					
Intangible Fixed Assets	18		3,629		4,732
Tangible Fixed Assets					
Operational assets					
Land and buildings		1,443,378		1,414,844	
Vehicles, plant and equipment		21,576		15,863	
Roads and other highways infrastructure		568,640		514,320	
Community assets		8,047		7,775	
Non-operational assets					
Investment Property		6,588		6,584	
Assets under construction		256,871		237,813	
Surplus and non-operational property		81,737		95,423	
Total Tangible Assets	17		<u>2,386,837</u>		<u>2,292,622</u>
Total fixed assets			<u>2,390,466</u>		<u>2,297,354</u>
Long-term investments			126,000		115,000
Long-term debtors	19		56,533		59,736
Deferred Premiums			0		20,990
PFI debtor	19		<u>3,933</u>		<u>441</u>
Total long-term assets			<u>2,576,932</u>		<u>2,493,521</u>
Current assets					
Stocks and work in progress		5,390		5,905	
Debtors	19	177,518		175,613	
Investments		272,668		153,059	
Total current assets			455,576		334,577
Current liabilities					
Temporary borrowing		-35		-38	
Creditors	20	-266,688		-260,119	
Cash balances overdrawn		<u>-108,383</u>		<u>-27,957</u>	
			<u>-375,106</u>		<u>-288,114</u>
Total assets less current liabilities (Net Assets Employed)	21		<u>2,657,402</u>		<u>2,539,984</u>
Long-term liabilities					
Long-term borrowing	22	-1,017,200		-952,365	
Deferred liabilities		-535		-957	
Deferred credit - Medway Council		-53,385		-55,609	
Provisions	23	-14,636		-13,786	
Government grant deferred account		-196,381		-174,435	
Liability related to defined benefit pensions schemes - KCC	25	-564,100		-637,700	
- DSO	25	-2,447		-2,487	
			<u>-1,848,684</u>		<u>-1,837,339</u>
Total assets less liabilities			<u>808,718</u>		<u>702,645</u>

Balance Sheet

Revaluation Reserve	24	-72,530	0
Capital Adjustment Account	24	-1,071,609	-1,126,217
Financial Instruments Adjustment Account		20,803	0
Earmarked capital reserve	24	-52,436	-26,698
Usable capital receipt reserve	24	-7,825	-7,942
Pensions reserve - KCC	25	564,100	637,700
- DSO	25	2,447	2,487
Earmarked reserves	24	-86,015	-80,929
General Fund balance	24	-25,835	-25,835
Schools reserves	24	-79,360	-74,376
Surplus on trading accounts	26	-458	-835
Total net worth		<u><u>-808,718</u></u>	<u><u>-702,645</u></u>

Cash Flow Statement

The consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

	Notes	2007-2008		2006-2007
		£'000	£'000	£'000
Revenue Activities				
Cash outflows				
Employee costs		1,102,988		1,061,009
Other operating costs		952,391		857,196
Precepts and levies paid		570		560
Cash inflows				
Dedicated Schools Grant		-751,846		-718,205
Precepts on Collection funds		-513,044		-483,745
Revenue support grant		-228,685		-225,164
Other government grants	30	-419,827		-332,848
Cash received for goods and services		-252,740		-275,088
Other operating cash receipts		-10,413		-10,667
Net cash inflow revenue activities	31		-120,606	-126,952
Returns on Investments and Servicing of Finance				
Cash outflows				
Interest paid		54,191		53,376
Interest element of finance lease rental		30		30
Cash inflows				
Interest received		-10,969		-9,110
			43,252	44,296
			-77,354	-82,656
Capital Activities				
Cash outflows				
Purchase of fixed assets		215,253		223,730
Expenditure on deferred charges		28,560		11,990
Cash inflows				
Sale of fixed assets		-28,749		-46,633
Capital grants received	30	-109,499		-67,279
Other capital cash receipts		-18,390		-20,652
			87,175	101,156
Net cash outflow before financing			9,821	18,500
Management of Liquid Resources				
Net increase/decrease(-) in investments			116,487	48,826
Financing				
Cash outflows				
Repayments of amounts borrowed		184,872		239,360
Capital element of finance lease rentals		202		196
Repayment of Credit Liability		4,144		30,966
Cash inflows				
New loans raised		-235,100		-309,200
			-45,882	-38,678
Net decrease/increase(-) in cash	32		80,426	28,648

1. Net Cost of Services

The figures included in the Accounts reflect expenditure and income on services rather than departmental or Portfolio structures. This is in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP).

2. Precepts

The following precepts were paid:

	2007-08	2006-07
	£000's	£000's
Environment Agency	325	324
Kent and Essex Sea Fisheries Committee	217	209
Sussex Sea Fisheries Committee	28	27
	<hr/>	<hr/>
	570	560

3. Trading Operations

The results of the various trading operations for 2007-08 are shown below prior to transfers to and from

Business unit/activity	Turnover	Expenditure	Surplus/ Deficit(-) 2007-08	Surplus/ Deficit(-) 2006-07
	£'000	£'000	£'000	£'000
Kent County Supplies and Furniture Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	38,130	37,009	1,121	701
Technical Services Maintenance of audio-visual, computer, portable, fire fighting, gymnastic and general electrical equipment	1,202	1,216	-14	76
Community Equipment services Procurement and distribution of living aids equipment	3,624	3,563	61	64
County Print Graphic design and general printing	2,670	2,625	45	-48
Transport Services Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs	16,078	14,282	1,796	1,743
Passenger Services Provider of bus services, including school transport	3,548	3,423	125	-29
Transport Integration Specifying and control of transport for Education and Social Services	7,957	7,732	225	139
LASER Energy purchasing consortium	195,344	194,664	680	1,448
Landscape Services Grounds maintenance including constructing work	10,178	9,611	567	599
Oakwood House Conference centre	1,917	1,906	11	0
Total surplus	280,648	276,031	4,617	4,693

4. Pension Costs

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when they are paid as pensions. However, the charge we are required to make against the council tax is based on the cash payable in the year, so the real cost is reversed out of the Reconciling Items for the Statement of Movement on the General Fund.

Under the requirements of FRS17, the council is required to show the movement in the net pensions deficit for the year. This can be analysed as follows:

	Local Government Pension Scheme	
	2007-08	2006-07
	£000's	£000's
Net Cost of Services:		
• Current service cost	-62,800	-65,000
• Past service costs	-2,300	-2,200
Net Operating Expenditure:		
• Interest cost	-96,600	-87,100
• Expected return on assets in the scheme	81,600	70,200
Actual amount charged against council tax for pensions in that year:	-80,100	-84,100
• Employer's contributions payable to scheme	82,500	71,700
Amounts to be met from Government Grants and Local Taxation:		
• Movement on pensions reserve	-2,400	-12,400

Teachers

In 2007-08 Kent County Council paid £57.2m (£54.1m in 2006-07), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 14.1% of teachers' pensionable pay. In addition, Kent County Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2007-08 these amounted to £4.4m (£4.3m in 2006-07), representing 1.1% (1.1% in 2006-07) of pensionable pay.

Other Employees

Other employees of the County Council may participate in the Kent County Council Pension Fund, part of the Local Government Pension Scheme, a defined benefit statutory scheme.

In 2007-08 Kent County Council paid an employer's contribution of £82.5m (£71.7m in 2006-07) into the Pension Fund, representing 24.2% (21.8% in 2006-07) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2007-08 was based on the review carried out as at 31 March 2007. Under Pension Fund Regulations the rates are set to meet 100% of the overall liabilities of the Fund.

In addition Kent County Council is responsible for all pension payments relating to added years' benefits it has awarded, together with the related increases. However, Medway Council is required to contribute towards the liabilities incurred prior to reorganisation on 1 April 1998. Kent County Council is required to disclose the capital cost of the discretionary pension payments it has made using a formula recommended by CIPFA. The capital value of new discretionary increases in pension payments (i.e. discretionary added years) agreed by the council in 2007-08 is £654k (£1.131m in 2006-07). The capital value of payments agreed in earlier years is £126m (£118.5m in 2006-07).

An actuarial valuation was carried out on the fund as at 31 March 2007. The actuary has estimated that based on current contribution rates the deficiency on the Pension Fund at 31 March 2004 would be recovered over a period of 20 years.

5. Dedicated Schools Grant

The Council's expenditure on schools is funded in the main by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and underspends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2007-08 are as follows

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Original grant allocation to Schools Budget for the current year in the authority's budget	83,423	668,424	751,846
Adjustment to finalised grant allocation			0
DSG receivable for the year	83,423	668,424	751,846
Actual expenditure for the year	-81,654	-667,159	-748,813
(Over)/underspend for the year	1,769	1,265	3,033
Planned top-up funding of ISB from council resources	0	0	0
Use of schools balances brought forward	0	0	0
(Over)/underspend from prior year	1,659	3,719	5,378
(Over)/underspend carried forward to 2008-09	3,428	4,984	8,411

The underspend of £4,984k on schools budgets can be analysed between

a) Increase in school committed reserves	1684
b) Increase in school uncommitted reserves	3482
c) Increase in school community focused reserves	141
Sub total	5307
d) Overspend on schools unallocated	-323
	<u>4984</u>

Other Notes to the Income and Expenditure Account

6. Publicity

Publicity is defined by the Local Government Act 1986 as any communication, in whatever form, addressed to the public at large or to a section of the public. However, a number of areas are exempt from inclusion in the account e.g. statutory publications. Kent County Council's expenditure on publicity was:

	2007-08	2006-07
	£'000	£'000
Recruitment advertising:		
- Schools	1,895	1,731
- Non schools	768	1,118
Total recruitment advertising	2,663	2,849
Other advertising		
- Campaign to reduce levels of waste	596	
- Campaign to increase take-up of funded places for 3 and 4 year olds (Early Years)	222	
- Promoting the Library and Archive service	31	
- Promote Tour de France in Kent	27	
- Promoting greater participation in sport	26	
- Other advertising	280	
Total of Other advertising	1,182	1,320
Other Publicity		
- Corporate Communications team and activity	863	
- Promoting Tourism	479	
- Supporting Produced in Kent	158	
- Publicity for European Regional development Fund projects	84	
- Other publicity	254	
Total of Other publicity	1,838	2,417
Total	5,683	6,586

7. Members Allowances

Members allowances paid in 2007-08 totalled £1,770,436 (£1,780,480 in 2006-07).

8. Local Authority (Goods and Services) Act 1970

Under the Local Authority (Goods and Services) Act the Council provides goods, materials and professional services to other public bodies, including other local authorities, health bodies, charities and voluntary organisations.

Income from the provision of professional services amounted to £31.0m (£32.3m in 2006-07). Supplies of goods and services totalled £24.6m (£22.2m in 2006-07). External business represented 46.4% (46% 2006-07) of the turnover of Commercial Services department.

9. Leases

Kent County Council has made use of leases to acquire vehicles and equipment. Lease rentals paid during the year in respect of current operating leases in respect of vehicle plant and equipment amounted to £5.835m and in respect of land and buildings amounted to £3.964m. A further £0.388m was paid in respect of finance leases.

10. Related Party Transactions

During the financial year 2007-08 there were no material transactions between Kent County Council and its Members and Chief Officers, other than payment of salaries and Members' allowances.

Related party transactions with central government departments and other bodies are listed below:-

- Kent County Council received a number of general and specific grants from central government totalling £11.2m.
- Kent County Council received Dedicated Schools Grant of £752m.
- Precepts amounting to £0.6m were paid to the Environment Agency, Kent and Essex Sea Fisheries and Sussex Sea Fisheries Committee.
- Payments to other local authorities and health bodies, excluding precepts, totalled £14.6m.
- Receipts from other local authorities and health bodies totalled £51.9m.
- In addition, payments of Employers' Pension Contributions were made to the Pension Fund in respect of the Local Government Pension Scheme and to the Teachers Pension Agency in respect of teachers. The details of these payments are detailed in notes to the Income and Expenditure Account, note 4 on pages 24 and 25 of the Accounts.

11. Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2007 to 31 March 2008

This note shows the number of employees whose total remuneration in the financial year 2007-08, excluding pension contributions, was £50,000 or more.

Remuneration includes:-

- a) all sums paid to or receivable by an employee including non-taxable termination payments, redundancy payments and pay in lieu of notice;
- b) expense allowances chargeable to tax i.e. the profit element of car allowances; and
- c) the money value of benefits such as leased cars and health insurance.

Remuneration (£)	Total number of employees			
	Non-Schools		Schools	
	31 March 2008	31 March 2008	31 March 2007	31 March 2007
50,000 - 59,999	261	458	222	312
60,000 - 69,999	78	127	55	95
70,000 - 79,999	17	54	12	45
80,000 - 89,999	12	28	18	16
90,000 - 99,999	11	16	14	12
100,000 - 109,999	17	5	4	0
110,000 - 119,999	2	2	1	1
120,000 - 129,999	2	1	1	2
130,000 - 139,999	2	0	1	1
140,000 - 149,999	1	0	2	0
150,000 - 159,999	1	0	1	0
160,000 - 169,999	0	0	0	0
170,000 - 179,999	1	0	2	0
180,000 - 189,999	0	0	1	0
190,000 - 199,999	0	0	0	0
200,000 - 209,999	0	0	0	0
210,000 - 219,999	1	0	0	0
220,000 - 229,999	0	0	0	0
230,000 - 239,999	0	0	0	0
240,000 - 249,999	1	0	1	0
Total	407	691	335	484

This note has been restated for 2006-07 to comply with the changes in the Statement of Recommended Practice. The change requires that remuneration is based on gross pay, not taxable pay. These figures now include employees pension contributions whereas before these were not included as they are not taxable.

12. Audit Costs

In 2007-08 the following fees were paid relating to external audit and inspection :

	2007-08 £'000	2006-07 £'000
Fees payable for external audit services carried out by the appointed auditor	428	474
Fees payable to the Audit Commission in respect of statutory inspection	6	13
Fees payable to the appointed auditor for the certification of grant claims and returns	62	71
Fees payable in respect of other services provided by the appointed auditor	266	148
	762	706

13. Subsidiary Undertakings

Kent Top Temps LTD (KTT) is a wholly owned subsidiary of Kent County Council. It commenced trading on the 4th April 2005. KTT is a recruitment business that focuses on the supply of both temporary and permanent placements to KCC, other public sector bodies and the private sector. KTT has specialist desks for the supply of temporary labour to the following sectors; administration, care, supply teachers, drivers and industrial, catering, interpreters and translation and professionals. The permanent appointment desk operates via the name of KTT Appointments. KTT had a turnover in 2007-08 of £7.3m with a net profit of £0.3m before tax.

Kent County Facilities Limited trades as InsideOut (from September 2007). It undertakes building repair and maintenance contracts to the public and private sector. InsideOut had a turnover of £0.1m and a net loss of £0.04m.

Collectively these subsidiaries do not have a material impact on Kent County Council's accounts and therefore it is not necessary to produce group accounts in 2007-08.

14. Health Act 1999 - Pooled Budget

Under Section 31 of the above Act, the Authority has entered into a number of S31 agreements with Primary Care Trusts (PCT) and a Social Care Partnership Trust. These comprise the Kent Drug and Alcohol Action Team (KDAAT), which provides advice and information for Adults; Registered Nursing Care Contribution (RNCC) in Care Homes; Westbrook/Westview and Gravesham Place Integrated Care Centres, providing nursing, respite and recuperative care to Older People; Integrated Community Equipment Store (ICES), provision of equipment to people with a Physical Disability to enable them to live independently in their own homes; and Learning Disability Integrated Staffing, which has established joint structures to support closer partnership working.

KDAAT	2007-08 £'000	2006-07 £'000	RNCC	2007-08 £'000	2006-07 £'000
<u>Gross Funding</u>			<u>Gross Funding</u>		
Swanley			PCT	3,924	3,675
PCT	2,531	2,503	West Kent PCT	3,548	3,304
National Treatment Agency	6,808	6,937			
KCC	1,639	1,593			
Total Funding	10,978	11,033	Funding	7,472	6,979
Expenditure	10,978	11,033	Expenditure	7,472	6,981

Net

0

0 Net

0

-2

Notes to the Core Financial Statements

Westbrook/West View PFI	2007-08	2006-07 ICES		2007-08	2006-07
	£'000	£'000	Gross Funding	£'000	£'000
Gross Funding					
Eastern & Coastal Kent PCT	2,768	2,678	PCT	569	343
Kent Adult Social Services	3,370	2,800	West Kent PCT	140	164
PFI Credits	1,379	1,381	Medway PCT	15	13
			Medway Council	45	52
			Kent Adult Social Services	580	476
Total Funding	7,517	6,859	Funding	1,349	1,048
Expenditure	7,517	6,859	Expenditure	1,349	1,048
Net	0	0	Net	0	0

Gravesham Place PFI	2007-08	2006-07 LD Integrated Staffing		2007-08	2006-07
	£'000	£'000	Gross Funding	£'000	£'000
Gross Funding					
PCT	2,481	2,447	PCT	1,535	
Kent Adult Social Services	2,637	2,444	Kent & Medway NHS & Social Care Partnership Trust	1,403	
			Kent Adult Social Services	3,275	
Total Funding	5,118	4,891	Funding	6,213	0
Expenditure	5,118	4,891	Expenditure	6,213	0
Net	0	0	Net	0	0

15. Long Term

PFI

Westbrook and West View

In 2007-08 the authority made payments of £3.1m to Integrated Care Services (ICS) for the maintenance and operation of Westbrook and Westview recuperative care facilities. The Authority is committed to making payment of £3.2m for 2008/09 under this PFI contract. The actual amount paid will depend on the performance of ICS in delivering the services under the contract which will run until April 2033.

Gravesham Place

In 2008/09 the authority is committed to making payments estimated at £2.2m per year under a contract with Land Securities for the maintenance and facilities management, including laundry and catering, of Gravesham Place integrated care centre. The actual amount is subject to an annual inflationary uplift, and is also dependent on the performance of Land Securities in delivering the services under the contract (£2.2m was paid in 2007/08). The contract will run until April 2036.

Swan Valley and Craylands and 6 new schools

On 24 May 2001, the Council contracted with New Schools (Swanscombe) Ltd to provide Swan Valley Secondary School and Craylands Primary School under a Private Finance Initiative (PFI). The schools opened in October 2002. Under the PFI contract the Council pays an agreed charge for the services provided by the PFI contractor. The unitary charge commenced in October 2002, PFI credits were received from April 2003 and were backdated to October 2002. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £65.5m over the 25 year (termination end of September 2027) contract period.

On 7 October 2005, the Council contracted with Kent Education Partnership to provide 6 new secondary schools (Hugh Christie Technology College, Holmesdale Technology College, The North School, Ellington School for Girls, The Malling School and Aylesford School - Sports College) under a Private Finance Initiative (PFI). The development of these schools straddles both the 2006-07 and 2007-08 financial years. Three of these schools opened part of their new buildings during the 2006-07 financial year (Hugh Christie, Holmesdale and The North). The other three schools opened their new buildings during 2007-08 (Ellington School for Girls, The Malling and Aylesford). The unitary charge commenced in November 2006, PFI credits commenced in June 2007 and were backdated to November 2006. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £157.7 million over the 28 year contract period.

Under the terms of the PFI, the design and build of the school facilities and their subsequent maintenance are the responsibility, and risk, of the PFI provider. These assets will then transfer to the Council at nil cost at the end of the contract. Any differences between the residual value and the fair value of the assets will be accounted for in future years. As a result of the treatment of the assets, there is no obligation on the Council to provide credit cover for the construction of the schools.

The Council has classified these PFI schemes as "off balance sheet", and payments to contractors will be treated as revenue expenditure.

Central Government provides a grant to support the PFI schemes. This Revenue Support Grant is based on a formula related to the Capital Expenditure in the scheme: this is called the notional credit approval, and amounts to £11.62m of credits for Swan Valley and Craylands and £80.75m for the 6 schools. This approval triggers the payment of a Revenue Support Grant over the life of the schemes of 25 and 28 years respectively. This grant amounts to just under £21m and just over £177m over the respective periods.

Better Homes Active Lives

In October 2007 the authority signed a PFI contract with Kent Community Partnership (a wholly owned subsidiary of Housing 21) to provide 275 units of Extra Care accommodation. 75 units for people with learning difficulties and 7 units for people with mental health problems. The construction phase will last for two years and the contract for the provision of services will last until 2038/39. In 2008/09 the authority will pay £66k under this contract.

16. Landfill Allowance Trading Scheme

The Authority received landfill allowances for 120,000 tonnes in 2007-08. There has been no trading during the year or during the reconciliation period. DEFRA officials have advised that the average trading value in 2007-08 is £5 per tonne. The estimated usage is 115,000. These transactions are reflected in the balance sheet against debtors, creditors and earmarked reserves.

Notes to the Balance Sheet

17. Movement on Fixed Assets

	Land and buildings	Vehicles, plant and equipment	Roads and other Highways Infrastructure	Community assets	Assets Under Construction	Surplus, non-operational and investment property	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Book Value as at 31 March 2007	1,515,665	40,510	878,552	7,775	237,813	102,007	2,782,322
Accumulated depreciation	-100,821	-24,647	-364,232				-489,700
Net book value as at 31st March 2007	1,414,844	15,863	514,320	7,775	237,813	102,007	2,292,622
Movement in 2007-08							
Additions	30,384	11,326	46,141	272	130,425	56	218,604
Disposals (net)	-65,077	-54				-14,303	-79,434
Revaluations / Impairments	51,491	128				-6,903	44,716
Depreciation	-33,274	-5,687	-43,928				-82,889
Depreciation to Landscape services	-30						-30
Impairments							0
Net transfer from operational to non-operational	-7,468					7,468	0
Trans from/to WIP	52,508		52,107		-104,615		0
Trans from WIP to revenue and deferred charges					-475		-475
					-6,277		-6,277
Net book value as at 31 March 2008	1,443,378	21,576	568,640	8,047	256,871	88,325	2,386,837

Valuations of Fixed Assets carried at current value

The following statement shows the progress of Kent County Council's rolling programme for the revaluation of fixed assets. The valuations were carried out by Nigel Godden MRICS and Steve Conrathe MRICS of Mouchel Parkman. R W Jones ESc MRICS and K N E Taylor MRICS of Jones Lang Lasalle carried out the valuation of Kings Hill. The basis for valuation is set out in the statement of accounting policies, and further explained below.

	Land and buildings £'000	Investment Properties £'000	Total £'000
Valued at current value in:			
2004/05	1,275,765		1,275,765
2005/06	549,970	960	550,930
2006/07	840,189	0	840,189
2007/08	189,011	0	189,011

Basis of valuation

All valuations of land and buildings were carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. In 2004-05 approximately 20% of the properties were inspected, the remainder being valued on a beacon basis of valuation. In 2007-08 all land and buildings which have not had an actual valuation have now been valued, these include, Special Schools, Social Services Establishments, Highways Depots, Waste Disposal Sites, County Offices and Non-Operational Land & Buildings. For each operational asset an Existing Use Value (EUV) was provided. In the case of specialised properties, that is, those properties which are rarely, if ever, sold for existing use on the open market, the valuation basis used is Depreciated Replacement Cost (DRC).

The sources of information and assumptions made in producing the various valuations are set out in a valuation certificate and report.

Assets held under finance leases

Included within the totals for vehicles, plant and equipment are assets that have been acquired under finance leases. Values are as follows:

	At 31 March 2008 £'000	At 31 March 2007 £'000
Gross Book Value	8,091	8,091
Accumulated Depreciation	-7,556	-7,134
Value at 31 March 2008	535	957

Outstanding commitments in relation to finance leases at 31 March are as follows:

	2007-08 £'000	2006-07 £'000
Less than one year	303	388
Between 2-5 years	293	716
	596	1,104

Aggregate finance charges allocated for the period up to the 31 March 2008 are £0.1m in respect of finance lease

Notes to the Core Financial Statements

The Council was committed at 31 March 2007 to making payments of £9.799m under operating leases in 2007/08, comprising the following elements:

	Land and Buildings	Vehicle Plant and Equipment
	£000's	£000's
Leases expiring in 2007/08	184	1,236
Leases expiring between 2008/09 and 2011/2012	1,893	4,373
Leases expiring after 2011/2012	1,887	226
	3,964	5,835

Capital Expenditure and Financing

Capital expenditure was financed as follows:

	2007-08	2006-07
	£000's	£000's
Opening Capital financing requirement	1,010,127	913,331
Write back of Westerham funded from Prudential	-465	
Capital investment		
Fixed Assets	218,603	224,478
Intangible assets	339	241
Deferred charges	28,560	11,990
Increase in finance leases	497	7
	1,257,661	1,150,047
Sources of finance		
Capital receipts	23,819	15,111
Government grants and other contributions	109,498	80,024
Revenue contributions (including MRP)	53,254	44,785
Closing capital financing Requirement	1,071,090	1,010,127
Movement	60,963	96,796
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	12,168	33,867
Increase in underlying need to borrow (unsupported by Government financial assistance)	48,795	62,929
Increase/(decrease) in Capital Financing Requirement	60,963	96,796

Capital expenditure 2007-08

The main items of capital expenditure during the year were:

Highways Schemes	£'000	
Bridge Strengthening /Maintenance Schemes	29,092	
Kent Highway Services Accommodation	8,279	
Intergrated Transport schemes	8,264	
Thamesway	7,960	
Ashford Ring Road	7,181	
Everard Link	4,048	
Ashford New Town Improvement	2,532	
Traffic Signal Head Replacement	1,668	
Eurokent	1,531	
Improving Roads & Footpaths	1,201	
Fastrack Delivery Executive	1,160	
East Kent Access Road	<u>1,076</u>	73,993
Education Schemes		
Special Schools Review	25,944	
Modernisation Programme	13,416	
Building Schools for the future - Development Costs	7,927	
Children's Centres	7,791	
Dartford Campus	6,083	
Emergency Building Maintenance	3,658	
Conditioning Programme	3,620	
Vocational Education Programme	3,413	
The North School, Ashford	2,723	
Windchimes Centre	2,454	
Schools Access Initiative	2,367	
Planned Preventative Maintenance	1,644	
Downsview Primary School	1,048	
Corporate Property Team	<u>1,012</u>	83,100

Kent Adults Social Services

Dignity in Care	1,711	
Improving Information Management	<u>1,301</u>	3,012
		<u>160,105</u>
Capital Devolved to Schools		45,096
Projects less than £1m		42,798
Total Capital Expenditure		<u><u>247,999</u></u>

Future capital expenditure commitments

At 31 March 2008 contractually committed capital expenditure to be incurred in 2008-09 and later years includes the following major projects:

	£'000
Highway Schemes	
Ashford Ring Road	2,961
Eurokent Phase 4 & 5	1,581
Ashford Super Depot	1,418
Everards Link	1,087
Education Schemes	
Dartford Technology College	5,742
Valence School	4,739
Meadowfield School	2,638
Bower Grove School	2,213
Ashford Oaks Primary School	2,204
Astor of Hever School	1,617
Phoenix Primary School	1,480
Milestone School	1,455
Orchard School	1,447
Sussex Road Primary School	1,395
Dartford AEC	855
Dartford Campus	850
Greenfields Primary School	705
Marlowe Innovation Centre	572
Dartford Rainbow Nursery	551
Communities	
Herne Bay Youth & Children's Centre	745
Total Commitments	<u>36,255</u>

Analysis of major operational asset holdings

	At 31 March 2008	Restated At 31 March 2007
Schools (excludes voluntary aided schools and academies)	483	504
Libraries, adult education, discovery and youth centres	114	116
Smallholdings	5	8
Homes and day centres for the elderly	18	20
Facilities for children and their families	49	45
Facilities for people with disabilities	12	11
Recreation sites	30	30
Household Waste sites	18	18
County roads	8,403km	8,382 km
County offices	10	10

18. Movement in intangible assets

	Purchased Software licences £000s	Total £000s
Balance at 1 April 2007	4,732	4,732
Expenditure in year	339	339
Written off to revenue in year	-1,442	-1,442
Balance at 31 March 2008	<u>3,629</u>	<u>3,629</u>

Software licences were purchased for Central and Kent Adults Social Services systems and various Commercial Services replacement systems. The cost is being written off over the life of the licences; between 3 and 5 years.

19. Amounts owed to the Council by debtors

	At 31 March 2008 £000's	At 31 March 2007 £000's
Long Term debtors:		
Housing Act advances (mortgages)	14	16
Medway Council (transferred debtor)	53,385	55,608
Public bodies	3,009	3,301
Other (incl PFI debtor)	4,058	1,252
	<u>60,466</u>	<u>60,177</u>
Other debtors:		
Staff advances	58	87
Government Departments	48,744	37,211
Payments in advance (incl PFI)	31,250	29,919
General debtors	97,466	108,396
	<u>177,518</u>	<u>175,613</u>

Capital debtors amounting to £20.9m are included in the Accounts at 31 March 2008 (£13.1m in 2006-07). Capital debtors relate to grants towards capital expenditure incurred in 2007-08 which had not been received by 31 March 2008.

PFI

	At 31 March 2008 £000's	At 31 March 2007 £000's
Long term PFI debtors		
Long term prepayment	-385	-385
Long term debtor in relation to residual value	-4,317	826
	<u>-4,702</u>	<u>441</u>

PFI Prepayment

	At 31 March 2008 £000's	At 31 March 2007 £000's
Short term PFI Prepayment	16,020	12,634
	<u>16,020</u>	<u>12,634</u>

20. Amounts owed by the Council to creditors

	At 31 March 2008 £'000	Restated At 31 March 2007 £'000
Kent and Essex Sea Fisheries	701	582
Receipts in advance	63,034	47,861
General creditors	182,192	187,493
Other local authorities	2,827	2,663
Deferred capital receipts	14	16
Deferred income	2,116	1,779
Government departments	15,804	19,725
	<u>266,688</u>	<u>260,119</u>

Capital creditors amounting to £43.5m are included in the Accounts at 31 March 2008 (£39.3m in 2006-07).

21. Net Assets Employed

Net assets analysed between Kent County Council and trading operations.

	At 31 March 2008 £'000	Restated At 31 March 2007 £'000
General Fund	2,651,757	2,533,331
Trading Accounts	5,645	6,653
	<u>2,657,402</u>	<u>2,539,984</u>

22. Long term borrowing

The external principal debt of Kent County Council repayable in more than 1 year is analysed as follows:

The figure for 2007-08 excludes the accrued interest of £14.6m

	At 31 March 2008 £'000	At 31 March 2007 £'000
Public Works Loan Board	650,796	666,665
Money market loans	351,800	285,700
	<u>1,002,596</u>	<u>952,365</u>

The loans above are repayable within the following periods:

	£'000	£'000
Between 1-5 years	30,112	10,146
Between 5-10 years	113,209	129,779
Between 10-15 years	87,003	87,003
More than 15 years	772,272	725,437
	<u>1,002,596</u>	<u>952,365</u>

23. Provisions

The Council has made a provision for insurance claims. The Council's Insurance arrangements involve both internal and external cover. For internal cover an Insurance fund has been established to provide cover for property, combined liability and motor insurance claims. The fund comprises a Provision for all claims notified to the Council at 31 March each year and a Reserve for claims not yet reported but likely to have been incurred.

	Balance at 1 April 07 £'000	Movement in year £'000	Balance at 31 March 08 £'000
Insurance Provision	-9,220	-1,626	-10,846
Other Provisions	-4,566	776	-3,790
	<u>-13,786</u>	<u>-850</u>	<u>-14,636</u>

24. Reserves

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmarked resources for future spending plans.

Reserve	Balance 1 April 2007 £'000	Net Movement in year £'000	Balance 31 March 2008 £'000	Purpose of Reserve
Revaluation Reserve	0	-72,530	-72,530	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-1,126,217	54,608	-1,071,609	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	0	20,803	20,803	Movements in fair value of assets and premiums
Usable Capital Receipts	-7,942	117	-7,825	Proceeds of fixed assets available to meet future capital investment
Pensions Reserves				Balancing account to allow inclusion of Pensions
- KCC	637,700	-73,600	564,100	Liability in Balance Sheet
- DSO	2,487	-40	2,447	
General Fund	-25,835	0	-25,835	Resources available to meet future unforeseen events
Earmarked Capital Reserve	-26,698	-25,738	-52,436	See separate note
Earmarked Reserves	-80,929	-5,086	-86,015	See separate note
Schools Reserve	-74,376	-4,984	-79,360	See separate note
Surplus on Trading Accounts	-835	377	-458	
Total	-702,645	-106,073	-808,718	

Earmarked Reserves

The following describes each of the Earmarked Reserve accounts where the balance is in excess of £0.5m, the sum of which are shown in the table on page 45.

Vehicles, plant and equipment

This is a reserve for the replacement and acquisition of vehicles, plant and equipment.

Special funds

These are reserves held primarily to facilitate the implementation of economic development and tourism initiatives and policy and regeneration expenditure.

Office strategy

This is a reserve to support the implementation of major office strategy projects.

Kings Hill development smoothing reserve

Comprises the County Council share of distribution from proceeds of the Kings Hill development received in accordance with the terms of the Development Agreement. These distributions can vary considerably from year to year so this reserve is used to smooth the impact on the revenue budget over the medium term.

Swanscombe School PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments for the Swanscombe School PFI scheme. The reserve will comprise of contributions from the Education revenue budget and a proportion of grant funding received from the government.

Gravesham North Kent (GNK) reserve

A reserve which comprises funds received from Dartford, Gravesham and Swanley Primary Care Trust to be used to cover revenue pressures following the opening of the GNK PFI project, a project undertaken in partnership between Kent Social Services and Gravesham & North Kent Hospital.

Westview and Westbrook PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments, Section 31 pooled budget contributions and government grant funding for the Westview and Westbrook PFI scheme.

Asylum reserve

A reserve to cover the impact of any shortfall in grant funding following changes to grant rules.

Supporting People reserve

This is unspent grant since 2004/05 which will be used to smooth out the loss of grant funding in future years.

Assistive Technology

A reserve to cover the re-phased costs of Telecare, technology designed to assist people to stay in their own homes longer rather than go into care. The annual costs will be drawn down over the next four years as the programme is rolled-out.

Environmental Initiatives reserve

This reserve represents funds in hand relating to a variety of environmental initiatives involving other partners. The reserve largely comprises resources received from external funders against which expenditure will be incurred.

Rolling budget reserve

This reserve represents the roll forward of funds to cover the scheduling of revenue expenditure from previous years.

Emergency Conditions reserve

This reserve is to cover the cost of emergencies which cannot be accommodated within normal revenue allocations, such as the costs associated with severe weather conditions.

Elections reserve

This reserve is to cover the costs of the County Council elections, which occur every 4 years, and bi-elections. A contribution is made to the reserve each year in order to even the impact upon the council tax.

Dilapidations reserve

This reserve is to provide for the potential dilapidation costs that the Council faces when existing leases for office accommodation cease.

Workforce reduction reserve

This reserve is to provide for the redundancy and other costs of potential staffing reductions required to achieve budget savings.

South East Improvement and Efficiency Partnership reserve

This is unspent grant from the DCLG to fund the administration of the South East Improvement and Efficiency Partnership, which is undertaken by KCC.

IT Asset Maintenance reserve

This reserve will contribute to the funding of the IT refresh programme which will give the Council ongoing and sustainable capacity to replace ageing technology.

Performance Reward Grant (PRG)

This reserve comprises funding from the DCLG Performance Reward Grant to fund projects aimed at improving performance over the medium term.

Earmarked Reserve to support 2008-09 budget

The medium term plan for 2008-11 includes support from earmarked reserves.

Prudential Equalisation Reserve

A reserve to smooth the impact on the revenue budget over the medium term of prudential borrowing costs i.e. the costs of borrowing to support the capital programme, which are not supported by Government grant.

Six Schools PFI Reserve

This has been established to equalise, over time, the budget impact of the unitary charge payments for the 6 schools' PFI scheme. The reserve comprises of contributions from the Education revenue budget, contributions from schools and a proportion of grant funding received from the Government.

Dedicated Schools Grant (Central Expenditure) Reserve

This is unspent Dedicated Schools Grant for central expenditure, which in accordance with the DCSF grant regulations must be carried forward for use in future years and spent in accordance with school financial regulations

Insurance reserve

This is a reserve for the cost of insurance claims in excess of the amount provided for in the insurance fund provision.

Landfill Allowance Taxation Scheme Reserve

The government allocates each Waste Disposal Authority a quota of Landfill Allowance permits. This determines the amount of biodegradable waste the authority can send to landfill sites. The authority can either use these permits, bank them for future use or trade with other waste disposal authorities. This reserve represents the value of cumulative unsold Landfill Allowance permits. National guidance on the value per permit is used to calculate the value of this reserve. The reserve is only realised when and if these permits are actually sold.

Notes to the Core Financial Statements

Other

These mainly comprise various reserves held in respect of initiatives commenced in previous years for which remaining planned financial provision will be utilised in 2007-08 or future years as initiatives are completed.

Other Earmarked Reserves	Balance at		Balance at
	1 April 2007	Movement	31 Mar 2008
	£'000	£'000	£'000
VPE Reserve	-3,546	-268	-3,814
Special funds	-2,586	369	-2,217
Office Strategy	-631	-51	-682
Kings Hill development smoothing reserve	-2,596	1,000	-1,596
Swanscombe School PFI equalisation reserve	-4,405	-904	-5,309
Gravesham North Kent Reserve (from D G & S PCT)	-1,020	759	-261
Wesview/Westbrook PFI equalisation reserve	-312	-543	-855
Asylum Reserve	-1,121	1,121	0
Supporting People Reserve	-5,741	-3,535	-9,276
Assistive Technology	-935	491	-444
Environmental initiatives reserve	-3,390	159	-3,231
Rolling budget reserve	-8,148	259	-7,889
Emergency Conditions Reserve	-813	0	-813
Elections Reserve	-471	-235	-706
Dilapidations reserve	-1,827	32	-1,795
Workforce Reduction reserve	-1,985	-417	-2,402
South East Improvement and Efficiency Partnership	0	-1,035	-1,035
IT Asset Maintenance reserve	-5,539	-620	-6,159
PRG Reserve	-4,712	3,661	-1,051
Earmarked Reserve to support 2008-09 budget	-1,435	0	-1,435
Prudential Equalisation Reserve	-10,309	1,190	-9,119
Six schools PFI	-848	-3,259	-4,107
Dedicated Schools Grant - Non-Delegated	0	-3,428	-3,428
Other	-5,423	-483	-5,906
Total	-67,793	-5,737	-73,530
Insurance Reserve			
KCC	-10,206	0	-10,206
LATS Reserve			
Landfill Allowance Taxation Scheme	-1,934	1,142	-792
	-79,933	-4,595	-84,528
Commercial Services Earmarked Reserves	-996	-491	-1,487
Total Earmarked Reserves	-80,929	-5,086	-86,015
Trading Reserves:			
Commercial Services Trading Account	-756	309	-447
Personnel	-79	79	0
Oakwood House	0	-11	-11
Schools Reserves	-74,376	-4,984	-79,360
Total Movement as per I & E	-156,140	-9,693	-165,833
Balance Sheet	-156,140	-9,693	-165,833

School Reserves

At 31 March 2008 funds held in school revenue reserves stand at £71.874m. These reserves are detailed in the table below.

	Balance at 1 April 2007	Movement	Balance at 31 Mar 2008
	£'000	£'000	£'000
School delegated revenue budget reserves - committed	-37,556	-1,684	-39,240
School delegated revenue budget reserves - uncommitted	-25,378	-2,712	-28,090
Unallocated Schools budget	-11,286	-447	-11,733
Community Focused Extended School Reserves	-156	-141	-297
Total	-74,376	-4,984	-79,360

The increase in reserves of £4.984m is made up of the following:

	2007-08	2006-07
	£'000	£'000
Underspend (as per page 1)	-4,984	-3,719
	-4,984	-3,719

25. Liability related to defined benefit pensions schemes

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:

	Local Government Pension Scheme			
	Restated			
	2007-08	2006-07	2005-06	2004-05
	£000's	£000's	£000's	£000's
Estimated liabilities in scheme	-1,716,700	-1,779,500	-1,764,800	-1,486,700
Estimated assets in scheme	1,152,600	1,141,800	1,044,900	791,300
Net asset (+)/liability(-)	-564,100	-637,700	-719,900	-695,400

This liability reflects the underlying commitment that the Authority has in the long - term to pay retirement benefits. The total liability of £564.1m has a substantial impact on the net worth of the Authority as recorded in the balance sheet.

The actuary has calculated the value of assets held by the Pension Fund that are attributable to Kent County Council at 31 March 2008. In carrying out this valuation they have made the following assumptions:

Assumptions as at	31 Mar 2008	31 Mar 2007	31 Mar 2006	31 Mar 2005
	% per annum	% per annum	% per annum	% per annum
Price increases	3.60%	3.20%	3.10%	2.90%
Salary increases	5.10%	4.70%	4.60%	4.40%
Pension increases	3.60%	3.20%	3.10%	2.90%
Discount rate	6.90%	5.40%	4.90%	5.40%

The actuarial gains and losses

Local Government Pension Scheme

	2007-08		2006-07	
	£000's	%	£000's	%
Difference between the expected and actual return on assets	-143,800	-12.5	-7,200	-0.6
Difference between actuarial assumptions about liabilities and actual experience	-41,600		200	-
Changes in the demographic and financial assumptions used to estimate liabilities	252,100	3.9	97,400	5.1
	66,700		90,400	

The £252,100k comprises £19,600k in respect of the change in the commutation assumption compared to the 2007 FRS17 report, (£63,500k) in respect of the change in the mortality assumptions compared to the 2007 FRS17 report, and £296,000k in respect of the change in financial assumptions compared to the 2007 FRS17 report.

Notes to the Core Financial Statements

	2005-06	
	£000's	%
Difference between the expected and actual return on assets	171,800	16.4
Difference between actuarial assumptions about liabilities and actual experience	-150	
Changes in the demographic and financial assumptions used to estimate liabilities	-184,900	-0.8
	<u>-13,250</u>	

Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)

	2007-08	2006-07	2005-06
	£000's	£000's	£000's
Actual return less expected return on pension scheme assets	-143,800	-7,200	171,800
Experience gains and losses arising on the scheme liabilities	-41,600	200	-150
Changes in assumptions underlying the present value of the scheme liabilities	252,100	97,400	-184,900
Actuarial gain / (loss) in pension plan	<u>66,700</u>	<u>90,400</u>	<u>-13,250</u>
Increase / (Decrease) in irrecoverable surplus from membership fall and other factors	4,540	3,730	2,083
Actuarial Gain / (loss) recognised in STRGL	<u>71,240</u>	<u>94,130</u>	<u>-11,167</u>

The value of the Fund at 31 March and the expected return on the assets of the Fund is shown in the following

Assets (Employer)

	Long Term Rate of Return Expected % per annum	Fund Value at 31 March 2006 £'000	Long Term Rate of Return Expected % per annum	Fund Value at 31 March 2005 £'000
Equities	7.40%	741,900	7.70%	546,000
Bonds	4.60%	135,800	4.80%	102,900
Property	5.50%	94,000	5.70%	79,100
Cash	4.60%	<u>73,100</u>	4.80%	<u>63,300</u>
Total		1,044,800		791,300

Notes to the Core Financial Statements

	Long Term Rate of Return Expected	Fund Value at 31 March 2008	Long Term Rate of Return Expected	Fund Value at 31 March 2007
	% per annum	£'000	% per annum	£'000
Equities	7.70%	800,400	7.80%	800,700
Bonds	5.70%	161,800	4.90%	141,800
Property	5.70%	124,700	5.80%	116,700
Cash	4.80%	65,700	4.90%	82,600
Total		1,152,600		1,141,800

DSO Pensions

The figure in the balance sheet reflects the unfunded liability as calculated by the actuary in March 2008 on a minimum risk basis. This basis represents a more prudent set of assumptions and is closest to an FRS 17 figure.

26. Surplus on Trading Accounts

	Balance at 1 April 07 £'000	Movement in the year £'000	Balance at 31 March 08 £'000
Commercial Services	-756	309	-447
Oakwood House	0	-11	-11
Personnel and Development	-79	79	0
	-835	377	-458

The Commercial Services figure differs from that shown in the Income and Expenditure Account as this note does not reflect the adjustments that have to be made in line with BVACOP.

Other Notes

27. Pension Fund

Once credited to the Pension Fund, monies may only be used to provide for the statutory determined pension and other payments attributable to staff covered by the Fund. The assets and liabilities of the Pension Fund are shown separately from those of Kent County Council, although the legal position is that they are all in the ownership of Kent County Council as the administering authority. Any actuarial surplus or deficit is apportioned to the constituent member bodies of the Fund. Details of the Fund are disclosed in the Pension Fund Accounts found on pages 59 to 70.

28. The Euro

The impact of the possible introduction of the Euro in the United Kingdom is being monitored and no costs were incurred in 2007-08.

29. Contingent Liabilities**Land, Planning &**

The Council faces a very significant claim for compensation which is being fiercely resisted. This is a very complex case so it is not possible to predict the likely outcome. The claim is for several million pounds.

There are 4 other claims which in total amount to approximately £1m. Three of these are being contested with one being conceded involving legal costs of around £50k.

There are ongoing claims seeking eviction/remedial action to bring licensees on one of the County Council's caravan sites to compliance with the terms of their licence. Claimants are likely to renew their application for an oral hearing; if it is accepted then legal costs could exceed £10k.

Non-compliance

There is one matter where remedial works were carried out by the Council on land formerly belonging to the Highways Agency. Until recently the Council faced a damages claim for trespass and prosecution under the Environment Protection Act 1990. In addition it still faces claims for breach of planning laws and prosecution under the Environment Protection Act 1990. The Council has recently negotiated a settlement with the Highways Agency involving a transfer of the land for a minimal value but with a contribution to their legal costs in the sum of £14,000. The Environment Agency has indicated that it is unlikely to prosecute KCC. The Council however does still face the possibility of being required to carry out remedial works to the site as the bund remains in breach of planning control. The cost of remedial works is estimated at around £0.25m.

Employment

There are eleven potential claims relating to discrimination and breach of contract in employment. The damages being sought are approximately £0.6m. The Council has not admitted liability in any of these cases. There is one further case which may proceed to the Employment Tribunal. If proceedings commence, then the Council will incur legal costs in defending the claim. It should be noted that as there is no cap on damages in discrimination cases, if this or the other cases where discrimination has been pleaded are lost, significant damages could be awarded.

There are a number of claims (20) from part-time workers claiming backdated membership of the Local Government or Teacher's Pension Scheme. Of the 20, 14 are likely to succeed in part or full, and the remainder are likely to fail. The cost to the Council, if cases are lost or settled, is calculated by the application of a complicated formula. Any costs resulting from these claims are met by an increase in the Council's contribution to the Pension Scheme.

Education

There are 2 cases. The Council has conceded one claim and is likely to incur costs of £18k. Legal costs in excess of £10k could be incurred on the other case if KCC fails.

Immigration

There are 2 cases which if successful could result in the Council incurring legal costs in excess of £10k.

Contract

There are two contract claims on which KCC could incur legal costs of £10k each. In relation to one of these the claimant is seeking damages in excess of £0.25m. Whilst chances of success are assessed as being good a risk remains that significant damages may be awarded.

Construction & Technology

There are 2 claims against architects to recover losses which amount to several million pounds. The prospects are assessed to be very good and in one of the cases compensation of £315k has already been received.

30. Cash flow Grant analysis

Revenue Grants	2007-08	2006-07
	£'000	£'000
Department for Children Schools and Families	299,350	231,760
Department of Health	44,689	29,745
Home Office	9,804	7,582
Department for Transport	52	59
European Community	1,047	563
Department for Communities and Local Government	62,338	61,615
Cabinet Office	78	274
Department for Environment, Food and Rural Affairs	1,046	663
Department for Work and Pensions	178	151
Seeda - South East England Development Agency	857	17
Department for Culture, Media & Sport	188	44
Department for Business Enterprise & Regulatory Reform	104	
NOF - New Opportunities Fund (Lottery)	96	375
	419,827	332,848
Capital Grants		
Department for Children Schools and Families	75,016	42,940
Department for Transport	21,244	4,535
Department for Communities and Local Government	8,164	12,710
Department of Health	2,539	833
Lottery and other	2,536	6,261
	109,499	67,279

31. Reconciliation of revenue surplus to revenue cashflow

	2007-08	2006-07
	£'000	£'000
Surplus(-)/Deficit for the year	0	0
Non-cash transactions		
Minimum revenue provision and amounts set aside from revenue	-40,051	-36,231
Contributions to reserves	-23,089	-19,890
Contributions to provisions	-2,957	337
	-66,097	-55,784
Items on an accruals basis		
Increase/decrease(-) in revenue debtors	-10,372	-2,084
Increase(-)/decrease in revenue creditors	-4,383	-27,083
Increase/decrease(-) in stocks	-515	-904
	-81,367	-85,855
Items shown later in the cashflow statement		
Servicing of finance	-39,239	-41,097
Net cashflow from revenue activities	-120,606	-126,952

32. Reconciliation of movement in cash to the movement in net debt

	Balance 1 April 2007	Balance 31 Mar 2008	Movement in the year
	£'000	£'000	£'000
Cash overdrawn	-27,957	-108,383	<u>80,426</u>
Decrease in cash			80,426
Debt repayable within 1 year	-38	-35	3
Debt repayable after 1 year	-952,365	-1,002,596	-50,231
Current investments	268,059	384,545	<u>116,486</u>
Increase in net debt			66,258

33. Definition of Liquid Resources

Liquid resources have been defined as the short term investments that are disclosed on the face of the balance sheet.

Trust Funds

Kent County Council is responsible for the application of income from Trust Funds which have been provided from gifts and legacies for items such as school prizes. In accordance with the recommendations of the Charities Commission these are not consolidated into the Council's accounts and are instead separately managed and subject to appropriate independent review.

Balance Sheet at 31 March

	2007-08 £	2006-07 £
Current assets		
Investments	41,992	46,241
Debtors	681	902
Cash	89,600	101,612
	<u>132,273</u>	<u>148,755</u>
Represented by		
Trust funds -		
Capital	-37,349	-45,115
Revenue	-94,924	-103,640
	<u>-132,273</u>	<u>-148,755</u>

34. Local Area Agreement

The council is a participant in a LAA – a partnership with other public bodies involving the pooling of government grants to finance work - towards jointly agreed objectives for local public services. In 2007-08, the LAA has completed the third year of its three-year agreement.

The purpose of the LAA is:

- To form an agreement between the Kent Partnership, Government (represented by the Government Office of the South East), and other external agencies, to ensure that together we achieve the 2006 vision in the Sustainable Community Strategy (The Vision for Kent)
- To agree specific outcomes and targets that will be achieved each year for the three years of the agreement
- To improve the effectiveness and efficiency of public services in Kent by pooling and aligning funding streams.

The LAA partners are:

- local government bodies – Kent County Council, Ashford Borough Council, Canterbury City Council, Dartford Borough Council, Dover District Council, Gravesham Borough Council, Maidstone Borough Council, Medway Council, Sevenoaks District Council, Shepway District Council, Swale Borough Council, Thanet District Council, Tonbridge and Malling Borough Council, Tunbridge Wells Borough Council, South East England Development Agency
- community protection authorities – Kent Fire and Rescue Service, Kent Police, Kent Probation, Ashford Community Safety Partnership, Safer Community Partnership Canterbury, Dartford Crime and Disorder Reduction Partnership, Dover Crime and Disorder Reduction Partnership, Gravesham Crime and Disorder Reduction Partnership, Safer Maidstone Partnership, Sevenoaks Community Safety Partnership, Shepway Crime and Disorder Reduction Partnership, Swale Crime and Disorder Reduction Partnership, Thanet Crime and Disorder Reduction Partnership, Tonbridge and Malling Crime and Disorder Reduction Partnership, Tunbridge Wells Safer Community Partnership
- health bodies – West Kent Primary Care Trust, Eastern and Coastal Kent Primary Care Trust
- learning bodies – Kent and Medway Learning and Skills Council, University of Kent
- voluntary organisations – Kent Council for Voluntary Youth Services, East Kent Council for Voluntary
- other partners – Kent Invicta Chamber of Commerce, Creative Foundation, Pfizer, Natural England, Saga, Environment Agency, Port of Dover, Federation of Small Businesses, Kent Economic Board, Job Centre Plus, Land Securitas, North West Kent Racial Equality Council, Churches Together in Kent, Kent Association of Parish Councils, Business Link Kent

Kent County Council acts as the accountable body for the LAA. This means that we are responsible for managing the distribution of grant paid by the Government Office to the partners involved, but the Council does not determine which bodies are due payments - this is determined either by the Government Office or the partnership. In this context, the council acts as an agent to the partnership and has therefore not recognised the full amount of the LAA Grant in its financial statements, but only that part to be spent by the Council in providing services.

The total amount of LAA Grant received by the LSP in 2007/08 is £19.7m. The council received £14.5m of this total to fund its own services.

As accountable body, the Council is potentially responsible for repaying to the Government any element of grant that is found to have been misused by its partners. Systems are in place for distributing the grant that are designed to limit the possibility that this will happen. It has not been necessary to recognise any contingent liabilities for possible repayments and no provisions have been made for any such eventuality.

35. Financial Instruments

Financial Instrument Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments

	Long Term		Current	
	31 Mar 2007	31 Mar 2008	31 Mar 2007	31 Mar 2008
	£'000	£'000	£'000	£'000
Financial liabilities (principal amount) This is the actual value of the loan, not arising from any adjustments	952,365	1,002,453	0	0
Financial liabilities at amortised cost	<u>965,569</u>	<u>1,017,057</u>		
Financial liabilities at fair value through the I&E	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total borrowings	<u>965,713</u>	<u>1,017,057</u>		
Loans and receivables (principal amount) This is the actual value of the loan, not arising from any adjustments	153,058	116,000	115,000	269,545
Loans and receivables	<u>120,860</u>	<u>121,094</u>	<u>155,321</u>	<u>273,349</u>
Financial Assets at fair value through the I	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unquoted equity investment at cost	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Investments	<u>120,860</u>	<u>121,094</u>	<u>155,321</u>	<u>273,349</u>

Notes to the Core Financial Statements

Financial Instruments Gains / Losses

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments are made up as follows

	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £000	Loans and receivables £000	Total £000
Interest expense			
Losses on derecognition			
Impairment losses	0	-811	-811
Interest payable and similar charges	0	-811	-811
Interest income			
Gains on derecognition	0	0	0
Interest and investment income	0	0	0
Gains on revaluation	0	0	
Losses on revaluation	0	0	
Amounts recycled to the I&E account after impairment	0	0	
Surplus arising on revaluation of financial assets	0	0	
Net gain/(loss) for the year	0	-811	

This relates to the impairment of Soft Loans and the re-measurement of the fair value of the guarantee for Kings

Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

£000	31 March 2008		31 March 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
PWLB debt	661,225	781,580	677,193	761,894
Non-PWLB debt	355,832	385,819	288,376	273,481
Total debt	1,017,057	1,167,399	965,569	1,035,375
Trade Creditors	56,921	56,921	49,515	49,515
Total financial liabilities	1,073,978	1,224,320	1,015,084	1,084,890

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

Money market loans <1 year	273,349	273,349	155,321	155,321
Money market loans >1 year	124,333	121,093	120,663	120,860
Bonds				
Trade debtors	7,442	7,442	9,443	9,443
Total loans and receivables	405,124	401,884	285,427	285,624

The differences are attributable to fixed interest instruments payable being held by the authority whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest. The fair values for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments. It should be noted that the redemption rules applying to PWLB debt changed on 1 November 2007, and are less favourable than the previous procedures. As a result the fair value figures for 31 March 2008 are relatively higher (more costly to redeem) than the 31 March 2007 comparators.

The fair values for loans and receivables have been determined by reference to the Public Works Loans Board (PWLB) redemption rules which provide a good approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators for the following three years limiting:
 - o The Council's overall borrowing;
 - o Its maximum and minimum exposures to fixed and variable rates;
 - o Its maximum and minimum exposures the maturity structure of its debt;
 - o Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Council's experience of its customer collection levels over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 Mar 2008 £000	Historical experience of default %	Adjustment for market conditions at 31 Mar 08 %	Estimated maximum exposure to default £000
	(a)	(b)	(c)	(a*c)
Deposits with banks and financial institutions				
AAA rated counterparties	39,011	0.000%	0.000%	0
AA rated counterparties	182,338	0.007%	0.007%	13
A rated counterparties	163,196	0.010%	0.010%	16
Other counterparties	0	0	0.627%	0
Bonds - AAA rates	0	0	0.001%	0
Trade debtors	7,442	2.000%	2.000%	149
	391,987			178

The Council does not generally allow credit for its trade debtors, as such £1.047m of the £7.4m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	£000
Less than three months	491
Three to six months	183
Six months to one year	19
More than one year	354
	1,047

Collateral – During the reporting period the council held no collateral as security.

Liquidity risk

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well through cash flow management procedures required by the Code of Practice.

Refinancing and Maturity Risk

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

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

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

The maturity analysis of financial liabilities is as follows:

	<u>£000</u>
Less than one year	35
Between one and two years	35
Between two and six years	30,091
Between six and fifteen years	240,199
More than fifteen years	732,271
	<u>1,002,631</u>

The maturity analysis of financial assets is as follows:

	<u>£000</u>
Less than one year	268,545
Between one and two years	34,000
Between two and three years	29,000
More than three years	53,000
	<u>384,545</u>

Market risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise;
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and effect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

All the Council's liabilities and assets are at fixed rates and so will not be affected by changes in interest rates. Neither does the Council hold investments that could lose capital value. Nevertheless through its Treasury Management Strategy the Council takes full cognizance of the impact changes in interest rates will have on the overall financing costs of the Council

Price Risk - The Council, excluding the pension fund, does not generally invest in equity shares but does have shareholdings to the value of £2m in a number of joint ventures and in local industry. Whilst these holdings are generally illiquid, the Council is exposed to losses arising from movements in the prices of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for "open book" arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings.

The shares are all classified as Available-for-Sale, meaning that all movements in price will impact on gains and losses recognised in the STRGL. A general shift of 5% in the general price of shares (positive or negative) would thus have resulted in a £100,000 gain or loss being recognised in the STRGL for 2007/08.

Foreign exchange risk - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Pension Fund Accounts

This is an extract from a more detailed published statement, a copy of which is available for inspection at County Hall. Further information about the Pension Fund Accounts can be obtained from Nick Vickers, Head of Financial Services. Telephone Maidstone (01622) 694603 or e-mail nick.vickers@kent.gov.uk.

Under the provisions of the consolidated Local Government Pension Scheme Regulation 1997, a Pension Fund has been established and is administered by Kent County Council for the purpose of providing pensions and other benefits for the pensionable employees of Kent County Council, Medway Council (unitary authority), the district councils in Kent and of other employing bodies established within the county area. Teachers are not included as they have their own national pension scheme.

The Fund is maintained by investing in stock market securities, both in this country and overseas, and in real property and property units trusts within the UK and overseas. For 2007-08 contributions are made to the fund by employees at the rate of 6% of their pensionable remuneration for officers and new members of the scheme. Existing manual staff entitled to pay 5% will continue to contribute at 5% whilst they remain in continuous employment in the same capacity. From 2008-09 employees' contribution rates range from 5.5% to 7.5% of pensionable pay, determined by a seven tier structure based on the level of whole-time pensionable pay as at 1 April in each year. The rate of employer's contribution is determined by the Fund's actuary at a level necessary to assure that the Fund is able to meet 100% of its existing and prospective liabilities. Any shortfall is being spread over a period of 20 years for Local Authority employers and average future working life time for other employers in the Fund.

A triennial valuation of the Fund was carried out as at 31 March 2007 and this set Kent County Council's employer contribution rate at 23.1% of payroll for the three year period commencing 1 April 2008.

The market value of the Fund's assets at the valuation date was £2,573m representing 73% of the Fund's accrued liabilities, allowing for future pay increases. The main actuarial assumptions used were as follows -

Valuation of assets:-	assets have been valued at a 12 month smoothed market value
Rate of return on investments	6.1% p.a.
Rate of general pay increases:-	4.7% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):-	3.2% p.a.

The main result of this valuation was to show that the funding level had increased from 63% to 73%.

The next actuarial valuation is due as at 31 March 2010 and any change in employer contribution rates as a result of that valuation will take effect from 1 April 2011.

The Fund has been accepted by the Inland Revenue as a registered pension scheme in accordance with paragraph 1(1) of Schedule 36 to the Finance Act 2004 and, as such, qualifies for exemption from tax on investment income, underwriting commission and gains on selling transactions. By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

Pension Fund Accounts

The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - a Statement of Recommended Practice (revised November 2002). However, disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice.

A small part of the daily cash balance of the Fund awaiting investment is used by the County Council as part of its temporary borrowing requirements. The regulations require that interest on such balances be credited to the Fund at not less than 7 days notice money market rates. The remaining cash is split between Investment Fund Managers, who hold it on deposit for interest until required.

Employing Bodies. These include Scheduled Bodies which are Local Authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and Admitted Bodies which participate in the Fund by virtue of an admission agreement made between the Authority and the relevant body. Admitted bodies may be either voluntary, charitable or similar bodies or private contractors undertaking a local authority function following a specific business transfer to the private sector.

As required by statute the council has approved a Statement of Investment Principles. It was prepared with assistance from the Fund's Investment consultants Hymans Robertson and after consultation with interested parties. It provides the basis for the future development of the Committee's principles for managing the investments of the Fund. The statement will be subject to review by the Committee on a biennial basis. A Funding Strategy Statement is a requirement of the LGPS regulations. The statement defines how solvency and risks will be managed having regard to the liability to pay pensions now and in the future. The Funding Strategy Statement complements and adds to the Statement of Investment Principles. Both documents are available on the Authority's website www.kent.gov.uk. Alternatively, a copy may be obtained on request from Nick Vickers, Head of Financial Services, Sessions House, County Hall, Maidstone, Kent, ME14 1XQ.

Summary of Main Accounting Policies:

1. The Pension Fund Accounts are accounted for on an accruals basis for income and expenditure with the exception of transfers in and out, which are accounted for on a cash basis.
2. No account is taken of the long term liabilities to pay pensions and other benefits after the period end.
3. Administrative costs of paying pensions, allowances and other benefits, maintaining employees' records, arranging transfer values etc. are borne by the Fund. Costs relating to the investment of the Fund are also charged in this way
4. Fees in respect of investment management, including custody, are calculated as a percentage of the value of the investments under management.
5. Quoted investments are stated at market value based on the middle market quotation on the relevant stock exchange ruling on 31 March 2008. Unit Trusts and managed funds are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investment. Unquoted investments are valued by the fund managers at the year end in accordance with generally accepted guidelines.
6. Industrial and Commercial properties were valued at open market prices as at 31 December 2007 and then indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2008
7. Assets and liabilities held in foreign currency are translated into sterling at exchange rates ruling at the year end. Differences arising on the translation of investments are included in investment gains. All foreign currency transactions are translated into sterling at exchange rates ruling at the transaction date.
8. Dividends, rents and cash deposits have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Foreign income has been translated into sterling at the rate ruling at the date of the transaction. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin.

Pension Fund Accounts

9. Normal contributions from County Council members are accounted for in the payroll month to which they relate, contributions from members of other employers are accounted for on a received basis. All contributions are at rates as specified in the rates and adjustments certificate. Payment of pensions and pensions increases are accounted for on an accruals basis. Lump sum payments are accounted for on the date of retirement or on death. Transfer values into and out of the Fund, return of contributions and other intermittent transactions are not dealt with on an accruals basis but are included in the accounts when the transactions occur.

Pension Fund Accounts

Fund Account for the year ended 31 March 2008

	Notes	2008 £'000	2007 £'000
Contributions and Benefits			
Contributions Receivable:			
From employers	1	158,769	149,772
From employees	1	42,163	40,217
Transfers In	2	15,292	14,101
			204,090
Benefits Payable			
Pensions	3	-106,080	-99,479
Lump Sums	3	-27,632	-24,102
Payments to and on account of leavers			
Refunds of contributions		-2	-30
Transfers Out	4	-10,559	-10,655
Administrative & other expenses borne by the schen	5	-2,768	-2,472
			-136,738
Net additions/withdrawals(-) from dealings with Members			67,352
			69,183
Returns on Investments			
Investment Income	6	67,125	68,964
Change in Market Value of Investments	7	-213,213	69,300
Overseas Irrecoverable Taxation		-1,193	-958
			137,306
		-147,281	
Investment Management Expenses			
Investment Managers		-6,125	-5,738
Actuarial (Investment Consultancy)		-44	-11
Performance Measurement		-60	-49
Other expenses		-215	-326
		-6,444	-6,124
Net Return on Investments			131,182
			-153,725
Net increase/decrease(-) in Fund during the year			198,534
			-84,542
Opening Net Assets of the Scheme at 1st April			2,375,106
			2,573,640
Closing Net Assets of the Scheme at 31st March			2,573,640
			2,489,098

Pension Fund Accounts

Net Assets Statement as at 31 March 2008

	Notes	2008		2007	
		£'000	£'000	£'000	£'000
Investments at Market Value	7				
Fixed Interest Securities					
- Public		111,139		88,363	
- Other		111,325		63,673	
			222,464		152,036
Equities					
- UK		580,613		856,498	
- Overseas		572,448		585,815	
			1,153,061		1,442,313
Pooled Investment Vehicles					
- UK		429,135		218,208	
- Overseas		273,033		287,449	
- Property		55,633		26,016	
			757,801		531,673
Property - Freehold			201,087		230,183
Global Tactical Asset Allocation			0		100,912
Cash Deposits			18,508		61,900
Other Investments			10,375		11,329
			2,363,296		2,530,346
Current Assets and Liabilities	8		125,802		43,294
Net Assets			2,489,098		2,573,640

Notes to the Pension Fund Account

1. Contributions Receivable

		2008	2007
		£'000	£'000
From Employers	Normal	152,235	138,547
	Special (Early Retirements recoverable costs)	6,534	11,225
		158,769	149,772
Analysis of Employers' Contributions	Kent County Council	75,040	68,964
	Scheduled Bodies	74,160	71,356
	Admitted Bodies	9,569	9,452
		158,769	149,772
		2008	2007
		£'000	£'000
From Employees	Kent County Council	18,780	18,064
	Scheduled Bodies	20,901	19,657
	Admitted Bodies	2,388	2,384
	Lump Sum Contributions	94	112
		42,163	40,217
Note:	As at 31 March the comparative numbers of members are:	2008	2007
	Kent County Council	21,722	20,304
	Scheduled Bodies	18,938	18,368
	Admitted Bodies	1,853	1,914
		42,513	40,586

2. Transfers In

	2008	2007
	£'000	£'000
Individual	15,292	14,101
Bulk	0	0
	15,292	14,101

3. Benefits Payable

	KCC	Scheduled Bodies	Admitted Bodies	2008	2007
	£'000	£'000	£'000	£'000	£'000
Pensions					
Retirement pensions	32,837	34,411	3,151	70,399	66,936
Widows' pensions	2,070	2,690	224	4,984	4,610
Children's allowances	79	115	9	203	177
Pensions increase	16,205	17,815	859	34,879	32,078
Less benefits recovered directly from employing authorities	0	-4,261	-124	-4,385	-4,322
	51,191	50,770	4,119	106,080	99,479
Lump Sums					
Retirement (Lump Sums)	11,825	11,784	1,391	25,000	22,229
Death gratuities	1,431	1,050	151	2,632	1,873
	13,256	12,834	1,542	27,632	24,102

The amount stated as pensions increase represents the year on year cumulative increase on the nominal retirement pension received at the start date of retirement.

Notes to the Pension Fund Account

4. Transfers Out

	2008	2007
	£'000	£'000
Individual	10,559	10,655
Bulk	0	0
	<u>10,559</u>	<u>10,655</u>

5. Administrative and other Expenses borne by the Scheme

	2008	2007
	£'000	£'000
Internal Administration	2,442	2,131
Actuarial Fees	239	166
Audit Fee	61	67
Legal and Other Professional Fees	16	85
Other miscellaneous expenses	10	23
	<u>2,768</u>	<u>2,472</u>

6. Summary of Income from Investments

	2008		2007	
	£'000	%	£'000	%
Fixed Interest				
- UK	8,543	12.73	8,381	12.15
- Overseas	1,529	2.28	864	1.25
Equities				
- UK	23,597	35.15	34,241	49.65
- Overseas	12,948	19.29	11,236	16.31
Pooled Investment Vehicles				
- UK	2,442	3.64	320	0.46
- Overseas	1,311	1.95	618	0.90
- Property	1,257	1.87	664	0.96
Property - Freehold	10,354	15.42	10,435	15.13
Total Income From Investments	<u>61,981</u>	<u>92.33</u>	<u>66,759</u>	<u>96.81</u>
Currency Deposit Accounts	213	0.32	36	0.05
Cash Balances	4,673	6.96	2,147	3.11
Sub-Underwriting Commission/other	38	0.06	22	0.03
Stock Lending	220	0.33		
Total	<u>67,125</u>	<u>100.00</u>	<u>68,964</u>	<u>100.00</u>

Notes to the Pension Fund Account

7. Analysis of Change in Market Value of Investments

	Market Value 31.03.07 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	31.03.08 £'000
<u>Fixed Interest Securities</u>					
- UK Public	72,331	26,481	-25,472	737	74,077
- Index Linked	0	0	0	0	0
- UK quoted	93,267	17,946	-22,351	-4,179	84,683
- UK future contracts	12,290	175,104	-152,921	920	35,393
- Overseas Public	3,742	2,635	-4,792	84	1,669
- Overseas quoted	14,906	17,776	-1,371	-1,214	30,097
- Overseas future contracts	-44,500	740,832	-694,610	-5,177	-3,455
<u>Equities</u>					
- UK quoted	856,398	113,923	-317,845	-72,079	580,397
- UK future contracts	100	851	-735	0	216
- Overseas quoted	580,168	248,863	-243,174	-13,911	571,946
- Overseas unquoted	3,897	0	-3,074	-823	0
- Overseas future contracts	1,750	5,596	-6,804	-40	502
<u>Pooled Investment Vehicles</u>					
<u>Managed Funds</u>					
- UK	53,492	36,500	-51,062	-4,885	34,045
- Overseas	167,768	5,771	0	-13,080	160,459
<u>Unit Trusts</u>					
- UK Public/Fixed Interest	145,911	2,232	0	5,857	154,000
- UK	18,805	329,573	-79,533	-27,755	241,090
- Overseas	119,681	3,423	0	-10,530	112,574
- Property	25,134	3,678	0	-4,010	24,802
- Property Overseas	882	22,404	0	7,545	30,831
Property - Freehold	230,183	92	-7,500	-21,688	201,087
Global Tactical Asset Allocation	100,912	0	-50,520	-50,392	0
	<u>2,457,117</u>	<u>1,753,680</u>	<u>-1,661,764</u>	<u>-214,620</u>	<u>2,334,413</u>
<u>Cash</u>					
- Cash Deposits	31,140			1,407	50,583
- Cash backing open future contracts	30,760				-32,075
<u>Other Investments</u>					
- Debtors - Outstanding Sales	1,397				4,813
- Creditors - Outstanding Purchases	-2,979				-4,984
- Profit/Loss on Forward Currency	659				-362
- Investment Income Accruals	12,252				10,908
Total	<u>2,530,346</u>			<u>-213,213</u>	<u>2,363,296</u>

The following reflects the monetary and percentage split of the investments of the Fund at 31 March 2008 and previous year comparisons.

	2008		2007	
	£'000	%	£'000	%
Alliance Bernstein	258,938	11.0	277,548	11.0
Baillie Gifford	395,473	16.8	379,086	15.1
DTZ	257,408	10.9	256,994	10.2
GMO	160,459	6.8	167,768	6.7
Goldman Sachs	196,320	8.3	289,352	11.5
Henderson	11,147	0.5	9,485	0.4
Invesco	237,034	10.1	0	0.0
MLIM (Transition)	1,402	0.1	938	0.0
Schroders	662,369	28.1	688,009	27.3
Société Générale	170,622	7.3	448,594	17.8
YFM	1,577	0.1	236	0.0
	<u>2,352,749</u>	<u>100.0</u>	<u>2,518,010</u>	<u>100.0</u>

Notes to the Pension Fund Account

8. Current Assets and Liabilities

	2008	2007
	£'000	£'000
Cash	120,676	37,910
Contributions due from		
-Scheduled Bodies	10,325	7,536
- Admitted Bodies	389	1,198
	10,714	8,734
Other Debtors	747	658
Benefits payable	-4,133	-1,206
Other Creditors	-2,202	-2,802
Total	125,802	43,294

9. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. These contributions are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company. The AVC provides secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. The sum deducted from KCC members and paid over to the AVC providers was: £812,503 (£568,556 in 2006-07). These amounts are included within the disclosure note figures below.

The policy with Equitable Life has an anniversary date of 30 September. Equitable Life has not previously been able to provide financial statements for 31 March year end dates. The information has been provided for the first time for the financial year end 31 March 2008. The last value of funds provided by Equitable Life was £1,642,978 as at 30 September 2006.

The disclosure is set out below, with comparative figures for Prudential and Standard Life.

	Prudential		Standard Life		Equitable Life
	2008	2007	2008	2007	2008
	£000	£000	£000	£000	£000
Value at 1 April	2,292	2,180	2,118	1,932	1,594
Income					
Contributions Received	425	204	178	176	18
Transfer Values Received	90	106	11	4	
Interest & bonuses	124	190	0	8	47
Total	639	500	189	188	65
Expenditure					
Retirement Benefits Paid	-130	-250	-257	-171	-168
Transfer Values Paid	-6	-82	-44	-13	-8
Refund of Contributions	-8	-60		0	0
Total	-144	-392	-301	-184	-176
Change in Market Value	-10	4	-4	182	0
Value at 31 March	2,777	2,292	2,002	2,118	1,483

Notes to the Pension Fund Account

10. Related Party Transactions	2008	2007
	£'000	£'000
Transactions between the KCC Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring and other services.	2,442	2,131
Transactions between Scheduled and Admitted bodies participating in the Pension Fund, in respect of employee and employer contributions payable.	616	93

Included within the employer related investment figure of £616,477 are balances due at the year end from the following related parties: Gravesham Borough Council £277,937, Medway Housing Society £101,069, Mid Kent College £80,726, Town & Country Housing Group £32,984, Thanet Leisure Force £22,554, Sevenoaks Leisure Limited £19,952, Robert Napier School £15,911, Active Life Limited £14,955.

Financial Reporting Standard 8 requires that related party transactions are disclosed where material. The remaining items which make up the £92,623 balance, are individually below £10,000 and relate to a number of scheduled and admitted bodies. These have not been listed individually.

There were no related party transactions with members or senior officers.

11. Contingent Liability

As at 31 March 2008 the Pension Fund has a future commitment to invest in the following Funds:

Fund	Total Commitment	Invested	Outstanding
YFM Private Equity	£4m	£1.7m	£2.3m
Aurora European fund	£25.5m (36.3m euros)	£23.2m (33.4m euros)	£2.3m (2.9m euros)

12. Stock Lending

The Pension Fund entered into a stock lending programme with JP Morgan, which started 1 April 2007. As at 31 March 2008, £90.1m of stock was released to third parties. Collateral valued at 119.48% of the market value of the stock on loan was held at that date

Scheduled Bodies**Local Authority and District Councils**

Ashford Borough Council	Medway Council
Canterbury City Council	Sevenoaks District Council
Dartford Borough Council	Shepway District Council
Dover District Council	Swale Borough Council
Gravesham Borough Council	Thanet District Council
Kent County Council	Tonbridge and Malling Borough Council
Maidstone Borough Council	Tunbridge Wells Borough Council

Schools

Allington Primary School	Meopham School
All Souls County Primary School	Minster College
Angle School	New Brompton College
Archbishops CE School	Newington Junior School
Aylesford School	Northfleet School for Boys
Barton Court Grammar School	Oakwood Park Grammar School
Bennett Memorial School	Our Lady of Hartley RC Primary School
Borough Green Primary School	Park Farm County Primary School
Bradbourne School	Pent Valley Secondary School
Brockhill Park School	Queen Elizabeth's Grammar School
Canterbury Campus	Rainham Mark Grammar School
Charles Dickens High School	Robert Napier School
Chatham Grammar School for Girls	Rochester Grammar School for Girls
Chatham House Grammar School for Boys	Roseacre Junior School
Chaucer Technology School	Sandwich High School
Cheyne Middle School	Simon Langton Grammar School for Boys
Cranbrook School	Sir Roger Manwood School
Dane Court Grammar School	Skinners School
Dartford Grammar School for Boys	Snodland County Primary School
Dartford Grammar School for Girls	St Anselm's RC Comprehensive School
Ditton Infant School	St Bartholomew County Primary School
Ditton CE Junior School	St Botolphs County Primary School
Dover Grammar School for Boys	St Edmund of Canterbury Comprehensive
Folkestone School for Girls	St Francis County Primary School
Fulston Manor School, Sittingbourne	St George's School, Broadstairs
Gravesend Grammar School for Boys	St George's School, Gravesend
Gravesend Grammar School for Girls	St Gregory's Catholic Comprehensive
Greatstone County Primary School	St John Fisher RC School
Halfway Houses County Primary School	St John RC Comprehensive
Harcourt County Primary School	St Joseph RC Primary School
Hayesbrook High School for Boys	St Simon Stock School
Herne Bay High School	Stella Maris RC Primary School
Herne Bay Junior School	Sutton at Hone County Primary School
Hillview School for Girls	Thamesview School
Holy Family RC Primary	Thomas Aveling School
Holy Trinity County Primary School, Dartford	Tonbridge Grammar School for Girls
Holy Trinity County Primary School, Gravesend	Tunbridge Wells High School
Homewood School, Tenterden	Westlands School

Notes to the Pension Fund Account

Horton Kirby County Primary School
Howard School
Hugh Christie School
Larkfield Brookfield Junior School
Malling School
Maplesden Noakes School, Maidstone
Mascalls School

Wilderness School
Willesborough County Primary Junior School
Wilmington County Primary School
Wilmington Grammar School for Boys
Wilmington Grammar School for Girls
Wincheap County Primary School
Wrotham School

Further Education Colleges

Canterbury College
Hadlow College
Hilderstone College
Mid Kent College

North West Kent College
South Kent College
Thanet College
West Kent College

Other Scheduled Bodies

Ash Parish Council
Birchington Parish Council
Borough Green Parish Council
Broadstairs and St Peter's Town Council
Chestfield Parish Council
Cranbrook Parish Council
Darenth Parish Council
Deal Town Council
Ditton Parish Council
Dover Town Council
East Malling and Larkfield Parish Council
Eastry Parish Council
Edenbridge Town Council
Eynsford Parish Council
Eythorne Parish Council
Farningham Parish Council
Faversham Town Council
Folkestone Town Council
Great Mongeham Parish Council
Hartley Parish Council
Hawkhurst Parish Council
Hawkinge Parish Council
Herne & Broomfield Parish Council
Horton Kirby and South Darenth Parish Council
Hythe Town Council
Kent and Essex Sea Fisheries Committee
Kent and Medway Towns Fire Authority
Kent Police Authority
Kent Probation and After Care Committee

Kent Top Temps Limited
Kent Valuation Tribunal
Leigh Parish Council
Longfield and New Barn Parish Council
Lower Medway Internal Drainage Board
Margate Charter Trustees
Minster on Sea Parish Council
Minster Parish Council
Otford Parish Council
Pembury Parish Council
Ramsgate Charter Trustees
River Stour Internal Drainage Board
Romney Marsh Levels Internal Drainage Board
Sandwich Town Council
Seal Parish Council
Sevenoaks Town Council
Snodland Town Council
Southborough Town Council
Staplehurst Parish Council
Stone Parish Council
Swanley Town Council
Swanscombe and Greenhithe Town Council
Temple Ewell Parish Council
Tenterden Town Council
Upper Medway Internal Drainage Board
West Kingsdown Parish Council
Westerham Parish Council
Woodnesborough Parish Council
Yalding Parish Council

Academies

Cornwallis Academy
Folkestone Academy
Leigh Technology Academy
The Marlowe Academy

Marsh Academy
New Line Learning Academy
Spires Academy

Glossary of terms

Agency

The provision of services by one local authority, on behalf of and reimbursed by the responsible local authority or central government.

Best Value Accounting

The system of local authority accounting and reporting has been modernised to meet the changed needs of modern local government particularly the duty to secure and demonstrate Best Value in the provision of services. The Best Value Accounting Code of Practice provides guidance on the content and presentation of costs of service activities.

Budget

A statement defining the Council's policy over a specified period and expressed in financial or other terms.

Capital expenditure

Expenditure on the provision and improvement of permanent assets such as land, buildings and roads.

Capital receipts

Money obtained on the sale of a capital asset.

Credit arrangements

An arrangement other than borrowing where the use of a capital asset is acquired and paid for over a period of more than one year. The main types of credit arrangements are leases of buildings, land and equipment.

Deferred charges

Deferred charges include expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset.

Employee expenditure

The salaries and wages of employees together with national insurance, superannuation and all other pay-related allowances. Training expenses and professional fees are also included.

Government grants

Part of the cost of local government's services is paid for by central government from its own tax income. These grants are of two main types. Some (specific grants and supplementary grants) are for particular services such as Highways and Transportation. Others are in aid of local services generally.

Intangible Assets

Capital spend on items such as software licences and patents.

Long-term debtors

Amounts due to Kent County Council where payment is to be made over a period of time in excess of one year.

Minimum Revenue Provision

The amount that the Council is required to charge to the revenue account each year to provide for the repayment of debt.

Glossary of terms

Net operating expenditure

This comprises all expenditure minus all income, other than the precept and transfers from reserves.

Non Delegated

Spend on Education Services which is not delegated to schools.

Precept

The levying of a rate by one authority which is collected by another. Kent County Council precepts upon the district councils collection funds for its income but some bodies, e.g. the Environment Agency, precept upon Kent County Council.

Public Works Loans Board

A government controlled agency that provides a source of borrowing for public authorities.

Related party transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Revenue expenditure

Expenditure to meet the continuing cost of services including salaries, purchase of materials and capital financing charges.

Specific grants

See 'government grants'.

Support service costs

The 'overhead' cost to Service Directorates of support services, such as architects, accountants and solicitors.

Usable capital receipts

The proportion of the proceeds arising from the sale of fixed assets that can be used to finance capital expenditure.

By: Head of Audit and Risk **Item 8**
To: Governance and Audit Committee – 30 June 2008
Subject: STRATEGIC RISK REGISTER
Classification: Unrestricted

Summary: To present the refreshed strategic risk register for review and comment.

FOR INFORMATION

Introduction

1. The strategic risk register has been refreshed and the content agreed by the accountable officers. This is an annual exercise timed to coincide with the preparation of the business plans. Directorate risk registers were presented to the G&AC at the March meeting.
2. The risks identified within the register and drawn from key risks identified across the Council that may impact the achievement of the Councils' objectives.
3. These risks are presented to the Committee to inform Members understanding about the key risks facing the Council.

RECOMMENDATION

4. Members are asked to NOTE the revised strategic risk register.

Janet Dawson
Head of Audit and Risk
Extension 4614

This page is intentionally left blank



CORPORATE RISK REGISTER

Corporate risks are managed by the Chief Officer Group with directorate support. Corporate risks are those that can be described as presenting a:

- Significant Council wide risk
- Significant risk specific to one directorate which could impact upon the Council as a whole
- Significant risk to the Council as part of working with external organisations or its role within the community

Summary of risks after mitigating actions

Total number of risks (June 2007: 24)	15
High	0 (1)
Medium	11 (16)
Low	4 (7)

Notes:
 Italics and bold represent changes from June 2007.
 Source is now classified as external or internal to the organisation.

Ref & Directorate Activity	COG Responsible Officer	Source & strategic business objective(s)	Risk	Mitigation	Ranking (5x5 matrix)		
					Impact	L'Hood	Risk
No.1 ALL	COG	<i>Downturn in economic environment (external)</i>	<i>Reduction in income from lower asset valuations, increased costs arising from higher interest rates. Possible difficulties in accessing funding for major projects.</i> <i>Reductions in, or changes to funding distribution of special grants.</i>	<ul style="list-style-type: none"> • <i>Robust financial forecasting processes including MTFP</i> • <i>Financial monitoring systems</i> • <i>Capital strategy</i> • <i>Management action planning and monitoring</i> • <i>Lobbying, responding to government consultation to minimise redistributive impact to Kent.</i> 	3	4	12
No.2 ALL	COG	<i>Business continuity threat, e.g. Major incident (external) Pandemic event (external)</i>	<i>Vital supplies 'not getting through'. Vital support to vulnerable people threatened. High demand for post incident support. Temporary disruption to road/rail/air travel.</i>	<ul style="list-style-type: none"> • <i>Business continuity plans under development during 2008/09</i> • <i>KCC Emergency Planning procedure</i> • <i>Participation in Kent-wide cross agency emergency planning group</i> • <i>Intelligence gathering through Kent Resilience Forum</i> • <i>Regular 'exercises'</i> 	4	3	12

Ref & Direct Activity	COG Responsible Officer	Source & strategic business objective(s)	Risk	Mitigation	Ranking (5x5 matrix)		
					Impact	L'Hood Risk	
No.3 CED	David Cockburn	Reliance on ICT solutions for provision of key services (internal/external)	<p>Failure to maintain reliable ICT service and infrastructure improvements to support and underpin development of direct services.</p> <p>Growth in service demand – both internal and external demand</p> <p>Increased reliance on technology for core service delivery and extent of availability i.e. 24 X 7.</p> <p>Increased provision of services to the public – increased security threats.</p>	<ul style="list-style-type: none"> Establish and maintain enterprise architecture to identify business drivers for ICT strategy. Identify through MTFP process ICT investment requirements to support business change. ICT Board has identified key priorities for investment in line with funding constraints. Strategic initiatives to be cross referenced between ALL Directorates prior to implementation. All ICT investment to be aligned to strategic framework. Consistency of IT platform across KCC (Technology refresh programme). Proactive contract monitoring Partnership working arrangements 	4	3	12
No.4 ALL	Oliver Mills / Graham Badman	Demographic changes within Kent e.g. Aging population, asylum seekers, increasing numbers of disabled and LAC placements into Kent (external)	<p>Increasing number of LAC children and adult /older care people within Kent placing additional demands upon health care, education and other related services.</p> <p>Government funding fails to match increasing demand.</p> <p>Service transfers between public bodies not transparent/fully funded (eg learning Disability from NHS).</p> <p>Failure to modernise the services</p> <p>Under involvement in preventative services.</p> <p>Inflated costs in meeting demands due to market forces.</p> <p>Lack of affordable/suitable foster care provision due to competition from private agencies.</p>	<ul style="list-style-type: none"> Service reviews Response to CSR 2010 Primary Strategy Partnerships with other agencies etc In house service provision Developing better support systems for Foster carers and specialist carers Preventative Services Business Plan, Fostering Action PSA – reduce no. of LAC Multi-agency protocols regarding placement of children in Kent Close working with partners Contractual agreement to value of transfers. 	3	4	12
No. 5 CFE/ CMY/ KASS	Graham Badman/ Oliver Mills	Information sharing and cross agency working to provide services (internal)	<p>Insufficient information systems which lack co-ordination with other key users.</p> <p>Failure to share information between agencies which could lead to abuse or death of vulnerable children or adults</p>	<ul style="list-style-type: none"> Integrated systems in development Kent Safeguarding Board Common Assessment Framework in development Robust Preventative Strategy Multi-agency and consortia working Well trained, high calibre staff with clearly defined reporting structure. Lead professional in role in development Multi agency Child protection policies in place Multi- agency Board for ContactPoint, lead professional function and CAF in place Case Tracking audit and review of filing arrangements 	4	3	12

Ref & Direct Activity	COG Responsible Officer	Source & strategic business objective(s)	Risk	Mitigation	Ranking (5x5 matrix)		
					Impact	L'Hood	Risk
No.6 ALL	COG	External assessment (internal)	Failure to retain excellent status from external assessments of corporate and service performance.	<ul style="list-style-type: none"> Experienced senior officers tasked with leading preparation Routine progress reporting on actions required to COG Detailed self evaluation against existing inspection framework Joint groups set up Work undertaken with partners to prepare for external assessment Children and Young People's Plan 	4	3	12
No. 7 ER/CMY	COG	Closure of access routes to France (external)	Operation Stack becomes a long standing feature due to prolonged industrial action or incident in Channel	<ul style="list-style-type: none"> Plan - Operation Stack Joint emergency planning arrangements Ongoing implementation and review 	2	5	10
No.8 All	CE/COG	Delivery of corporate strategy resulting in customer satisfaction and engagement (internal)	KCC becomes remote and fails to understand and/or meet the needs of the community. Failure to effectively communicate what we are doing. Failure to deliver commitments to meet public expectations. Loss of reputation	<ul style="list-style-type: none"> Management of corporate engagement Communications strategy Improved business planning strategy and in year monitoring Objectives reflected within business plans Business planning process aligned with risk management and audit planning Reassessment of planned outcomes to ensure alignment with required outcomes Kent Agreement 2 	3	3	9
No.9 KASS/ CFE	Oliver Mills / Graham Badman	Health Service Economy (external)	Delayed discharges increase. Resources moved out of 'prevention'. Delays in admissions for planned intervention. No guarantee that shift of funding from Acute to Community Services will happen. Mental Health readmission rates. Continuing debt and financial imbalance to KASS. Partnership funding for new clients. Practiced based commissioning Fit for the future.	<ul style="list-style-type: none"> Range of preventative projects Scrutiny of Health through Members overview PCT / PEC Reps Partnerships / joint working for Health Green paper for adults Joint commitment to PSA 2 Target on reducing emergency hospital admissions for older people Consideration of legal action regarding debt to ASD Help to reduce hospital admissions through possible involvement in Long Term Conditions Project with Health, Innovation Forum, telehealth and telecare projects and Brighter Futures Group (VCS) Joint Approach with Health of Director for Children Health for CFE Directorate Inclusion of Health in Children Trust arrangements 	2	4	8

Ref & Directorate Activity	COG Responsible Officer	Source & strategic business objective(s)	Risk	Mitigation	Ranking (5x5 matrix)		
					Impact	L'Hood	Risk
No.10 ER	Adam Wilkinson	Growth Agenda & need for regeneration: KCC Regeneration Strategy (internal)	Regeneration Strategy does not deliver clear regeneration objectives and targets. Activity lacks clear vision and KCC fails to play its part in managing the speed of development within growth areas and areas in need of regeneration. As a result failure to secure funding for key developments and projects	<ul style="list-style-type: none"> Specialist team set up and restructure under way Monitoring processes and reports to Members, COG & DST Cross directorate working arrangements set up Partnership Executive Boards KCC Regeneration Board set up High level KCC finance input Extensive consultation with key partners 	4	2	8
No.11 All	COG	Income generation activity (internal)	Income generation objectives and actions damage Kent reputation within business community.	<ul style="list-style-type: none"> Business case and risk analysis approval process Effective communications strategy 	2	4	8
No.12 All	COG	Partnerships (internal)	Ineffective approach to the set up of management and governance arrangements result in failure to achieve desired outcomes	<ul style="list-style-type: none"> Improved control environment to include financial management Risk analysis for key partnerships, risk management training programme council wide Formal control, monitoring and reporting mechanisms Effective communication strategy 	3	2	6
No.13 CED	Geoff Wild	Corporate manslaughter/ Public Liability (internal)	Prosecution following injury to the public or employees due to poor health and safety policies, maintenance of assets and procedures etc.	<ul style="list-style-type: none"> Health and safety policies, procedures, risk assessment and auditing Auditing of key contractual arrangements, e.g. Kent Highways Services Staff training Management awareness 	3	2	6
No. 14 All	Amanda Beer	Significant loss of key staff (internal)	Inability to attract and retain employees with suitable skills, experience and behaviours to senior and key roles	<ul style="list-style-type: none"> Delivery of Strategy for Staff Staff care policy Workforce strategy with private sector Investment in training More effective use of professional staffing resources on more complex issues Succession planning 	2	2	4

Ref & Directorate Activity	COG Responsible Officer	Source & strategic business objective(s)	Risk	Mitigation		Ranking (5x5 matrix)	
				Impact	L'Hood	Risk	
No.15 ER	Adam Wilkinson	Climate change (external)	Tidal surge in Channel combined with high winds causes flooding of low lying areas	2	1	2	
				<ul style="list-style-type: none"> Forecasting activity Emergency procedures for special events Business Continuity Planning Management of financial impact to include Bellwin scheme 			

Rev: May 08

Risk Ranking Matrix

Likelihood	Impact				
	Minor	Moderate	Significant	Serious	Major
Very Likely	5	10	15	20	25
Possible	4	8	12	16	20
Unlikely	3	6	9	12	15
Very Unlikely	2	4	6	8	10
	1	2	3	4	5

Appendix A – Risks previously on register removed in May 2008 refresh

Risk	Ranking	Reason for removal
Impact of hypothecated funding	6	Outcome known and managed through financial planning
Alignment of CSR2007 with service demands	12	CSR2007 outcomes known and managed through financial planning
Key corporate objectives not delivered	4	Now included within risk no. 8 above
Depleting water supplies	6	Initially identified in drought of 2006, now addressed within risk no.15 above
Failure to meet public expectations	9	Included within risk no.8 above
Allington waste incinerator failure may undermine waste strategy	12	No longer perceived to be a strategic risk. Included and managed within ER risk register.
Failure to raise attainment and impact on skilled workforce	4	Included within risk no.8 above
Planning for asylum seeking services	12	Included within risk no.4 above
Placements within Kent from other areas	12	Included within risk no.4 above

By: Chief Executive

To: Governance and Audit Committee – 30th June 2008

Subject: OMBUDSMAN COMPLAINTS

Accountable Officer: Corporate Access to Information Coordinator

Classification: Unrestricted

Summary and Recommendations: To report:-
(a) the latest position on complaints to the Local Government Ombudsman against the County Council;

FOR INFORMATION

1. New Local Government Ombudsman Complaints since 1st October 2007

(1) In the six months from 1 October 2007 to 31 March 2008, 46 more complaints about the County Council were made to the Local Government Ombudsman. This excludes the 12 additional complaints which were classified by the Ombudsman as “premature” (ie the Council had not yet had an opportunity to consider them) and which will not therefore be included in the annual statistics on complaints published by the Ombudsman. The latest position in the Ombudsman’s consideration of these 46 new complaints and brief details of them on a Directorate by Directorate basis are set out in Tables A and B below respectively:-

Table A

Total new complaints 1/10/07 - 31/3/08	46
<i>of which:-</i>	
Under investigation (5 relating to same issue)	7
Not to be investigated (ie no evidence of maladministration)	26
Settled locally	2
Ombudsman’s decision awaited	11

Table B

Adult Social Services	8
Chief Executives	3
<i>of which:-</i>	
Property	1
Personnel	1
Finance	1
Children, Families and Education	22
<i>of which:-</i>	
Grammar School admission appeals	1
Primary School admission appeals	1
School Transport	3
Special Educational Needs	1
Internal School Matters <i>(outside Ombudsman's jurisdiction)</i>	5
Children's Social Services	8
Other	3
Communities	0
Environment and Regeneration	13
<i>of which:-</i>	
Planning Applications <i>(NB 5 complaints all relate to the same development and 3 to another)</i>	1
Kent Highway Services	11
Environment and Waste	1

2. Current Position on Cases under Investigation

(1) Seven complaints have been under formal investigation by the Ombudsman since the time of my predecessor's previous report last December. The latest position is as follows:-

(a) Complaint 07/A/04467 - Special Educational Needs

A summary of this complaint as the Ombudsman understands it is that the Council failed to provide complainant with suitable education and support as set out in his Statement of Special Educational Needs from May 2005 to January 2006.

The Ombudsman's proposals for settlement, which the Council is currently deliberating is that the Council pay £1,750 compensation for the eight-hours a week shortfall in education provision for three months.

(b) Complaint 07/A/03721 – Special Educational Needs

A summary of this complaint as the Ombudsman understands it is that the Council

(i) Delayed unreasonably in assessing complainant's stepson and issuing a Statement of Special Educational Needs

(ii) Unreasonably asked Mr & Mrs Small to visit several schools within the county which were not suitable for step-son's needs

(iii) Unreasonably refused to consider a residential placement until just before the SENDist hearing was about to take place and

(iv) Failed to provide suitable education while stepson was excluded from his mainstream school

Following a lengthy investigation, the Ombudsman's proposals for settlement, which the Council is currently contesting, is that the Council pay £39,395 compensation to the stepson for the education he missed for half a term and £5,300 compensation to the complainant to cover some of his legal fees.

(c) **Complaints 07/A/15602, 16249, 16250, 16251 & 16435 – Failure to keep adequate records re the highway status of Longfield Place**

A summary of these complaints from residents as the Ombudsman understands it is that there is an administrative fault in the Council's failure to keep adequate records of the highway status of Longfield Place, Maidstone and in its inconsistent or inaccurate advice to Maidstone Borough Council and others about that matter. This has resulted in development of land opposite the complainants residences which a ransom strip that they purchased was supposed to prevent. The Ombudsman has instructed the Council that an inspection of records and interviews with key officers will take place on 19th & 23rd June 2008.

3. Local Government Ombudsman Annual Letter 2007/08

(1) Each year the Local Government Ombudsman produces an individual Annual Letter for every Council. The County Council had not yet received the Annual Letter for 2007/08 at the time of drafting this report, so the provisional complaint statistics (with which the Council concurs) are attached as Appendix 1 to this report. Further comment and analysis will be provided to the next meeting.

4. Further Information

(1) Further information about any of the complaints or other matters mentioned in this report can be obtained from the Corporate Access to Information Coordinator

Caroline Dodge
Corporate Access to Information Coordinator
Ext 1652

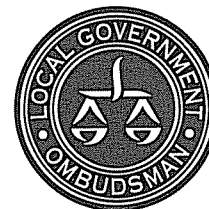
This page is intentionally left blank

April 2008

KENT COUNTY COUNCIL

14 APR 2008

DP + FOI CO-ORDINATOR



The Commission for
Local Administration in England

To Chief Executives of Local Authorities
and other bodies within jurisdiction

Our ref: PC/5/2/1//RPR

If telephoning please contact: **Lesley Pettigrew** on 020 7217 4694
or, if using email, send to: l.pettigrew@lgo.org.uk

Tony Redmond
Chairman

Nigel Karney
Secretary

Dear Chief Executive

Local Government Ombudsman – provisional complaint statistics

I enclose our provisional end-of-year statistics, together with notes to aid interpretation, to give you an opportunity to raise any queries you may have. These statistics will be incorporated into our Annual Letter to your Council.

I enclose our main Local Authority Report, together with detailed printouts of the cases covered by the three tables shown, which will help you check the accuracy of the statistics and may also be of use in any more detailed analysis you wish to do. These detailed lists include complainants' personal information, and so will not, of course, form part of the published statistics.

We are working to a tight timetable to get Annual Letters to all councils by the end of June so **the deadline for queries is 2 May 2008**, but it would be helpful if you could contact us with any queries before then. Your contact for queries is **Lesley Pettigrew**, whose telephone number and email address are given above.

I am sending a copy of this letter and enclosures to your Council's Ombudsman link officer.

Thank you for your co-operation.

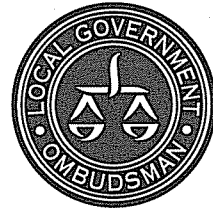
Yours sincerely

Nigel Karney
Deputy Chief Executive and Secretary

cc: Council's Ombudsman link officer
Enc: Local authority report and detailed printouts
Explanatory notes

10th Floor Millbank Tower
Millbank London SW1P 4QP
Tel 020 7217 4620 Fax 020 7217 4621
DX 149243 Victoria 13
www.lgo.org.uk

Local Government Ombudsman provisional statistics 2007/08



The Commission for
Local Administration in England

The deadline for queries on these figures is

Friday 2 May 2008

Your contact for queries is:

Lesley Pettigrew

Tel: 020 7217 4694

Email: l.pettigrew@lgo.org.uk

List of enclosures:

- **Notes to aid interpretation of figures.**
- **Provisional Local Authority Report** – the final version of this will form part of the Annual Letter to your Authority in June.
- **Complaints received** – printout of complaints received in the year 2007/08, broken down by service area (**see note 2 attached**).
- **Decisions** – printout of complaints on which decisions were made by the LGO in the year 2007/08, broken down by type of decision (**see note 3 attached**).
- **Response times** – printout of complaints on which enquiries were made to your Authority during 2007/08, showing response times (**see notes 4 and 5 attached**).

Notes to assist interpretation of the Commission's provisional local authority statistics

1. Local authority report

This information will form an integral part of the Annual Letter to your council, which the Ombudsman will send to you in June 2008. Again this year, the Annual Letter will be published on our website, at www.lgo.org.uk

The detailed information in the printouts is confidential.

2. Complaints received

This information shows the number of complaints received by the LGO, broken down by service area and in total within the periods given. These figures include complaints that are made prematurely to the LGO (see below for more explanation) and that we refer back to the council for consideration. The figures may include some complaints that we have received but where we have not yet contacted the council.

3. Decisions

This information records the number of decisions made by the LGO, broken down by outcome, within the periods given. **This number will not be the same as the number of complaints received**, because some complaints are made in one year and decided in the next. Below we set out a key explaining the outcome categories.

MI reps: where the LGO has concluded an investigation and issued a formal report finding maladministration causing injustice.

LS (local settlements): decisions by letter discontinuing our investigation because action has been agreed by the authority and accepted by the Ombudsman as a satisfactory outcome for the complainant.

M reps: where the LGO has concluded an investigation and issued a formal report finding maladministration but causing no injustice to the complainant.

NM reps: where the LGO has concluded an investigation and issued a formal report finding no maladministration by the council.

No mal: decisions by letter discontinuing an investigation because we have found no, or insufficient, evidence of maladministration.

Omb disc: decisions by letter discontinuing an investigation in which we have exercised the Ombudsman's general discretion not to pursue the complaint. This can be for a variety of reasons, but the most common is that we have found no or insufficient injustice to warrant pursuing the matter further.

Outside jurisdiction: these are cases which were outside the Ombudsman's jurisdiction.

Premature complaints: decisions that the complaint is premature. The LGO does not normally consider a complaint unless a council has first had an opportunity to deal with that complaint itself. So if someone complains to the LGO without having taken the matter up with a council, the LGO

Complaints received by subject area	Adult care services	Children and family services	Education	Other	Planning & building control	Public finance	Social Services - other	Transport and highways	Total
01/04/2007 - 31/03/2008	11	22	79	8	2	1	0	23	146
2006 / 2007	14	10	65	4	27	0	0	28	148
2005 / 2006	14	15	90	10	8	0	3	15	155

Note: these figures will include complaints that were made prematurely to the Ombudsman and which we referred back to the authority for consideration.

Decisions	MI reps	LS	M reps	NM reps	No mal	Omb disc	Outside jurisdiction	Premature complaints	Total excl premature	Total
01/04/2007 - 31/03/2008	0	25	0	0	49	23	21	22	118	140
2006 / 2007	1	17	0	0	33	40	25	26	116	142
2005 / 2006	0	29	0	0	42	37	13	23	121	144

See attached notes for an explanation of the headings in this table.

Average local authority response times 01/04/2007 to 31/03/2008

Response times	FIRST ENQUIRIES	
	No. of First Enquiries	Avg no. of days to respond
01/04/2007 - 31/03/2008	78	29.4
2006 / 2007	62	29.5
2005 / 2006	86	23.5

Types of authority	<= 28 days %	29 - 35 days %	> = 36 days %
District Councils	57.2	21.2	21.6
Unitary Authorities	39.1	50.0	10.9
Metropolitan Authorities	58.3	30.6	11.1
County Councils	44.1	41.2	14.7
London Boroughs	45.5	21.2	33.3
National Park Authorities	71.4	14.3	14.3

Item No: 10

By: The Head of Audit & Risk

To: Governance and Audit Committee – 30 June 2008

Subject: INTERNAL AUDIT PROGRESS REPORT

Classification: Unrestricted

Summary: This report summarises the outcomes of Internal Audit activity.

FOR INFORMATION AND DECISION

INTRODUCTION

1. The first part of this report details audits completed from the 2007/08 audit plan.

Nine audits were completed in this period, which are listed in the table below together with a brief description of the audit:

Directorate	Audit Title and Description	Assurance
AW	Schemes of Delegation – An audit to ensure that the responsibilities and authorities placed by the Scheme of Delegation on directors, managers and officers are being duly discharged and exercised.	Substantial
AW	Property Rent Income – An audit of rent collection and rent review processes to ensure that rent income from KCC's properties is being maximised and collected.	Limited
CED	Car Expenses Interrogation – An analysis of employees' mileage payments from September 2006 to October 2007 to identify inconsistencies in the payments to staff and to establish whether they were as the result of any system based errors.	Limited
CED Commercial services	Data Protection – A review of how confidential and sensitive data is handled, managed, secured and protected.	Substantial
CF&E	CRB and Recruitment Checks in Schools (schools' processes) – 13 secondary schools were visited to review their processes for managing CRB checks and recruitment of staff on the recruitment and selection checklist in the publication 'Safeguarding Children and Safer Recruitment in Education'.	CRB – High Recruitment - Substantial

Directorate	Audit Title and Description	Assurance
KASS	Swift System Review – An interim review covering, data management; roles & responsibilities, user access; change control and performance monitoring.	N/A
E&R	Revenue Budget Monitoring – A review of the revenue budget monitoring processes in E&R.	High
E&R	Landfill Allowance Trading Scheme (LATS) – A review of the processes to ensure that KCC is able to identify potential surplus/deficits for LATS.	Substantial
E&R	Contracts – Procurement – An audit to determine compliance with ‘Spending the Council’s Money’.	Substantial

IRREGULARITIES

- Since the end of January five cases of suspected irregularity have been reported, each involving either KCC finances or business processes. Two of these involved schools where cheques have been intercepted and details of payee and amounts have been altered. These were identified by the schools’ reconciliation process and by the bank. An e-bulletin has been issued to the schools warning of this and has been included in Internal Audit’s May 2008 ‘Irregular Happenings’ publication. Details of completed irregularity investigations are provided in a separate report.

PROGRESS REPORT

- At the March 2008 Governance and Audit Committee Members received details of the proposed changes to Internal Audit’s progress report to be effective from 2008/09. The new format is as follows:
 - The Internal Audit Plan showing the planned start , actual start, progress for each audit and audit assurance. This will enable Members to review Internal Audit’s progress against the plan. Annex A
 - Other work carried out, for example pro active fraud work, National Fraud Initiative, fraud awareness training provided, advisory work. Annex B
 - Internal Audit consultancy work to drive continuous improvement – None to report
 - Summaries of reports for all completed audits. – None to report
 - Summaries of audits where control has been assessed as minimal, and follow up audits, together with directorates’ responses - None to report
 - The directorates’ progress against the implementation of recommendations made and agreed - Annex C

- Internal Audit's performance against its Performance Indicators - Annex D
- Information about how and where Internal Audit's time has been spent - Annex E
- Definitions of Internal Audit's Assurance Levels – Annex F

Recommendation

6. Members are asked to note this report.

Janet Dawson
Head of Audit & Risk
Ext: 4614
11 June 2008

Progress Against 2008-09 Audit Plan quarter 1

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
07/08	Overtime Payments	To provide assurance that overtime payments are appropriately authorised and paid accurately and promptly	Q1	24 April 2008	23 May 2008			Brought forward form 07/08 plan
07/08	WAMS financial management	An audit of financial controls within the KHS procurement and ordering system (WAMS)	Q1	1 April 2008	15 May 2008			Brought forward form 07/08 plan
AW05	Access to Information	A review of controls in place to ensure council wide compliance with access to information legislation, including freedom of information and environmental regulation requests.	Q1	6 May 2008				
S01	Year End Accounting	Assurance that income and payments are accounted for in the correct financial year.	Q1	7 April 2008	9 May 2008			
S03	Local Area Agreement Certification	Annual review to validate the completeness and accuracy of LAA spend.	Q1	21 May 2008				
S09	Insurance Fund	A review to provide assurance on the adequacy, efficiency and effectiveness of controls operating to mitigate the risks within the operation of the Insurance Fund.	Q1	16 June 2008				
CED08	Members Code of Conduct – Locally	A review against the Standards Board checklist for the implementation of the locally managed framework of	Q1	Not yet started				Audit delayed as timing depends on receipt and implementation of government regulations

Progress Against 2008-09 Audit Plan quarter 1

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
	Managed Framework	compliance with the Members Code of Conduct. Timing of this audit will depend on receipt of government regulations and SBE guidance.						and SBE guidance.
CED09	Rebate Income	A review of the process to ensure that all rebate income due has been correctly identified, collected and accounted for.	Q1	23 June 2008				
CFE01	Allocation of Cluster Funding	An audit of the processes in a sample of Clusters to provide assurance that the funding allocated to the Clusters is spent by them following an appropriate bidding and evaluation process linked to objectives and that records are maintained to enable management to monitor the expenditure and evaluate the results.	Q1	1 May 2008				
CFE02	Family Group Conferencing	Assurance that controls achieve compliance with referral policy and that funding is adequate to provide accreditation training.	Q1	21 April 2008				
CMY01	Adult Education Budget Management	To provide assurance that budgets are set effectively with a clear link with spending and income sources. Variations are managed effectively (in particular when courses are running at a surplus or deficit). This will be a joint piece of work by Internal Audit and	Q1	Not yet started				Audit Owner has requested that this audit takes place in Q3 or Q4

Progress Against 2008-09 Audit Plan quarter 1

Annex A

Ref	Audit	Description	Planned Start	Audit in progress	Draft Report issued	Final Report Issued	Audit Assurance	Comments
		Communities Directorate staff, timed to inform the directorate budget planning process.						
KASS01	Capital Projects	To examine the planning of capital projects, contracts/estimates and how these are drawn up and the corresponding governance arrangements (i.e. is the authority clearly set out and understood by all parties).	Q1	Not yet started				ToR issued, timing with Audit owner to be agreed
ER01	Health and Safety	Review of the Councils mechanism for ensuring compliance with Health and Safety Legislation for Public Rights of Ways and Country Parks.	Q1	5 June 2008				

National Fraud Initiative

Preparation of letters to pensioners advising of data matching exercise as part of the National Fraud Initiative and responding to queries.

Advisory Work

Joint working with CFHE with regards a school with a potential deficit budget. Attendance at various working groups/forums, including, Procurement Forum; ICT Operations Board, Client Billing Group, Active Life for Adults (ALFA).

Irregular Happenings

Production and issue of Internal Audit's 'Irregular Happenings' publication.

Pro Active Fraud Work

As part of Internal Audit's programme of pro active fraud work, 75 staff claims and 50 Members claims were checked to ensure compliance with claims procedures and to identify any potential incorrect claims.

**Directorates Progress with Implementation of Audit Recommendations
(covers period February, March and April 2008)**

Directorate	Actions due to be in place by end of April 2008	Actions in place	Outstanding actions	Progress with outstanding actions	
				Audit	Comments
Chief Executive's	19	16	1	Network Management Review	As part of the on-going procurement exercise for the replacement of Kent public service networks, suitable tools for capacity management will be purchased via the KPSN project. This will enable KCC and other public service partners to monitor bandwidth and application traffic capacities better than we are able to at the present time. It is expected that these tools will be available towards the latter end of 2008
			1	Accounts Payable	Work is in progress to produce a more comprehensive guide to VAT indicators for most items of income and expenditure including those that are directorate specific and a separate list for schools. Work on this major project will continue after closedown/P11D processes are complete.
			1	Payroll – Appointment to Payment of New Employees	Comparison report development has been unavoidably delayed. However, it remains a high priority target, and the test for the thresholds have now been completed, and the live reports are planned to be in place for the June payroll. Additional trend reports including tax payments and NI payments comparisons will also be introduced at that time.
Children, Families, Health and Education	14	13	1	Sharing Information on Children	The recent hardware problems with SWIFT have resulted in a restricted access situation. All attention is focussed at getting the live system back and available to all as the first priority. Once the access issue has been resolved, audit trail functionality will be examined further. Anite had initially advised switching off audit trail functionality due to the likely effect on performance. Therefore it is the Directorate's intention to explore limited audit trail functionality, covering only specifically requested actions, after consulting with the business about what functionality they would consider necessary.
Communities	8	7	1	Use of IT in Educational Establishments	There has been a delay in translating the internet policy into different languages, as there was the need to change the wording of the acceptable use policy. There has been a recent ruling relating to Libraries regarding the viewing of live TV on public access computers. Libraries would be required to hold current TV licences unless it is clearly stated in the Internet acceptable use policy that this is not allowed. The policy is currently with the Head of Service to be approved and once this is done this work will go ahead. It was not felt justified to get the policy translated and then amended to the new version.
Adult Social Services	3	3			
Environment & Regeneration	19	19			
TOTAL	63	58			

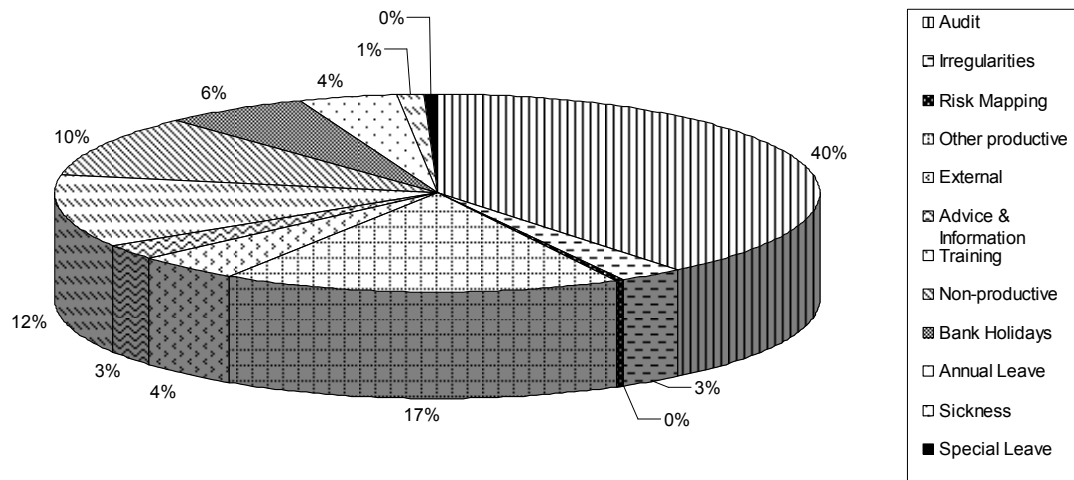
Internal Audit performance

At the Audit Committee meeting on 3 March 2004, Members agreed to receive regular reports on Internal Audit's performance against a range of indicators. To improve the information that is provided to Members on Internal Audit's performance and in line with best practice, I have (or the Head of Audit and Risk has) introduced some additional key performance indicators as shown below and would welcome any further suggestions from members of Key Performance Indicators that they would like to be included.

Performance Indicator	Target	Actual (Apr – May)
<p><u>Effectiveness</u></p> <ul style="list-style-type: none"> • % of recommendations accepted • % of recommendations implemented • CPA/CAA Score for Internal Control 	<p>98%</p> <p>90%</p> <p>Level 4</p>	<p>*n/a</p> <p>*n/a</p> <p>*n/a</p>
<p><u>Efficiency</u></p> <ul style="list-style-type: none"> • % of plan delivered – • % of available time spent on direct audit work • % of draft reports completed within 10 days of finishing fieldwork • Preparation of annual audit plan • Periodic reports on progress • Preparation of annual report and Annual Governance Statement 	<p>95%</p> <p>80%</p> <p>80%</p> <p>89%</p> <p>By March G&AC meetings</p> <p>By May</p>	<p>*n/a</p> <p>*n/a</p> <p>86%</p> <p>93%</p> <p>March G&AC meetings</p> <p>May</p>
<p><u>Quality of Service</u></p> <ul style="list-style-type: none"> • Average Client Satisfaction Score – <p>Team Structure</p> <ul style="list-style-type: none"> • Qualified Staff • Staff training for professional qualifications 	<p>70%</p> <p>TBC</p> <p>TBC</p>	<p>98%</p>

*NB No final reports from the 2008/09 audit plan have been issued at the time this report was prepared, therefore there is no information available regarding recommendations accepted/implemented. Similarly, % of the plan delivered is over the entire year.

**Breakdown of all time spent in Internal Audit
April 2008 to May 2008**



Assurance Level	Summary description	Detailed definition
High	Strong controls in place and complied with.	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
Substantial	Controls in place but improvements beneficial.	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.
Limited	Improvements in controls or the application of controls required.	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation.</p> <p>This is because, key controls exist but they are not applied, or there is significant evidence that they are not applied consistently and effectively.</p>
Minimal	Urgent improvements in controls or the application of controls required.	<p>The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation.</p> <p>This is because key controls do not exist with the absence of at least one critical control, or there is evidence that there is significant non-compliance with key controls.</p>

This page is intentionally left blank

Item No :11

By: The Head of Audit & Risk
To: Governance & Audit Committee - 30 June 2008
Subject: INTERNAL AUDIT REPORTING – IRREGULARITIES
Classification: Unrestricted

Summary: This report provides brief details of all irregularity cases completed during the period February, March and April 2008.

FOR INFORMATION

Introduction

1. In line with best practice and as agreed by Members of the Audit Committee at their meeting on the 1 March 2005, this report summarises the outcome of irregularity investigations that have been concluded within the period from February 2008 to April 2008.
2. During the period, five new cases of potential irregularity were reported, for which investigations are continuing. Where significant, details of these irregularities are reported separately to the Chairman of the Governance and Audit Committee during informal meetings, to ensure that he is made aware of possible problems as they arise.
3. Appendix 1 summarises the outcomes of completed investigations within the period.

Recommendation

4. Members are asked to note this report.

Janet Dawson
Head of Audit & Risk
Ext: 4614
11 June 2008

Summary of Irregularity the Case Concluded in the Period February 2008 to April 2008

Ref	Directorate	Nature of Irregularity	Value	Outcome
759	KASS	Inappropriate use of imprest account and amenity fund	N/A	<ul style="list-style-type: none"> ▪ An anonymous call was received alleging inappropriate use of an establishment's imprest account and amenity fund. Internal Audit investigated the allegation but found no evidence of inappropriate use. However, the establishment did not maintain good records of income and expenditure and recommendations have been made to improve record keeping. The recommendations have been accepted by management.

By: Budget Informal Member Group
Lynda McMullan, Director of Finance

To: Governance and Audit Committee – 30 June 2008

Subject: **REVIEW OF TRADING ACTIVITY WITHIN COMMERCIAL SERVICES**

Contributions From: Peter Mulholland, Andrew Larnar,
Kevin Harlock, Les Coulson, Nick Vickers

BACKGROUND AND SUMMARY

At the last meeting of the Governance and Audit Committee, a report on the trading activities of Commercial Services was requested. This was to ensure that the appropriate controls were in place, in order that Members could be satisfied that such activity did not breach any legislative or best practice.

To facilitate the required report, the Budget Informal Member Group (Budget IMG) agreed a “menu” of issues to be covered (see Appendix E). The Group then met on 10th April and 7th May to discuss a draft version of the report and suggest improvements.

Officers with corporate expertise in areas of legal, procurement and finance were on hand to answer questions, as was the Director of Commercial Services. Each section of this final report contains a summary of what the Group felt to be the main points Members of the Governance and Audit Committee should be aware of.

After discussion, Members agreed that the following recommendations should be made to the Governance and Audit Committee:

1. The positive direction of travel for Commercial Services is formally welcomed and that the Director of Commercial Services, Kevin Harlock, be congratulated for the achievements of his service.
 2. The Governance and Audit Committee should consider setting up a Sub Group to oversee the governance of all the Council’s trading activities, involving Members of all political groups.
 3. Commercial Services should be encouraged to post accounts for medium sized companies as a gesture for greater openness about the Council’s trading activities.
 4. The Council’s ability to support private companies (for example by offering its own preferential procurement arrangements to suppliers) within Kent should be promoted.
 5. New business cases should be considered by the sub group of Governance and Audit Committee prior to being submitted to the relevant Cabinet Member for approval.
-

1. INTRODUCTION

- 1.1 Since Compulsory Competitive Tendering (CCT) legislation (Local Government Acts of 1988 and 1992) was abolished there has been no obligation on Local Authorities to put specified activities out to competition. There does however remain an obligation, under the 1985 Transport Act, to put subsidised local bus services beyond a quarter of Kent County Council (KCC) spend out to open tender,
- 1.2 However, the 1999 Local Government Bill introduced the requirement to deliver “Best Value” in services. This change recognised a fairly widespread belief (including within the business community) that the competition rules concentrated more on cost than quality. It applies to all services not just those specific services covered by CCT.
- 1.3 KCC has taken a “neutral” approach to service delivery. The “Towards 2010” commitment is to “ensure that KCC uses its significant purchasing power to allow fair and open competition”. While the Council is clear that it is the commissioner of services, there is no preconception about who should provide these services – whether the public, private or other sector.
- 1.4 KCC procures some £860M of goods and services every year. Of the £860M, Commercial Services provides about £28M worth - just over 3 %. Excluding arrangements whereby Commercial Services simply purchase goods on behalf of the rest of the Council (for example energy supplies) the figure is probably closer to 1%.
- 1.5 For example:
 - 85% of adult care provision is provided by the private and 3rd sectors
 - 100% of highways work is provided by the private sector
 - 94% of transport services are provided by the private sector
 - Almost 100% of property services are provided by the private sector
- 1.6 In line with Best Value Accounting requirements all trading activity must be fully accounted for. There is a requirement under the “Best Value Accounting Code of Practice” for trading accounts to be kept in accordance with proper accounting practices including the requirement to reflect total cost. Total cost includes a fair apportionment of overheads, capital charges etc. but does exclude “Corporate and Democratic Costs” and “Non Distributed Costs”. The external auditor reviews this every year.
- 1.7 Commercial Services is wholly non-budget funded and there is no known financial subsidisation from wider KCC or internally between activities. The independent External Auditor is obliged to review the allocation of overheads to trading activity as part of the annual Final Accounts audit. In addition, this has been subject to “special attention” by external auditors as requested by the private sector (most recently with respect to transport and agency staffing) with no evidence found to suggest the accounts have been misrepresented.
- 1.8 It has been claimed by some that cross-subsidisation of a non-financial kind occurs, for example when meetings are held in corporate meeting rooms. There is a charging policy for council meeting rooms, so this is certainly not the case in this particular instance. There have been no other specific claims that KCC is aware of and any such claims would be referred to the External Auditor should there be any doubt.

1.9 Traditionally Commercial Services have three main roles:

- To produce a net trading surplus to KCC primarily from non-KCC business.
- To act as a market regulator to minimise net cost to KCC
- To provide a range of goods and services to KCC which have already been subject to any procurement rules and which provide best value. This function includes negotiating corporate and national framework contracts to minimize net costs to KCC whilst maximizing profits derived from others.

	Internal	External	Total
	£000s	£000s	£000s
Internal KCC	28,500		28,500
Schools	14,500	59,000	73,500
Other Kent Business	29,000		29,000
Non Kent Business		149,000	149,000
TOTALS	72,000	208,000	280,000

1.10 The contribution Commercial Services makes to the KCC taxpayer in 2008-09 is forecast to be £6M plus further market moderation and savings. We estimate this benefit to be worth over 1.5% off the council tax every year or about £15 for the average Band D council tax payer in Kent.

2. OPERATING WITHIN THE LEGAL CONTEXT

2.1 The following section sets out the relevant legislation and accompanying Government guidance. The Budget IMG felt it was important that Members were clear that this section simply reflects the legal framework within which KCC operates.

Compulsory Competitive Tendering – A Reminder

2.2 The CCT legal framework was set out in the Local Government Act 1988 and the Local Government Planning and Land Act 1980. The stated idea was to “secure that local and other public authorities undertake certain activities only if they can do so competitively”. The specified activities were originally manual and building work but by the end of the regime included legal, finance, vehicle maintenance, IT, personnel, etc.

2.3 Where it was wished to keep work in-house there had to be a tender process with detailed rules (this was under English law). The local authority had to divide its staff into “client side” (to manage the tender process and act as client to the selected provider) and “contractor side” (to prepare and submit a bid and to carry out the work in accordance with the specification if selected). The process did not apply if it was intended to put the work out to the private sector.

2.4 A key criticism was that the regime in practice focused attention on following the rules and avoiding legal challenge, rather than on improving overall quality of service provision. CCT was repealed by the Local Government Act 1999, with effect from 2nd January 2000.

2.5 There does however remain an obligation, under the 1985 Transport Act, to put subsidised local bus services beyond a quarter of KCC spend out to open tender.

EU Procurement

- 2.6 Meanwhile, the EU procurement regime was coming into force. There were EC Council directives which in turn were passed into English law by Regulations in 1991 to 1993.
- 2.7 These directives were consolidated 2004 (with some changes) and this is now all in the Public Contracts Regulations 2006.
- 2.8 The current value thresholds are £139,893 for supplies and services, and £3,497,313 for works contracts.
- 2.9 On the face of it, the full procurement regime only applies to contracts for goods/services/works over the relevant specified threshold value. In addition, the Services regulations apply the regime only to certain (“Part A”) services, and in respect of residual services (“Part B”) only limited parts of the regulations apply. So for many years it was thought that the EU Procurement regime really had no application to contracts for Part B services or contracts under the relevant value threshold.
- 2.10 The European courts, however, have decided that the EU treaties impose a general obligation of equal treatment of all EU nationals, and in contract terms this means that ALL contracts must be awarded via a process that is fair and transparent, and that contracts must be advertised appropriately.
- 2.11 EU Regulations have three main principles:
- Advertising of contracts throughout the European Union (EU) so that all firms in the member states have an opportunity to submit tenders;
 - The equal treatment of all enquiries so as not to eliminate on the basis of the nationality of the supplier or the origin of the goods or services. This includes the banning of national technical specifications liable to discriminate against foreign tenderers;
 - Application of objective criteria in the tendering and award procedures so as to achieve a high degree of transparency.

Power to Trade

- 2.12 There have always been powers under specific statutes to provide services and charge for them. An example is the Local Authorities (Goods and Services) Act 1970 which allows local authorities to supply certain services to other public bodies.
- 2.13 These specific powers continue, but there is a new power in the Local Government Act 2003 (‘the Act’) and the “Local Government (Best Value Authorities) (Power to Trade) (England) Order 2004 (S.I. 2004/1705), (‘the Trading Order’ to trade generally in any of the Council’s ordinary functions. The relevant rules are:
- The Trading Order applies only to best value authorities which are local authorities within the meaning of section 1(2) of the Local Government Act 1999 and which are CPA rated as ‘excellent’, ‘good’ or ‘fair’.
 - The powers under the Act enable local authorities to trade with private bodies and persons for profit (i.e. charges fixed at more than cost recovery).

- The power to trade is only exercisable through a company. This is intended to help to ensure a level playing field with the private sector.
- A best value authority is authorised to do for a commercial purpose, anything which it is authorised to do for the purpose of carrying on any of its ordinary functions.
- Before exercising the power, a best value authority is required to prepare a business case in support of the proposed exercise of the power which must be approved by the authority.
- A best value authority shall recover the costs of any accommodation, goods, services, staff or any other thing it supplies to a company in pursuance of any agreement or arrangement to facilitate the exercise of the power.
- Where a best value authority ceases to be “excellent”, ‘good’ or ‘fair’ there are transitional provisions for trading to cease.
- Trading activity needs to contribute towards Best Value in the related function. Local authorities can only set up trading arms in function-related activities. Authorities need to be clear that they have the power to engage in an activity before they trade in it.
- Trading should be conducted on a fully transparent basis and authorities should not distort markets through the provision of inappropriate subsidies to trading companies.

Relationship of trading companies and the Council

- 2.14 The situation is quite different from that under CCT. There is no restriction at all under English law or EU law on any part of KCC providing goods or services to another part of KCC without a tender process, with or without a transfer of funds between the two.
- 2.15 The complication comes in deciding whether for EU procurement purposes a trading company run by KCC should be considered to be a part of KCC (so that the procurement rules do not apply between the two) or whether it is to be considered a separate entity.
- 2.16 The European court has decided that for the company to be considered to be just another part of KCC’s own structure (i.e. no need to go through a procurement process) the following conditions must be complied with:
- (a) The authority exercises over the company a control which is similar to that which it exercises over its own departments
 - (b) The company carries out the essential part of its activities with the controlling authority i.e. the company’s activities are devoted principally to KCC and any other activities are only of marginal significance. The activities are those activities which the company carries out as part of a contract awarded by KCC regardless of who the beneficiary is: KCC itself or the user of the services. It is also irrelevant who pays the company, whether it be KCC or third-party users of the services provided by the company
 - (c) There must be NO private capital in the company, not even as a minority shareholder.

2.17 These conditions are interpreted strictly by the courts.

So:

- i. If KCC client department wants to procure goods/services from KCS (or another KCC department) direct – no tender process needed
- ii. If KCC client department wants to procure goods/services from a KCC company that complies with the conditions set out in (a) (b) and (c) above – no tender process needed
- iii. If KCC client department wants to procure goods/services from a KCC company that trades with the outside world (or that otherwise does not comply with the conditions set out in (a) (b) and (c) above) – a proper procurement in accordance with Spending The Council's Money is needed, which might be an EU tender process.

2.18 If there are efficiencies in KCC providing goods/services through a company then it might be that there are two separate KCC companies needed for each area of business - one to supply KCC and one to trade with the outside world.

2.19 Whether the EU procurement rules will apply to other procurements by the company will depend on the circumstances of that particular company.

2.20 Appendix A sets out the guidance issued by the Director of Law and Governance last December. Please note that these figures were updated in January 2008 in line with the above.

Summary

Apart from transport KCC is not legally obliged to put out any services.

Up to 25% of subsidised local bus services could be provided by KCC without any competition (currently 6% is provided after competition).

This includes work delivered by a KCC company where KCC exercises control, most of the activity of the company is with KCC and there is no private capital.

Where work is tendered this must comply with EU rules to the appropriate extent.

3. THE NATIONAL AND REGIONAL CONTEXT

Emerging government policy

3.1 There is an increased emphasis in government on better procurement and on increasing the capacity for strategic commissioning to reshape the markets relevant to local government.

- 3.2 On the national scene centres of Excellence were set up in 2004 and KCC was awarded the South East Region. Current realignment of the Centres with the Regional Efficiency and Improvement Partnerships (REIP) has just been completed in order to set one coherent framework for collaboration and improvement of activity across local government. Efficiency gains up to the end of 2007-08 were set at £3bn for local government but this is currently standing at £4.2bn. The REIPs have been charged with producing 3% efficiency gains for the three years ending 2010/11 which for the SECE region equates to £691M.
- 3.3 The Budget confirmed that local authorities will be expected to contribute around £4.9bn to the efficiency target for the whole public sector of £30bn by 2011. Of this some £2.8bn or almost 60% is assumed to come from improved procurement. This underlines the belief that public sector is spending more than it should on purchasing goods and supplies.
- 3.4 The Audit Commission's Report "Healthy Competition" again confirms the £4.9b of efficiencies and goes on to suggest that the majority of this can be met through enhanced competition and smarter procurement. It suggests that the individual procurement strategy for each area of procurement spend needs to be considered and set down, so that efficiencies can be captured.

Existing best practice

- 3.5 KCC has developed its understanding of its external spend and used this to inform its corporate procurement strategy. The approach of aggregating spends and channelling them to get the best deals possible is entirely in line with best practice.
- 3.6 KCS is the larger of the 2 South East centres of procurement expertise and has skills in a number of the key commodity markets that are better than any in the public sector. The work that KCS has done on bus operations and temporary staff has led the way in reshaping those markets for Kent and has acted as an exemplar for others in the region. Other work, for example energy and vehicle procurement, has been a service that compares well with the best available to any part of the public sector and supports better procurement in many authorities.
- 3.7 Over the last 3 years the South East Centre of Excellence (SECE) has encouraged collaboration on commodity procurement. As a part of this it has and continues to compare the deals available through all the major providers to local government. KCS has compared very favourably in these exercises and as a result SECE has supported authorities elsewhere in the region accessing arrangements available through KCS.
- 3.8 It is also worth noting that since the introduction of the CPA regime procurement has become recognised as an area which has a large impact on local government. In recent CPA Guidance for example there has been a move to highlight more stringent requirements to actually identify and respond to procurement to ensure that efficiencies are made and value for money is maximised.
- 3.9 Appendix B sets out what some other councils are doing.

Summary

Government has set challenging efficiency savings both nationally and for Local government since CSR04.

Efficiency savings targets contained in CSR07 equate to some £4.9bn nationally or about £691M for the South East over the 3 year period.

Government sees better procurement of goods and services delivering approximately 60% of these targeted savings.

SECE consider work KCC to be doing as “best practice”.

4. KCC POLICY

- 4.1 Procurement is defined as all purchases or grants made by or on behalf of KCC. Governance arrangements exist to control this external expenditure i.e. where money actually leaves the council. When compiling these figures KCC also includes any expenditure incurred with its Commercial Services.
- 4.2 Fundamentally KCC uses its procurement to deliver its objectives. Importantly it is worth noting that these objectives can be achieved not only by what is bought but by where and how the money is spent.
- 4.3 KCC spends £862M annually (see table below) on procurement (see definition above). From this the annual spend which is carried out through Commercial Services (approx £28M) could be deducted but for the purposes of this report have been included. Within this £28M are supplies, such as energy procured for the rest of KCC. The other 97% is sourced predominantly from the private sector.

	£M
Social Care	363
Buildings	169
Roads and Regeneration	122
Other	62
Buses and Taxi's	34
Equipment and Supplies	28
Waste Disposal	50
IT	24
Special Education	10
Total	862

- 4.4 In 2005 the County Council agreed the first Corporate Procurement Strategy which sets out our high level approach. This document will be reviewed and updated in 2008 (attached as appendix C).
- 4.5 Within Towards 2010 there is a procurement related objective which states it will “ensure that KCC uses its significant purchasing power to allow fair and open competition”.

- 4.6 KCC procurement policy is “pure” to the extent that the best overall price for the council tax payer is key. Nevertheless, the procurement strategy sets out the key policy areas that the successful tender must cover – such as equality and diversity. All compliant bids are therefore compared having met the Council’s stated requirements on an equal playing field.
- 4.7 The essence of commercial trading is taking risk, by investing time and money to generate returns on investment. The then ODPM trading guidance in relation to the Trading Order under section 95 of the Local Government Act 2003 states: 'Local authorities will need to be prudent, in particular about putting council tax payers' money at risk'. For this reason the Order requires that KCC produces a comprehensive business case for each trading activity which must be approved by the Council prior to commencement of trading. This is a Cabinet member decision.

Summary

KCC’s overall policy is reflected in Towards 2010 which states it will “ensure that KCC uses its significant purchasing power to allow fair and open competition”.

Of the £862M KCC annually procures, £28M or 3% is procured through Commercial Services. Less when supplies, such as energy, are excluded.

Procurements reflect KCC’s required policies and all compliant bids are compared on this basis.

Each trading activity must prepare a business case before trading, which is agreed by the Cabinet Member.

5. CLARIFICATION OF KCC CORPORATE STRUCTURES / RESPONSIBILITIES

- 5.1 The KCC approach to procurement is based on:
- 5.2 **KCC Directorates** - ownership of the main spend categories eg social care, highways, buildings. A senior manager is nominated as the responsible officer for each spend category.
- 5.3 **Commercial Services** - for procurement of commodity type goods and services eg vehicles, stationery, office equipment. This is reinforced by a Spend Mandate to make sure budget managers use these county wide contracts.
- 5.4 **Strategic Procurement Unit** - based within Corporate Finance in CED the unit’s role is:
- Ownership of the high level Corporate Procurement Strategy.
 - Development and monitoring of the “rules and regulations” on procurement. These were launched as “Spending the Council’s Money” in late 2007.
 - Advice to KCC managers on procurement where there are not procurement specialists within the operational area.
 - Ensure that cross-cutting issues such as equalities and diversity, sustainability and eProcurement are addressed.

- 5.5 This structure means that procurement decisions are taken within the business by the people who know that business best. The approach of using Commercial Services for the commodity type spend means that we should be able to maximize our purchasing power - the effectiveness of this has been independently reviewed by PWC.
- 5.6 KCC also participates in the Central Buying Consortium which is a grouping of Local authorities in the South East / Midlands to promote collaborative procurement. The KCC Commercial Services Director represents CBC on Pro 5 which is a group of the 5 main local authority regional procurement groups.
- 5.7 This approach is overseen by the Procurement Board chaired by the Chief Executive. The Head of Financial Services chairs the Procurement Forum which consists of senior procurement practitioners drawn from across the Council.

Summary

There is now a clear governance framework around procurement roles and responsibilities.

“Spending the Council’s Money” sets out the operational governance arrangements for procurement across the Council.

6. WHAT DOES COMMERCIAL SERVICES DO AND ITS FINANCES

- 6.1 Commercial Services is wholly non-budget funded and there is no known cross-subsidisation from wider KCC or internally. Traditionally it has three main roles:
- To produce a net trading surplus to KCC primarily from non-KCC business.
 - To act as a market regulator to minimize net cost to KCC.
 - To provide a range of goods and services to KCC which have already been subject to any procurement rules and which provide best value. This function includes negotiating corporate and national framework contracts to minimize net costs to KCC whilst maximizing profits derived from others.
- 6.2 Commercial Services either purchases direct from vendors and delivers directly to its customers, or acts as broker and receives a percentage referral fee from vendors. All of the businesses are charged with making a net return to KCC although their contribution varies. Where this is insignificant it is where their market regulation effect or other added value is dominant. For example, the Passenger Services unit has depressed the costs of home to school transport to Education by an estimated £1m per annum over the last three years, KASS reported a saving of £600k on temporary care staff when Kent Top Temps entered the market.
- 6.3 More recently Commercial Services has been:
- Incorporating units where there is a sound business case for so doing. KCC is enabled, as a local authority, only to supply goods and services to other public bodies. Trading as a limited company allows utilization of assets to be maximized by filling spare capacity with business for the private sector, bringing

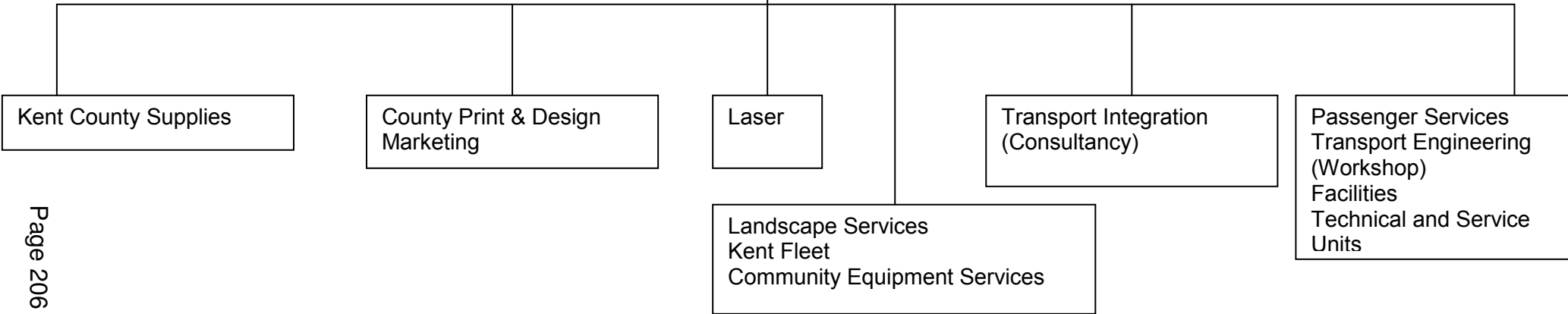
competition on a level playing field basis where competition is scarce, or filling a gap in the market where there is limited provision.

- Working closely with Finance to identify opportunities for shared service delivery, particularly with Districts.
- Acting as a regional procurement and supply hub across the southeast under a Memorandum of Understanding with the South East Efficiency Improvement Partnership (SECE).
- Providing KCC brand exposure and market presence particularly through operation of its commercial bus fleet.
- Investing in modern technology, for example a web catalogue, electronic ordering and invoicing capability to assist partners in back office cost reduction.
- Increasing its impact on carbon reduction through introducing an own brand range and leading for KCC on energy management for buildings and transport.

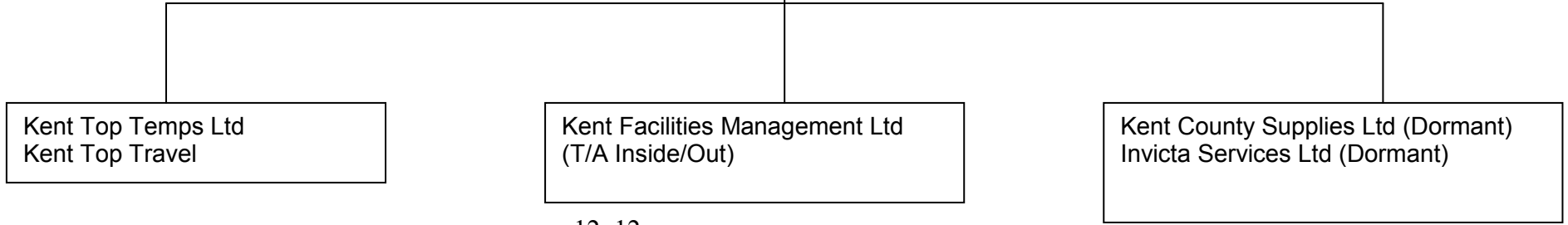
6.4 Commercial Services currently:

- Consists of 14 internal business units, based at West Malling and Aylesford. (2 of its businesses have been incorporated and are separate trading companies – and a further 2 incorporated companies are dormant - see attached structure chart).
- Employs approx 800 staff, flexing seasonally up to approx 900 staff.
- Turns over £280m and brokers a further £350m.
- Plans to return £5.7m as a 'dividend' for 2008/09.

Commercial Services Director



Commercial Services Director



6.5 The following table sets out which each activity covers:

Kent County Supplies - is the largest single local authority educational, office equipment/IT and furniture supplier, providing a 'One Stop Shop' across the South East, parts of the West, London Boroughs and Essex. It has a central warehouse stocking 9000 items complemented by 7000 directly delivered lines.

County Print and Design – is the largest local authority sheet-fed printer in England, providing a complete design and commercial printing service plus bulk copying and mailing services. It undertakes all the printing for Kent and Surrey Police.

Transport Integration - professional passenger transport procurement. Integrates requirements on behalf of CFE, KASS, E and R and other public bodies.

Transport Engineering - provides fleet vehicle maintenance and repair services to KCC, Kent Fire and Rescue and other public bodies in accordance with 'Department for Transport' and 'Health & Safety' legislation. It has full workshop facilities for servicing, maintenance and accident repairs from a lawnmower to a gritter lorry.

Passenger Services - provides in-house passenger transport to schools and care establishments. A wide range of vehicles is provided from cars through to mini buses and coaches (with driver).

Kent Fleet - supplies lease cars, commercial vehicles and minibuses (without driver) to public bodies and charitable organisations throughout the southeast, east and south west including many London Boroughs.

LASER – the largest local authority energy purchasing organisation in UK, aggregating volume and providing best value for some 80 local authorities including 24 London Boroughs, TFL and thousands of schools. Laser also provides energy contract management services to KCC and other public partners.

Landscape Services - provides complete grounds maintenance, landscape/playground/sportsfield design and construction plus street cleaning and cemetery maintenance. Its customers include most Kent schools and many District councils. It also provides services to all East Sussex schools and most of W Sussex schools. Ancillary services include testing of all electrical appliances, plus maintenance of fire extinguishers and the provision of fire safety training.

Technical Services - maintains and repairs audiovisual and computer hardware equipment.

Community Equipment Service - provides support to independent living in the Community

Service units - From 2008/09, two service units, Facilities Management and Staff Care Services have transferred into CS. The intention is to consolidate these and market them to other organisations thus generating additional income streams.

***Kent Top Temps Limited.** This unit commenced trading on 4 April 2005 under its private company status. Whilst Kent Top Temps had been in existence for approx. two years, this private company wholly owned by KCC was created in response to the 'Freedom to Trade' power effective from July 2004.

***Kent Top Travel** is a trading division within Kent Top Temps Ltd. It tenders for home to school transport, local bus services and private hire.

***Kent Facilities Management Ltd** has only one trading division, InsideOut which provides small building works to a range of primarily, but not exclusively, public sector customers. It has not yet completed a full year's trading.

***Kent County Supplies Ltd and Invicta Services Ltd** have been incorporated but are both dormant.

** Company structure*

6.6 Commercial Services is the largest contributor to the 17 member Central Buying Consortium comprising primarily shire authorities, which turns over £750m, where it leads on over 60% of the procurement activity.

6.7 As well as the annual Final Accounts requirement, most of the units have been the subject of a number of external and internal reviews over the past few years, (1992 PWC, 1995 KPMG, 1997 Chief Officer, 1999 Best Practice Review, 2003 Best Value Review) with more recently various audits of individual businesses. Each review considered the need for and value of CS; all overwhelmingly recognised its contribution and supported its retention.

6.8 In response to the concerns expressed by the transport sector about possible cross-subsidisation PWC were asked to review both relevant tenders and accounts. In October 2007 our new external auditors the Audit Commission was asked to review the potential for cross subsidisation with Top Temps. Findings for both are contained as Appendix D.

6.9 We are approaching year end and the Audit Commission will be reviewing this yet again as part of the annual closing of the accounts programme.

6.10 The, as yet, unaudited, accounts for 2007/08 show a return to KCC in excess of £4.5m. In addition, market moderation delivers savings to KCC of some £2m per annum. Before Passenger Services entered the market cost increases in contracts of some 25-30% were common. The last round of tenders for one quarter of the subsidised local bus services resulted in a virtual standstill. KASS say the temps supplied by the private agencies are now costing some £400k per annum less than before KTT moderated the market. Supply teachers are approximately £20 per day less to many schools. The cost benefit in prices for provision of stationery, grounds maintenance, and vehicle maintenance cannot be calculated but is significant.

6.11 The total annual value to KCC, when other benefits to the authority (such as rental stream on KCC freehold site, contribution to the pension back funding and market regulator effect are taken into account), has been estimated by Corporate Finance as follows:

Annual Benefit to KCC	£000s	of total
Rent to Property	520	7%
Savings - competitive pricing	1,500	19%
Market regulator effect	1,000	13%
Annual trading surplus	4,500	57%
Contribution to pension backlog	400	5%
Total	7,920	100%

6.12 Finally it should be noted that Commercial Services provides goods and services across the country. Broadly, the area relates to a line roughly from Devon and Jersey to Norfolk in the East, with some supply into most of the London Boroughs. All of that non-Kent activity generates business for Kent suppliers who supply Commercial Services.

Summary

Commercial Services has three main roles:

- To produce a net trading surplus to KCC primarily from non-KCC business.
- To act as a market regulator to minimise net cost to KCC.
- To provide a range of goods and services to KCC which have already been subject to any procurement rules and which provide best value.

Of the 14 business units, 2 are now incorporated as trading companies.

Commercial Services turns over £280m and brokers a further £350m, but clearly not only through KCC.

The total annual value to KCC of Commercial Services in 2007-08 was approximately £8M or about 1.5% on Council Tax.

7. REPORTING

7.1 All companies must prepare full accounts for its shareholders but small and medium-sized firms can send abbreviated accounts to the Registrar of Companies.

Small companies must deliver to the registrar:

- An abbreviated balance sheet containing the main headings of assets and liabilities.

- Selected notes to the accounts explaining accounting policy, share capital, particulars of creditors payable in more than five years and the basis of any foreign currency transactions.
- A special auditor's report, unless exempt.

For medium-sized companies, the accounts must contain:

- A full balance-sheet that lists, by account category, all the assets and liabilities of the company.
- An abbreviated profit-and-loss account containing only the main headings of income and expenditure, but providing no detail.
- Notes to the accounts explaining accounting policy, share capital, particulars of creditors payable in more than five years and the basis of any foreign currency transactions.
- A director's report summarising the company's position.
- A special auditor's report confirming that the accounts are a "true and fair" representation of the company's financial state on that date.

7.2 In the UK, to qualify as a small company you must satisfy two of the following three tests: annual turnover of less than £2.8 million, assets of less than £1.4 million and fewer than 50 employees. As well as being allowed to file abridged accounts, small companies are exempt from having an audit. Medium-sized companies must satisfy two of the following three tests: annual turnover below £11.2 million, assets less than £5.6 million and employ fewer than 250 people.

7.3 While the companies operated by KCC are classified as "small", there is no external barrier to filing more detail, assuming that they give at least the minimum amount of information required by the relevant legislation. However, there is obviously a cost attached to this.

7.4 In terms of internal reporting, the financial data is based on monthly reporting against the approved phased budget, and re-forecast of the annual out-turn. The process starts with individual business management review of the results and forecast. This is followed by a finance review by Commercial Service's Head of Finance, prior to the monthly review by the SMT, which includes a review of the annual forecast and any major issues affecting the businesses. The financial reports are then forwarded to the CEO of KCC, the lead member for finance Mike Snelling, and to KCC Corporate Finance. In addition, the CS head of finance holds a monthly meeting, with KCC Finance Director.

Summary

The KCC companies currently are classified as "small" and report accordingly to the Registrar of Companies

Internally, financial reports are compiled monthly and feed into the corporate process.

8. GOVERNANCE / ROLE OF DIRECTORS

- 8.1 The underlying principles of good governance for local authorities are set out in the guidance provided by CIPFA and SOLACE. Currently most of Commercial Service's activities are governed in much the same way as other KCC business. The Director of Commercial Services reports to KCC's Chief Executive and to the Lead Member on a regular basis. Financial information is reported to the Director of Finance and through the Council's normal monitoring process.
- 8.2 For the trading companies there is additional guidance contained within the '*The General Power for Local Authorities to Trade in Function Related Activities through a Company*'. This stipulates the following:
- The board of directors will run a trading company, answerable to the membership in accordance with the articles of association.
 - A board of 3- 8 people is recommended with representation from KCC.
 - The members or officers appointed directors will participate directly in the company activities however other local authorities' members may be involved if given the right to attend board meetings as observers, however they cannot participate in decision-making.
- 8.3 The Company Directors for the companies are currently: Kevin Harlock, Lynda McMullan, Lawrence Faulkner and Mike Snelling. These positions attract no additional remuneration and reflect core responsibilities. Following his successful appointment as Head of Finance for Commercial Services, Les Coulson will be replacing Lynda McMullan as Company Director in due course.
- 8.4 It is the view of the Director of Law and Governance that the companies within Commercial Services follow the relevant guidance.

Summary

Specific guidance covering the governance of local authority companies is mainly covered in "*The General Power for Local Authorities to Trade in Function Related Activities through a Company*".

It is the view of the Director of Law and Governance that the companies within Commercial Services follow the relevant guidance.

9. WORKING ALONGSIDE THE PRIVATE AND OTHER SECTORS

- 9.1 Notwithstanding the work carried out by KCC's Environment and Regeneration Directorate, there is additional synergy to be gained through closer working partnerships between KCC and other sectors.
- 9.2 While it would be difficult for KCC to offer goods and services at its own preferential rates for all business, clearly there is a strong case for doing so for its suppliers. For example, bus companies bidding for work would be able to access and assume the same deals for vehicles or fuel, as if they were part of KCC. While this idea has been mooted to business previously, it would appear that this message has not been received.
- 9.3 Furthermore, KCC is reviewing whether it would be able to provide support services (notably payroll and administration) to all Kent businesses through a trading company. This would be at no profit, with the objective of helping local business thrive. This idea has been discussed with local business, to see if this idea would be welcomed.

Summary

There is more work to be done by KCC to communicate what goods and services could be accessed through its preferential procurement rates by potential suppliers for a win/win result

There is some potential for KCC to work with the private and other sectors to provide support services, at no profit

CONTRACTING WITH A KCC COMPANY Headline Guide for Managers

It is possible to contract with a KCC Company as the Council and the Company are two separate legal entities.

Can work be put out direct to the company or do the EU Procurement rules apply?

Work can be put out direct, provided:

1. KCC exercises control over the company similar to that exercised over its own departments AND
2. The company carries out most of its activities with KCC AND
3. The company has no private capital invested in it

(If KCC and another public authority exercise control over the company (one party having at least 20% of the shares) similar to that exercised over their own departments then work can still be put out direct as long as points 2 and 3 above also apply)

EU Procurement rules must be followed, if:

1. KCC does not exercise control over the company OR
2. The company does not carry out most of its activities with KCC OR
3. The company has any private capital

This guide is in relation to contracts over the EU Procurement Thresholds (currently £144,371 for Services and Supplies contracts and £3,611,319 for Works contracts)

Contracts for a lesser value are still governed by "Spending the Council's Money":
<http://knet2/policies-and-procedures/finance-and-procurement/procurement/spending-the-councils-money/?searchterm=spending%20the%20council's%20money>.

Managers are reminded that transparency and fairness are still the guiding principles when contracting and that seeking advice from Legal Services early in the procurement process should save both time and the risk of challenge.

Geoff Wild
Director of Law & Governance
December 2007

Trading and Charging Operations in other County Councils

Norfolk County Services Ltd:

The company was set up in the 1980's in response to blue collar CCT and converted to a wholly owned limited company to enable it to trade more widely. It was formed to carry out direct labour activities for the Council and joint venture subsidiary companies have been formed with two district councils. It currently has a turnover of £70m.

NPS Property Consultants Ltd (Norfolk County Council):

Similarly to Norfolk County Services Ltd, the company was set up in 1992 in response to white collar CCT. It has a turnover of £30m with activities including architectural services, building surveying, estate management and project management. Subsidiaries have been established to provide services for Wigan and Wakefield councils.

BANES (Bath and North East Somerset County Council):

The Council is in the process of setting up a building and engineering company to provide services to third parties, (work for the council will be provided in-house). No staff are transferring to the company through this process (simplifying the legal arrangements).

In addition to these example of trading companies, a larger number of councils actively 'charge' through operations similar to KCC's Commercial Services.

Cornwall County Council (CCC)

CCC has a contracting arm set up to compete with the private sector for cleaning, grounds and catering services. It employs a highly trained, well motivated, and experienced local workforce of over 1,500 people and has an annual turnover of £10 million.

All work undertaken is subject to competition, and is delivered under Competitive Tender, Best Value contracts, service level agreements and individual purchase orders.

Leicester County Council

Leicestershire Highways is the trading arm of the Highways, Transportation and Waste Management Department of Leicestershire County Council. The primary business is the efficient and effective delivery of best value highways services to our clients.

It directly employs over 200 trained operatives, backed up by a professionally and technically qualified management structure.

Its policy of continuous improvement means that Leicestershire Highways invests in the on-going training of its employees and is proactively involved in the development of new and innovative techniques and processes. Leicestershire Highways also utilises environmentally friendly practices in its pursuit of improving service delivery.

Lancashire Country Council (LCC)

LCC's Commercial Services Direct Services Organisation prepares school dinners and is the primary provider of building, cleaning and catering services to schools and other council establishments. It also provides the staff for the County Mess and Civic Catering service and the School Crossing Patrol service. It employs over 3,500 staff, serving 50,000 meals a day and cleaning 400 buildings.

From: McMullan, Lynda - CED FIN

Sent: 14 March 2008 15:21

To: Dean, Trudy - MEM; Chard, Nick - MEM; Smyth, Derek - Labour; Law, John - Member

Cc: Ballard, Stuart - CED L&DS; Harlock, Kevin - CED CS; Wood, Andy - CED ; Wild, Geoff - CED L&DS; Vickers, Nick - CED FIN; Snelling, Michael - MEM

Subject: Budget IMG - April

I have discussed a proposed "agenda" with Kevin, regarding the discussion we intend to have around the Commercial Services activities at our next meeting. My intention is to work with others to supply papers in advance that cover the following :

1. **The legal context** (an outline of the relevant EU and national legislation covering both our powers to trade and also how we procure. In particular we will cover the issue around KCC companies ie what route we need to take when purchasing from them. I will ask Geoff if it is possible to have a "witness" from legal to answer any questions)

2. **The national and regional context** (a view of the national savings built into CSR07 from procurement and how councils are having to be a lot "smarter" in responding to this agenda. Hopefully gain perspective from regional centre and how they are promoting CS as best practice ie we are being seen as leaders in this area plus how industry is responding in other areas eg is this a kent issue or a national one. I will ask Andrew Lerner if we can have a "witness" to answer any questions)

3. **KCC Policy** (what is KCC procurement policy and how does this sit with regeneration, green or other policies. I suggest Nick or one of the strategic procurement team be available to take questions)

4. **Clarification of KCC corporate structures / responsibilities** (who does what, separation of duties etc)

5. **What does CS do** (outline of CS activities - both those within KCC and those within KCC companies. What are the main objectives ie setting out mkt moderation role etc as well as the immediate financial imperatives)

6. **Financial Review** (review the financials of each trading activity at high level - whether mainstream KCC or KCC company. Robustness of figures ie is there any cross subsidisation)

7. **Reporting** (outline requirement for reporting financial data and discuss issues around commercial confidentiality / FOI requests)

8. **Governance / Role of Directors** (discuss)

This is our "starter for 10" and happy to take any suggestions. I suggest on day we go through each issue but focus our time on areas where we feel we need to understand more or feel improvement could be made. This will help inform what we take to G&A cttee in June.

I have copied Mr Snelling as lead member and suggest he is invited to attend should he wish. He is a member of G&A cttee in any case.

Thanks - Lynda

14 MAR 2007

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London SE1 9SY
Telephone +44 (0) 20 7583 5000
Facsimile +44 (0) 20 7822 4652
www.pwc.com/uk

Kevin Harlock
County Commercial Services Officer
Kent County Council
Gibson Drive
Kings Hill
West Malling
ME19 6QG

13 March 2007

Dear Kevin,

We were engaged by Kent County Council to perform a review of Kent Passenger Services, and in particular to look at how the operation is costed and the treatment of overheads for support services such as finance, HR and IT. There were three key elements to our review:

- 1. A review of the current method for calculating the cost of the Passenger Transport Operation that would be used in any tender submission. This included a review of four recent tender submissions, selected at random, to check that this method has been followed when calculating the price of the bid.**

We reviewed the method for calculating the cost included in tender submissions. We are content that the method of calculation of the bid price does include relevant variable costs of the service (for example, cost of the vehicle, fuel and driver's salary costs) along with an element to cover the department's annual overheads. We are also content that the sample of four tenders that we reviewed for the period December 2004 to June 2006 had used this method to calculate the tender price.

Further, we reviewed the method for calculating the annual cost of the vehicle, as charged by Kent Fleet, from which Passenger Transport Services lease all of their vehicles. We are satisfied that this cost is based on the actual cost of the vehicle spread over the life of that vehicle on a straight line basis, together with a reasonable contribution to overhead. Kent Fleet breaks even each year or makes a small surplus, as does Passenger Transport Services.

We reviewed the service's budgeted annual overheads for 2005/06 and 2006/07, which include premises costs, staff costs and administration costs. The budget also includes allocations for central overheads relating to services provided by the County Council and for services provided by the Commercial Services directorate's support teams. For 2005/06 and 2006/07 we concluded that the allocation for central overheads used in the service's budget was in line with Kent County Council's budgeted allocation for Passenger Transport Services.

2. **A review of how overheads are charged to the service and whether the basis for this is in accordance with recognised practice, for example, that set out in the Best Value Accounting Code of Practice (BVACOP).**

We reviewed the schedule of Passenger Transport Services' budgeted overheads for 2006/07, and noted that all overheads which are directly incurred are allocated in full.

We reviewed the method of apportionment of central overheads (both the Commercial Services directorate's overheads and central Kent County Council overheads) to Passenger Transport. These include the provision of IT services, HR services, management time and financial support.

We were satisfied that the method of apportionment was fair and in accordance with BVACOP guidelines.

3. **Interviews with key staff within the bus operating service and the Authority's support services to establish the services that they receive / provide and a comparison of how this compares to the actual costs charged to the service.**

We interviewed Chris West and Darren Honey within the Management Accounting Team (MAT) of Kent County Council, and established that this team provides minimal services to the Commercial Services Directorate, given that the latter operates as a relatively independent unit. This is reflected in the low overhead cost for the Directorate, which covers only the provision of internal audit, use of IT systems and the personnel function.

We interviewed Val Moon and John McCoy within the Commercial Services directorate to establish the services provided by the MAT to the directorate. We were satisfied that this was consistent with the description of services provided as discussed with the MAT.

Through this interview, we also established the services provided centrally by the Commercial Services Directorate to Passenger Transport Services, which, for the most part, involved financial support. We were satisfied that these were consistent with the description of services provided to Passenger Services, as established through interview with Jo Ryder, Business Manager of Passenger Services.

We were also satisfied that the costs of services provided, as included in the overheads for each area, appeared reasonable.

Conclusion

From this review, we are satisfied that:

- Passenger Transport Services receives a fair allocation of central overheads for the support services it receives from Kent County Council and the Commercial Services Directorate;
- the method used for calculating prices to be included in tender submissions by the Service include an element to cover a proportion of those central overheads; and
- the method used for calculating prices to be included in tender submissions also includes an element for relevant variable costs.

As required by ISA 920 we provide no opinion, attestation or other form of assurance with respect to our Services or the information upon which our Services are based. We have not audited or

otherwise verified the information supplied to us in connection with this engagement, from whatever source, except as specified in our Engagement Letter. The procedures we have performed do not constitute an examination in accordance with generally accepted auditing standards.

Yours sincerely,



Janet Eilbeck
Partner
PricewaterhouseCoopers LLP

3 October 2007

Mr J Parkinson
Chairman
Human Resource Group
Wellington House
Church Road
Ashford
Kent TN23 1RE



Our Ref DW/ss
Direct Tel: 0844 798 6110
Mobile: 07748 760569
Email: d-wells@audit-commission.gov.uk

Dear Mr Parkinson

Kent Top Temps Ltd

I refer to my letter of 9 July 2007 in response to the concerns you have raised about Kent County Council creating a company in competition with the private sector.

I have now undertaken some further research into this matter.

Kent County Council has relied on the trading provisions contained in the Local Government Act 2003. The Act allows certain councils in certain circumstances to "do for a commercial purpose anything which they are authorised to do for carrying out their ordinary functions". I have taken legal advice on the matter and have concluded that the Council is acting within its legal powers to provide amongst other things temporary staff to itself and externally. In your original letter to PriceWaterhouseCoopers you referred to other areas, for example, travel arrangements and garage services and it would appear to me that the 2003 legislation does in fact permit a Council to provide such services on a commercial basis subject to the compliance with the conditions set out in the legislation. There are restrictions on the exercise of statutory powers by local authorities set out in administrative law based on the legal concept of reasonableness which could result in the Council acting unlawfully should it, for example, seek to distort the market. In my view, based on the evidence currently before me the limited amount of work undertaken for organisations outside the Council in 2006/07 is not, in the legal sense, unreasonable.

When trading on a commercial basis Councils have, by law, to recover the costs of any accommodation, goods, services, staff or any other thing that it supplies to a company in pursuance of any arrangement to facilitate the exercise of the statutory power. Councils should not distort markets through the operation of inappropriate subsidies to trading companies. Although I am not appointed to audit the accounts of Kent Top Temps Ltd or that of the County Council for 2006/07 (my appointment is for 2007/08 onwards) with the agreement of the previous auditors I have enquired into the arrangements to ascertain if costs for services provided by the Council during 2006/07 are born by Kent Top Temps.

I have examined the arrangements for recharges made by Kent County Council and its operating division Kent Commercial Services to the company in relation to financial year 2006/07. From the information provided to me I have concluded that the recharges are in accordance with appropriate allocation principles set out in the professional guidance issued by the Chartered Institute of Public Finance and Accountancy.

If Kent Top Temps Ltd should lose money it runs the same risks as any other company and its creditors at such a time would bear losses which would include the loan shown in the published accounts from the County Council.

In conclusion I would point out that an elector can inspect the accounts and associated records of a council and may lodge a formal objection to the annual accounts on the grounds the Council expenditure is unlawful or if the elector believes that the activities of the council should be subject to a report in the public interest.

As PriceWaterhouseCoopers have completed the 2006/07 audit that opportunity to object has now passed. I will be undertaking the audit for 2007/08 in during the summer of next year and if you are of the view that the Council has acted unlawfully you will have an opportunity to inspect the accounts and lodge an objection with me at that time.

Yours sincerely

Darren Wells
District Auditor

cc Mr G Wild KCC
Mr K Harlock KCS

This page is intentionally left blank