GOVERNANCE AND AUDIT COMMITTEE

Thursday, 24th July, 2014

10.00 am

Darent Room, Sessions House, County Hall, Maidstone

Kent County Council
kent.gov.uk

AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Thursday, 24th July, 2014, at 10.00 am	Ask for:	**Andrew Tait**
Darent Room, Sessions House, County Hall, Maidstone	Telephone:	**01622 694342**

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

Membership (15)

Conservative (8)	Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman), Mr J A Davies, Mr P J Homewood, Mr A J King, MBE, Mr S C Manion, Mr R A Marsh and Mr J E Scholes
UKIP (3)	Mr H Birkby, Mr C P D Hoare and Mr B Neaves
Labour (2)	Mr W Scobie and Mr D Smyth
Liberal Democrat (1):	Mr R H Bird
Independents (1):	Mr M E Whybrow

Webcasting Notice

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

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

UNRESTRICTED ITEMS

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

1. Introduction/Webcasting

2. Membership

   To note that Mr S C Manion has replaced Mr P J Oakford on the Committee

3. Substitutes

4. Declarations of Interest in items on the agenda for this meeting

5. Minutes - 30 April 2014 (Pages 7 - 14)

6. Dates of meetings in 2015

   Thursday, 29 January 2015
   Wednesday, 29 April 2015
   Thursday, 23 July 2015
   Friday, 2 October 2015.

7. Committee Work and Member Development Programme (Pages 15 - 30)

8. External Audit Update July 2014 (Pages 31 - 44)

9. External Audit Findings Report 2013/14 (Pages 45 - 80)

10. External Audit Pension Fund Audit Findings Report 2013/14 (Pages 81 - 106)

11. External Audit 2013/14 Value for Money Report (Pages 107 - 130)

12. Schools Audit Annual Report (Pages 131 - 134)

13. Internal Audit Annual Report (Pages 135 - 172)

14. Draft Statement of Accounts 2013-14 (Pages 173 - 336)

15. Treasury Management Annual Review 2013-14 (Pages 337 - 348)

16. Debt Management (Pages 349 - 362)

17. KCC Insurance Overview (Pages 363 - 368)

18. Corporate Risk Register (Pages 369 - 406)

19. Review of Anti-Fraud and Corruption Strategy (Pages 407 - 424)

20. Anti-Fraud and Corruption Progress Report (Pages 425 - 434)

21. 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)

Peter Sass
Head of Democratic Services
(01622) 694002

Wednesday, 16 July 2014

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.

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TERMS OF REFERENCE

Governance and Audit Committee

15 Members

Conservative: 8; UKIP: 3; Labour: 2; Liberal Democrat: 1; Independent: 1.

The purpose of this Committee is to:

1. ensure the Council's financial affairs are properly and efficiently conducted, and

2. review assurance as to the adequacy of the risk management and governance framework and the associated control environment.

On behalf of the Council this Committee will ensure the following outcomes:

(a) Risk Management and Internal Control systems are in place that are adequate for purpose and effectively and efficiently operated.

(b) The Council's Corporate Governance framework meets recommended practice (currently set out in the CIPFA/SOLACE Good Governance Framework), is embedded across the whole Council and is operating throughout the year with no significant lapses.

(c) The Council's Internal Audit function is independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate.

(d) The appointment and remuneration of External Auditors is approved in accordance with relevant legislation and guidance, and the function is independent and objective.

(e) The External Audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.

(f) The Council's financial statements (including the Pension Fund Accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective.

(g) Any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound.

(h) Accounting policies are appropriately applied across the Council.

(i) The Council has a robust counter-fraud culture backed by well designed and implemented controls and procedures which define the roles of management and Internal Audit.

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Wednesday, 30 April 2014.

PRESENT: Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman), Mr R H Bird, Mr H Birkby, Mr R E Brookbank (Substitute for Mr A J King, MBE), Miss S J Carey (Substitute for Mr P J Oakford), Mr J A Davies, Mr C P D Hoare, Mr S C Manion (Substitute for Mr P J Homewood), Mr R A Marsh, Mr B Neaves, Mr J E Scholes, Mr W Scobie, Mr D Smyth and Mr M E Whybrow

ALSO PRESENT: Mr J D Simmonds, MBE and Mr B J Sweetland

OFFICERS: Mr A Wood (Corporate Director of Finance and Procurement), Ms A Mings (Treasury & Investments Manager), Mr H Swan (Head of Procurement), Mr G Wild (Director of Governance and Law), Ms N Major (Head of Internal Audit), Ms S Buckland (Audit Manager), Mr P Rock (Counter Fraud Manager), Mr M Rolfe (Trading Standards Manager (East)) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Mr D Wells and Ms E Olive from Grant Thornton UK LLP.

UNRESTRICTED ITEMS

1. Membership
(Item)

The Committee noted the appointment of Mr C P D Hoare in place of Mr T L Shonk.

2. Minutes
(Item 4)

RESOLVED that:-

(a) the Minutes of the Committee meeting held on 18 December 2013 are correctly recorded and that they be signed by the Chairman; and

(b) the draft Minutes of the meeting of the Trading Activities Sub-Committee meeting held on 3 March 2014 be noted.

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

(1) The Head of Internal Audit proposed an updated forward work and Member development programme to April 2015

(2) The Committee suggested a training session on the work of the Committee in respect of alternative forms of service delivery.

(3) RESOLVED that subject to (2) above, approval be given to the proposed forward work programme and Member development programme to April 2015.

4. 2013-15 Revenue Budget Savings
(Item 6)

(1) The Corporate Director of Finance and Procurement updated the Committee on the progress in making the revenue budget savings for each of 2013/14 and 2014/15. This included an underspend of some £8m in 2013/14. He also explained the Savings Project Initiation Document (PID) process which had been re-introduced for 2014/15.

(2) RESOLVED that the progress on the 2013/14 and 2014/15 revenue budget savings be noted for assurance.

5. Revised Accounting Policies and Financial Regulations
(Item 7)

(1) The Corporate Director of Finance and Procurement briefly reported that there were no proposed revisions to accounting policies or to the Financial Regulations.

(2) RESOLVED that no changes be made to the accounting policies or to the Financial Regulations.

6. Update/Replacement of "Spending The Council's Money"
(Item 8)

(1) The Head of Procurement gave a report seeking approval to update the current "Spending the Council's Money" document and to replace the hard copy with an online more user-friendly version.

(2) RESOLVED that approval be given to the updated "Spending the Council's Money" document and to the replacement of the PDF version with the proposed new online version.

7. Treasury Management Quarterly Report
(Item 9)

(1) The Cabinet Member for Finance and Business Support and the Treasury and Investments Manager presented an update on treasury management issues. This included the new strategy of further diversification and a reduction in the size of investment made in any one financial institution.

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

8. RIPA Report on Surveillance
(Item 10)

(1) The Cabinet Member for Commercial and Traded Services and the Trading Standards Manager (East) gave an outline of work undertaken by KCC Officers on surveillance, the use of covert human intelligence source and access to

telecommunications data governed by the Regulation of Investigatory Powers Act 2000 (RIPA) during the 2013/14 business year.

(2) RESOLVED that:-

(a) the use of powers under RIPA during 2013/14 be noted for assurance; and

(b) the RIPA policy be endorsed as set out in the Appendix to the report.

9. Internal Audit Annual Audit Plan 2014-15
(Item 11)

(1) The Head of Internal Audit presented the proposed Internal Audit Plan for 2014/15. She asked the Committee to note that the Developer Contributions audit (RB39 2015) would be a review of Section 106 Agreements rather than "Section 107" as set out in the report.

(2) RESOLVED that agreement be given to the proposed Internal Audit Annual Plan for 2014-15 as set out in Appendix 1 to the report.

10. Internal Audit Progress Report
(Item 12)

(1) The Head of Internal Audit summarised the outcomes of Internal Audit activity for the 2013/14 financial year to the end of March 2014.

(2) The Committee discussed the internal audit implications of the Council's changing risk appetite as set out in Note 1 of the Internal Audit Performance section of the progress report.

(3) RESOLVED to note:-

(a) progress against the 2013/14 Internal Audit Plan and the proposed amendments to it; and

(b) the assurance provided in relation to the Council's control environment as a result of the outcome of Internal Audit work completed to date.

11. External Audit Update - April 2014
(Item 13)

(1) Mr Darren Wells from Grant Thornton UK LLP provided an update on the work of the external auditor in respect of progress on the planned audits for 2013/14, and emerging issues and developments. He also reported the Certification Letter for 2012/13.

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

12. External Audit Plans for Kent County Council and Kent Superannuation Fund 2013/14
(Item 14)

(1) Mr Darren Wells from Grant Thornton UK LLP presented a report setting out the proposed work of the external auditors to enable them to give an opinion on the Council's 2013/14 financial statements including the Kent Superannuation Fund.

(2) RESOLVED that: -

(a) the outcomes of Grant Thornton's updated risk assessment be noted; and

(b) approval be given to the Audit Plans for Kent County Council and the Kent Superannuation Fund for 2013/14.

13. External Audit Fee Letter 2014/15
(Item 15)

(1) Mr Darren Wells from Grant Thornton UK LLP presented the external audit fee for the Council for 2014/15.

(2) RESOLVED that:-

(a) approval be given to the fees proposed in the fee letter of 7 April 2014; and

(b) the changes to the Audit Team for 2014/15 be noted.

14. Fraud Law and Regulations and Going Concerns Considerations
(Item 16)

(1) The Corporate Director of Finance and Procurement presented management responses to a questionnaire from Grant Thornton on the County Council's processes in relation to fraud, law and regulations and going concern considerations.

(2) RESOLVED that approval be given to the management responses to the Grant Thornton questionnaire as set out in the Appendix to the report.

15. Anti-Fraud and Corruption Progress Report
(Item 17)

(1) The Counter Fraud manager provided a summary of progress of anti-fraud and corruption activity as well as the outcome of investigations concluded since the last meeting of the Committee in December 2013.

(2) RESOLVED that the progress of prevention and investigation of anti-fraud and corruption activity be noted for assurance.

EXEMPT ITEMS
(Open Access to Minutes)

(Members resolved under Section 100A of the Local government Act 1972 that the public be excluded from the meeting for the following business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.)

16. Fraud Law and Regulations and Going Concerns Considerations.
(Item)

(1) The Corporate Director of Finance and Procurement explained the risk to the County Council of a particular weakness which had been identified by Internal Audit in response to Grant Thornton's question on whether internal controls, including segregation of duties, were in place and operating effectively. This question had also asked whether any risk areas had been identified and about the mitigating actions taken in response.

(2) The Corporate Director of Finance and Procurement explained that it would have been detrimental to the County Council and to the public interest if the details of the weakness had been revealed during the Open part of the meeting.

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

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By:	Richard Long, Chairman of Governance and Audit Committee Neeta Major, Head of Internal Audit
To:	Governance and Audit Committee – 24 July 2014
Subject:	**COMMITTEE WORK & MEMBER DEVELOPMENT PROGRAMME**
Classification:	Unrestricted

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

FOR DECISION

Introduction and background

1. In December 2013, CIPFA published updated best practice guidance on the function and operation of audit committees in Local Government. The guidance recommends that this Committee's work programme is designed to ensure that it can fulfil its terms of reference and that adequate arrangements are in place to support the Committee with relevant briefings and training. The revised guidance also emphasises the need for audit committees to ensure effectiveness through self-assessment which may identify additional training requirements.

2. This paper is a standing item on each agenda to allow Members to review the programme for the year ahead, and provide Members with the opportunity to identify any additional items that they would wish to include.

Current Work Programme

3. Appendix 1 shows the latest programme of work for the Committee, up to July 2015. The content of the programme is matched to the Committee Terms of Reference and aims to provide at least the minimum coverage necessary to meet the responsibilities set out. This doesn't preclude Members asking for additional items to be added during the course of the year.

4. The programme reflects requests made from previous Committee members for additional reports on specific items of interest.

Member Development Programme

5. Following the elections in May 2013, a series of training sessions was provided with an emphasis on topics that would assist Members newer to the Committee.

6. In 2013-2014 the following relevant training has been delivered through a combination of pre-meeting briefings and sessions delivered within the Member development programme:

   - Introduction to Finance and how Local Government is funded
   - Business intelligence, Performance and Risk
   - Internal control and its role in preventing and detecting fraud and other risk exposures
   - Interpreting financial information
   - How to scrutinise the budget
   - The role and responsibilities of an effective audit committee
   - Financial Statements – what do they tell us?
   - The role and responsibilities of the external auditors

7. For 2014-15, the following sessions are proposed for pre-meeting briefings, focusing on areas that are of specific relevance to this committee.

Description	**Timing**
Audit Committee interactive update – CIPFA guidance and Public Sector Internal Audit Standards	October 2014
Local Audit Accountability Act 2014 – what are the key provisions and how will it change the way that Councils appoint external auditors?	January 2015
Annual Governance Statement – what assurance does it give us?	April 2015

8. In addition the Member Development programme will include training on different commissioning models including alternative service delivery models which was a direct request at the last audit committee meeting. A further programme of financial training delivered by Corporate Finance is also under current consideration.

9. Members may also ask for additional training if they require.

Audit Committees: Practical Guidance for Local Authorities

10. The latest guidance published in December 2013 outlines the core and potential functions of an audit committee and highlights factors which promote the committee's effectiveness. It provides an assessment tool which can help to evaluate the impact of the committee ***(Appendix 2)***. The guidance also

sets out a knowledge and skills framework for audit committee members and the committee chairman which can be used to identify additional training needs that may be desired by members ***(Appendix 3)***.

11. It is proposed that these evaluation tools are considered in the briefing session before the next meeting (referred to in paragraph 7 above) to identify any areas where further refinement to the committee's programme of work or arranged training sessions may be identified. This will enable the new Head of Internal Audit to tailor the programme accordingly.

Recommendations

12. It is recommended that Members approve the forward Committee Work ***(Appendix 1)*** and Member Development programme.

13. It is recommended that Members note for information the evaluation tools ***(Appendices 2 and 3)*** recently published by CIPFA which will be discussed at the briefing session prior to the next meeting.

Appendix 1	Committee work programme
Appendix 2	Evaluation tools from CIPFA guidance - *Audit Committees; Practical Guidance for Local authorities and Police 2013 Edition*

Neeta Major
Head of Internal Audit (X4664)

Committee Work Programme **Appendix 1**

Category / Item	Owner	Jul - 14	Oct-14	Jan -15	Apr-15	Jul - 15
Secretariat						
Minutes of last meeting	AT	✓	✓	✓	✓	✓
Work Programme	NM	✓	✓	✓	✓	✓
Member Development Programme	NM	✓	✓	✓	✓	✓
Risk Management and Internal Control						
Corporate Risk Register	RH	✓		✓		✓
Review of the Risk Management Strategy, Policy and Programme	RH			✓		
Report on Insurance and Risk Activity	NV	✓				✓
Treasury Management quarterly report/six monthly review	NV		✓	✓	✓	
Treasury Management Annual Report	NV	✓				✓
Ombudsman Complaints	GW		✓			
Annual Complaints Report	DC		✓			
Update on Savings programme	AW		✓		✓	
Annual report on 'surveillance' activities carried out by KCC	MR				✓	
Corporate Governance						
Update on development of management guides	DW	**If substantial changes to the approach or purpose of the management guides**				
Annual review of Terms of Reference of G&A	NM			✓		
Debt Recovery	NV	✓		✓		✓
Annual review of the Council's Code of Corporate Governance	GW	**If substantial changes to Code**				
Review of Bribery Act Policy	GW	**If changes to Policy**				
Internal Audit						
Internal Audit Progress Report	NM		✓	✓	✓	
Schools Audit Annual Report	NM	✓				✓

Committee Work Programme **Appendix 1**

Category / Item	Owner	Jul - 14	Oct-14	Jan -15	Apr-15	Jul - 15
Internal Audit Annual Report (including review of Charter)	NM	✓				✓
Internal Audit Strategy and Annual Plan	NM				✓	
External Audit						
External Audit Update	NM	✓	✓	✓	✓	✓
External Audit Findings Report	NM	✓				✓
Pension Fund Audit Findings Report	NM	✓				✓
Value for Money Report (formerly Financial Resilience Report)	NM	✓				✓
External Audit Annual Audit Letter	NM			✓		
External Audit Certification of Claims and Returns Report	NM				✓	
Effectiveness of Internal and External Audit Liaison	NM			✓		
External Audit Plan	NM				✓	
External Audit Pension Fund Plan	NM				✓	
External Audit Fee letter	NM				✓	
External Audit Fraud, Law & Regulations & Going Concern Considerations	AW				✓	
Financial Reporting						
Statement of Accounts & Annual Governance Statement	AW	✓				✓
Revised Accounting Policies	CH				✓	
Review of Financial Regulations	EF				✓	
Fraud						
Review of the Anti-fraud and anti-corruption Strategy	NM	✓				✓
Anti-Fraud and Corruption Progress Report	NM	✓	✓	✓	✓	✓

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Self Assessment Overview

Good practice questions	Yes	Partly	No
Audit committee purpose and governance			
1. Does the authority have a dedicated audit committee?			
2. Does the audit committee report directly to full council?			
3. Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4. Is the role and purpose of the audit committee understood and accepted across the authority?			
5. Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6. Are the arrangement to hold the committee to account for its performance operating satisfactorily?			
Functions of the committee			
7. Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? • Good governance • Assurance framework • Internal audit • External audit • Financial reporting • Risk management • Value for money or best value • Counter-fraud and corruption			
8. Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9. Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10. Where coverage of core areas has been found to be limited, are plans in place to address this?			
11. Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?			
Membership and support			
12. Has an effective audit committee structure and composition of the committee been selected? This should include: • separation from the executive • an appropriate mix of knowledge and skills among the membership			

Good practice questions	Yes	Partly	No
• a size of committee that is not unwieldy • where independent members are used, that they have been appointed using an appropriate process.			
13. Does the chair of the committee have appropriate knowledge and skills?			
14. Are arrangements in place to support the committee with briefings and training?			
15. Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
16. Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?			
17. Is adequate secretariat and administrative support to the committee provided?			
18. Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
19. Has the committee evaluated whether and how it is adding value to the organisation?			
20. Does the committee have an action plan to improve any areas of weakness?			

Evaluating the effectiveness of the audit committee

Key

5 Clear evidence is available from a **number** of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are **clearly identifiable.**
4 clear evidence from **some** sources that the committee is actively and effectively supporting improvement across some aspects of this area
3 The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also **significant gaps**
2 There is some evidence that the committee has supported improvements, but the **impact** of this support is **limited**.
1 **No evidence** can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	**Examples of how the audit committee can add value and provide evidence of effectiveness**	**Self-evaluation examples: areas of strength and weakness**	**Overall assessment 5 – 1 (see key above)**
Promoting the principles of good governance and their application to decision making.	Providing robust review of the AGS and the assurances underpinning it. Working with key members/ governors to improve their understanding of the AGS and their contribution to it. Supporting review/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.		
Contributing to the development of an effective control environment.	Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.		

Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking. Monitoring improvements. Holding risk owners to account for major / strategic risks.		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements and supporting improvements.		
Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.		
Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.		
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangement against the standards set out in CIPFA's *Managing the Risk of Fraud* (Red Book 2) Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and governors.		

Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging greater transparency.		

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Core areas of knowledge

Knowledge Area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
Organisational knowledge	An overview of the governance structures of the authority and decision-making processes. Knowledge of the organisational objectives and major functions of the authority.	This knowledge will be core to most activities of the audit committee including review of the Annual Governance Statement, internal and external audit reports and risk registers.
Audit Committee role and functions	An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements. Knowledge of the purpose and role of the audit committee.	This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others.
Governance	Knowledge of the six principles of the CIPFA/SOLACE Good Governance Framework and the requirements of the Annual Governance Statement (AGS). Knowledge of the local code of governance.	The committee will plan the assurances it is to receive in order to adequately support the AGS. The committee will review the AGS and consider how the authority is meeting the principles of good governance.
Internal audit	An awareness of the key principles of the *Public Sector Internal Audit Standards* and the *local Government Application Note.* Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled.	The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards. The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional standards. In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed.
Financial management and accounting	Awareness of the financial statement that a local authority must produce and the principles it must follow to produce the Statement. Understanding of good financial management principles. Knowledge of how the organisation meets the requirements of the role of the chief financial officer, as required by the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government.*	Review the financial statements prior to publication asking questions. Receive the external audit report and opinion on the financial audit. Reviewing both external and internal audit recommendations relating to financial management and controls. The audit committee should consider the role of the CFO and how this is met when reviewing the AGS.

KNOWLEDGE & SKILLS FRAMEWORK

Knowledge Area	Details of core knowledge required	How the audit committee member is able to apply the knowledge
External Audit	Knowledge of the role and functions of the external auditor and who currently undertake this role. Knowledge of the key reports and assurances that external audit will provide. Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken.	The audit committee should meet with the external auditor regularly and receive their reports and opinions. Monitoring external audit recommendations and maximising benefit from audit process. The audit committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service.
Risk management	Understanding of the principles of risk management, including linkage to good governance and decision making. Knowledge of the risk management policy and strategy of the organisation. Understanding of risk governance arrangements, including the role of members and of the Audit Sub-Committee.	In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces. Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee. The committee should also review reports and action plans to develop the application of risk management practice.
Counter- fraud	An understanding of the main areas of fraud risk the organisation is exposed to. Knowledge of the principles of good fraud risk management practice (Red Book 2) Knowledge of the organisation's arrangements for tackling fraud.	Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy. An assessment of arrangement should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment.
Values of good governance	Knowledge of the Seven Principles of Public Life. Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff. Knowledge of the whistleblowing arrangements in the authority.	The audit committee member will draw on this knowledge when reviewing governance issues and the AGS. Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported.
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny)	*Effective Scrutiny of Treasury management* is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: • Regulatory requirements • Treasury risks • The organisation's treasury management strategy • The organisation's policies and procedures in relation to treasury management	Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny.

Specialist Knowledge that adds value to the Audit Committee

Knowledge area	**Details of supplementary knowledge**	**How the audit committee member is able to add value to the committee**
Accountancy	Professional qualification in accountancy	More able to engage with the review of the accounts and financial management issues coming before the committee. Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussions of risks and resource issues. More able to engage with the external auditors and understand the results of audit work.
Internal audit	Professions qualification in internal audit.	This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing. The committee would be more able to provide oversight of internal audit and review the output of audit reports.
Risk management	Risk management qualification. Practical experience of applying risk management. Knowledge or risks and opportunities associated with major areas of activity.	Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice. Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers.
Governance and legal	Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law.	Legal knowledge may add value when the committee considers areas of legal risk or governance issues.
Service knowledge relevant to the functions of the organisation	Direct experience of managing or working in a service area similar to that operated by the authority. Previous Scrutiny Committee experience.	Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context.
Programme and project management	Project management qualifications or practical knowledge of project management principles.	Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews.
IT systems and IT governance	Knowledge gained form management or development work in IT.	Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls.

Core Skills

Skills	Key elements	How the audit committee member is able to apply the skill
Strategic thinking and understanding of materiality	Able to focus on material issues and overall position, rather than being side-tracked by detail.	When reviewing audit reports, finding will include areas of higher risk, or materiality to the organisation, but may also contain more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail.
Questioning and constructive challenge	Able to frame questions that draw out relevant facts and explanations. Challenging performance and seeking explanation while avoiding hostility or grandstanding.	The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found.
Focus on improvement	Ensuring there is a clear plan of action and allocation of responsibility.	The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities. Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken.
Able to balance practicality against theory	Able to understand the practical implications of recommendations to understand how they might work in practice.	The audit committee should seek assurances that planned actions are practical and realistic.
Clear communication skills and focus on the needs of users	Support the use of plain English in communications, avoiding jargon, acronyms, etc.	The audit committee will seek to ensure that external documents such as the Annual Governance Statement and the explanatory foreword to the accounts are well written for a non-expert audience.
Objectivity	Evaluate information on the basis of evidence presented and avoiding bias or subjectivity.	The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views.
Meeting management skills	Chair the meeting effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting.	These skills are essential for the Audit Committee Chairman to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members.

By:	John Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement Andy Wood, Corporate Director of Finance and Procurement
To:	Governance and Audit Committee – 24 July 2014
Subject:	**External Audit Update – July 2014**
Classification:	Unrestricted

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

FOR ASSURANCE

Introduction and background

1. In order that the Governance and Audit Committee is kept up to date with the work of Grant Thornton UK LLP, progress reports are written by the external auditor as appropriate.

2. The attached report covers the following areas:
   - Progress on the planned audits for 2013/14
   - Emerging issues and developments

Recommendation

3. Members are asked to note the report.

Neeta Major
Head of Internal Audit
Ext: 4664

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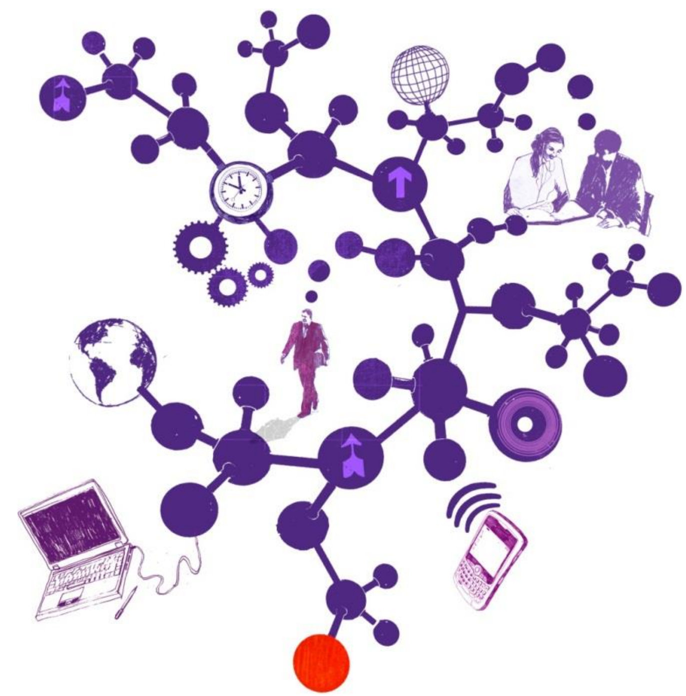
Governance and Audit Committee Update for Kent County Council

Year ended 31 March 2014

July 2014



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Introduction

This paper provides the Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Governance and Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (http://www.grant-thornton.co.uk/en/Services/Public-Sector/). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths

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

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Progress at 4 July 2014

Work	Planned date	Complete?	Comments
2013-14 Audit Fee Letter We prepare a fee letter annually setting out the audit and grants certification work fee for the year.	March 2013	Yes	We issued the 2013/14 audit fee letter to management on 22 March 2013 and presented it to this committee in April 2013.
2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.	April 2014	Yes	We have agreed separate accounts audit plans for the Council's financial statements and the Pension Fund accounts with officers. The plans were presented to the committee in April.
Interim accounts audit Our interim fieldwork visit includes: • updating our review of the Council control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	January and April 2014	Yes	The results of the interim work completed up to February are set out in our accounts audit plans. We have undertaken early substantive testing to reduce the pressure on officers and audit at the accounts visit. We have monthly meetings with Internal Audit to discuss potential audit issues and fraud investigations. There are no issues arising that would impact on our audit opinion at this date.

Progress at 4 July 2014

Work	Planned date	Complete?	Comments
2013-14 final accounts audit • audit of the 2013-14 financial statements; and • proposed opinion on the Council's accounts.	June – July 2014	No	We had monthly meetings with the Head of Financial Management and Chief Accountant during the year. We received the draft accounts on 13 June 2014 and are currently undertaking the audit work. We will present the Audit Findings Report to you at the July committee meeting.
Value for Money (VfM) conclusion The scope of our work to inform the 2013-14 VfM conclusion is based on the reporting criteria specified by the Audit Commission. The Council has proper arrangements in place for: • securing financial resilience • challenging how it secures economy, efficiency and effectiveness in its use of resources. Our review will focus on arrangements relating to financial governance, strategic financial planning and financial control.	January – June 2014	No	We have completed our VfM planning. The specific areas we plan to review are set out in our audit plan. The detailed VfM work, including the financial resilience review, will be completed in June 2014.
Whole of Government Accounts (WGA) We are required to audit the Whole of Government Accounts return on behalf of the National Audit Office.	September 2014	No	The local authority unaudited deadline has moved to 30 June. Our deadline for completing the audit is the end of September. We will undertake the audit of the WGA return once the accounts audit is complete.

Not to be rubbished, £464 million potential savings

Local government guidance

Audit Commission VFM Profiles

Using data from the VFM Profile, http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/ the Audit Commission issued a briefing on 27 March 2014, concluding that up to £464 million could be saved overall, if councils spending the most brought down their spending to the average for their authority type and waste responsibilities.

The Audit Commission Chairman, Jeremy Newman said: "It's good news that local authorities have reduced their spending on household waste by £46 million over the past four years and have reduced levels of waste sent to landfill. Councils have achieved these important improvements by working with local people and exercising choice about what works best in their own circumstances."

In the context of considering the hierarchy of waste management options - preventing the creation of waste, preparing waste for re-use, recycling, recovery and disposal to landfill - the Audit Commission Chairman also said

"in 2012/13 local authorities spent a fifth of their total expenditure on the most desirable option for household waste management: minimisation and recycling. They spent the other four-fifths on the collection and disposal of waste – the least desirable options. Councils have the power to influence and encourage residents to do the right thing and they control the levels of spending on the range of waste management options available to them. Their choices ultimately affect how well the environment is protected and the quality of waste services residents receive"

Challenge questions

Has the Council used the Audit Commission briefing paper to consider how their:

- overall spending on household waste management has changed over time?
- spending is divided between waste minimisation, recycling or disposal of waste, and how this has changed over time?;
- spending on different components of waste management compares with authorities that have similar or better performance?

Consultation – Local Government Pension Scheme future structure

Local government guidance

Local Government Pension Scheme (LGPS) reform

The DCLG (1 May 2014) published a summary of its 2013 call for evidence on the future structure of the local government pension scheme, along with its own conclusions and has launched a formal consultation on these. Consultation responses are required by 11 July 2014. https://www.gov.uk/government/consultations/local-government-pension-scheme-opportunities-for-collaboration-cost-savings-and-efficiencies

Having considered a cost/benefit analysis of mergers from actuarial firm Hymans Robertson, the DCLG said it would not force funds to merge, but is instead consulting on the following proposals:

- Establishing common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme.
- A proposal not to pursue fund mergers at this time.

The potential proposed changes, whilst not as radical as the previously considered merger proposals, remain nonetheless significant for the management of pension funds. DCLG believe the implementation of the proposed changes would significantly reduce investment costs across the LGPS nationally.

Priority School Building Programme

Local government guidance

The Schools minister David Laws announced (2 May 2014) that the government will spend £2bn on a second phase of its Priority School Building Programme in the six years from 2015.

Under the Priority School Building Programme, which replaced the last government's Building Schools for the Future scheme, the government has announced its commitment to spending £18bn on school buildings over the course of this parliament, including £2.4bn targeted at the schools in worst condition. Overall, this funding is set to build around 300 new schools and provide improvements to nearly 600 others.

In announcing this targeted initiative was on course to improve 261 schools with buildings in the worst condition in England by the end of 2017 and that it would now be extended into a second phase, with a further £2bn allocation over the next spending review period to 2021 the minister stated:

"the original Priority School Building Programme worked on the basis of the condition of the whole school site. We will now refine this to look at targeting individual school buildings, as well as whole school rebuilds where this is appropriate, so that the department can focus much more tightly on addressing specific issues in the estate."

Challenge question

Has the authority considered the implications of the Priority School Building Programme for its schools building and refurbishment programme?

Assessing the costs and benefits of local partnerships

Local government guidance

The government published its cost benefit analysis guidance for local partnerships on 2 April 2014.

Developed as part of the Greater Manchester 'whole place' Community Budget pilot, it was the first Treasury-approved assessment of the costs and benefits of joining-up and reforming public services in local areas.

The framework was developed by New Economy, the economic strategy unit of the Greater Manchester Combined Authority. John Holden, acting director of economic strategy at the agency, led the team that devised the methodology. He said

"this model provides a framework to start thinking about more holistic projects that deliver long-term outcomes but also produce short-term cashability [savings]"

The guidance sets out a standard process to determine the benefit of reforms, based on the unit cost of services, their impact and the savings that result. In providing Treasury backing for the cost benefit analysis framework – it has been included in Whitehall's Green Book for policy appraisal and evaluation – it has been added to the government's assessment process for the latest £320m round of the Transformation Challenge Award, which provides funding to councils to implement reforms.

Challenge question

Has the authority considered the applicability of the government's cost benefit analysis guidance in considering the cost-benefits of local service delivery options?

Working in tandem – Local Government Governance Review 2014

Grant Thornton

Local Government Governance Review

This report: http://www.grant-thornton.co.uk/en/Publications/2014/Local-Government-Governance-Review-2014/ is our third annual review into local authority governance. It aims to assist managers and elected members of councils and fire and rescue authorities to assess the strength of their governance arrangements and to prepare for the challenges ahead.

Drawing on a detailed review of the 2012/13 annual governance statements and explanatory forewords of 150 English councils and fire and rescue authorities, as well as responses from 80 senior council officers and members, the report focuses on three particular aspects of governance:

- risk leadership: setting a tone from the top which encourages innovation as well as managing potential pitfalls
- partnerships and alternative delivery models: implementing governance arrangements for new service delivery models that achieve accountability without stifling innovation
- public communication: engaging with stakeholders to inform and assure them about service performance, financial affairs and governance arrangements.

Alongside the research findings, the report also highlights examples of good practice and poses a number of questions for management and members, to help them assess the strength of their current governance arrangements.

Challenge questions

- Our report includes a number of case studies summarising good practice in risk leadership, partnerships and alternative delivery models and public communication. Has the Authority reviewed these case studies and assessed whether it is meeting good practice in these areas?
- Our report includes key questions for members to ask officers on risk management and alternative delivery models. Are these issues being considered and responded to by officers?

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By:	John Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement Andy Woods, Corporate Director of Finance and Procurement
To:	Governance and Audit Committee – 24 July 2014
Subject:	**External Audit - Annual Findings Report 2013/14**
Classification:	Unrestricted

Summary: This paper sets the context to the External Auditor's Annual Audit Finding Report

FOR DECISION

Introduction and background

1. Grant Thornton, as External Auditor to the Council, is required to report to the Committee the findings from the audit of the 2013/14 financial statements.

2. The report include the key messages arising from the audit work undertaken to address the risks identified in the Audit Plan presented to this Committee in April 2014. It also includes the results of the work undertaken to assess the Council's arrangements to secure value for money.

Process

3. The 2013/14 financial statements (except for the Annual Governance Statement) were provided to Grant Thornton for audit on 13 June 2014. The audit of the financial statements started on 17 June 2014 and despite the pressures on the audit team and officers to respond quickly to queries the work was substantially complete by 4 July 2014.

4. Members will have the opportunity to ask questions about the audits and reports to help inform their decision before formally approving the 2013/14 financial statements.

Recommendations

5. Members of the Governance and Audit Committee are asked to:

- take note of the adjustments to the accounts of the Council;
- confirm the management reason for not adjusting the misstatement set out on page 16 of the report;
- agree the management response to the action plan (appendix A).

Neeta Major
Head of Internal Audit (Ext: 4664)

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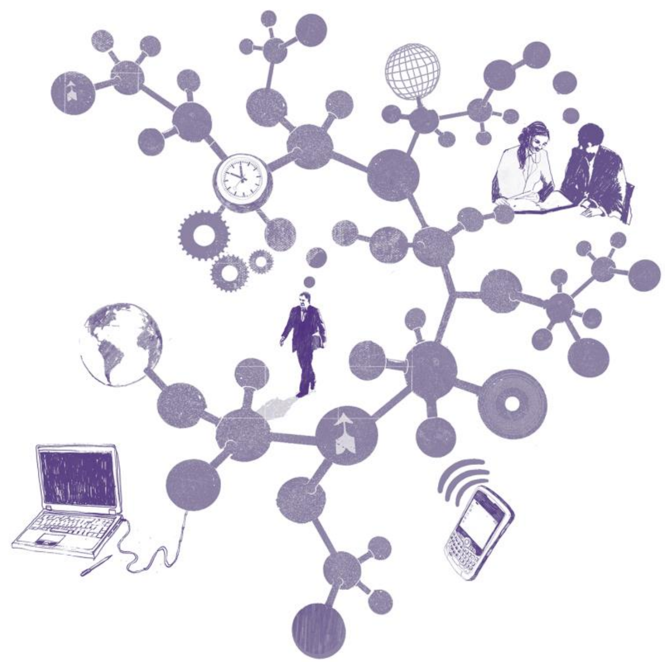
The Audit Findings for Kent County Council

Year ended 31 March 2014

24 July 2014



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Kent County Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to officers and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2014.

Our audit is substantially complete subject to finalising our work in the following areas:

- testing of operating expenditure and receivables owed to the Council
- direct confirmation of investment and loan balances held at 31 March
- review of PFI scheme disclosures
- receipt of outstanding member and officer related party declarations
- review of the final version of the Annual Governance Statement
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements on 13 June 2014 and accompanying working papers at the start of our audit on 17 June 2014, in accordance with the agreed timetable. The accounts submission is earlier than most councils achieve.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft and audited financial statements record net expenditure of £1,018,629k. We have identified a number of adjustments to improve the presentation of the financial statements. With the odd exception, all of these have been accepted by officers and are reflected in the revised statement of accounts presented to the Governance and Audit Committee meeting on 24 July.

The Council produced good quality draft financial statements supported by comprehensive working papers and officers have responded positively to additional requests for evidence to enable us to carry out the majority of audit work in the three week onsite visit.

Further details are set out in section 2 of this report.

Value for Money (VfM) conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable. The work is planned for September 2014 and the audit certificate will be issued after we have audited the WGA consolidation pack.

Controls

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

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

Our work has not identified any control weaknesses which we wish to highlight for your attention.

The way forward

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

We have made a small number of recommendations, which are set out in the action plan in Appendix A.

Acknowledgment

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

Grant Thornton UK LLP
July 2014

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance and Audit Committee on 30 April 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan previously communicated to you on 30 April 2014.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion as set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams	Our audit work has not identified any issues in respect of revenue recognition. We did however identify two disclosure errors in note 14 Grant Income which officers have amended. We set out our findings in detail in the 'Misclassifications and Disclosures changes' section of this report.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of potential risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • performed sample testing of payments made in the financial year to gain assurance that expenditure has occurred and has been correctly classified • performed a completeness check of expenditure data by comparing the trial balance to GL download reports received in the period • tested for unrecorded liabilities in the period • performed cut-off testing on a sample of creditors spanning the end of the financial year to ensure they have been classified in the correct accounting period.	Our audit work to date has not identified any significant issues in relation to the risk identified. Some of our testing is still in progress at the time of preparing this report. We will verbally update the committee at its meeting on 24 July following completion of the work.
Employee remuneration	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reviewed the reconciliation of the payroll system to the general ledger, including trend analysis for the financial year • performed sample testing of payroll records to gain assurance that employees have been remunerated correctly during 2013/14.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of potential risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • tested the reconciliation of the General Ledger figures to the Asset Register • performed substantive testing on a sample of additions, including a review of the capital programme expenditure • reviewed the policy for non-enhancing capital expenditure and sample test revenue expenditure funded from capital under statute.	Our audit work has not identified any significant issues in relation to this potential risk and PPE is materially correct. We identified the following presentational issues: • A number of schools transferred to academy status during the year. These had been correctly written out of the balance sheet and property, plant and equipment (note 15). However, the note did not include an explanation of the transfer which is around £100 million of disposals and the corresponding loss on disposal of transferring at nil value. • Note 15 : The 'assets under construction' opening balance included £11.7m in respect of capital expenditure in prior years on assets not owned by the Council. Any capital expenditure on assets not owned by the Council should be expensed in the year through the Income and Expenditure Statement. The Council has corrected the £11.7 million to ensure the year end balance of 'Assets under construction ' is materially correct. The Council has agreed that for future capital expenditure on assets it does not own will be expensed in the year in accordance with the Code.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • reviewed the reconciliation of the valuation report to the asset register and accounts • performed assurance procedures over the work of the external valuer as an expert • considered any changes in the valuation of property, plant and equipment and investment properties and ensure these changes are appropriate and correctly accounted for in the disclosure notes.	Our audit work has not identified any significant issues in relation to this potential risk and PPE is materially correct. The Code of Practice requires councils to value all assets within an class simultaneously as at the 31 March. The Council has not followed this approach. However it has demonstrated that this would not result in a material misstatement to the value of property, plant and equipment at the year end. We agreed with officers that its decision to not follow the Code should be disclosed as a critical judgement in the accounts. We agreed the following enhancements to the disclosure note for assets: • The 'valuation of property, plant and equipment carried at current value' disclosure should only show the valuations for the rolling programme period: 2009/10 to 2013/14. Investment properties have been removed from the note. • An explanation has been added to note 15 for the 'other movements in cost or valuation' balance as these include unusual entries.

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• The Council's main source of income is central government grants and council tax. Grant income is recognised in the Comprehensive Income and Expenditure Statement when the Council has reasonable assurance that it will comply with the grant conditions and that amounts will be received.	• Overall, the Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting in the UK 2013/14. • We agreed an amendment to the Council's collection fund accounting policy and its accruals of income and expenditure policy to disclose fully the policies adopted by the Council.	Green
Judgements and estimates	• Key estimates and judgements include: – useful life of property, plant and equipment – pension fund valuations and settlements – revaluations – impairments – provisions	• The Council's use of accounting estimates is disclosed in note 5 (Assumptions made about the future and other major sources of estimation uncertainty). Our review of the judgements and estimates has not identified any significant issues. • We have identified disclosure enhancements to the following estimates: – IAS19: there has been a change in accounting policy for the pension fund disclosures and the 2012/13 figures have been restated for these changes. The narrative has been updated to adequately reflect the restated figures and explain the impact of the new accounting standard.	Green
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any significant issues in the policies selected by the Council. • However, a small number of policies have been updated following review by audit. This includes disclosing a new accounting policy for public health.	Green

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to the Governance and Audit Committee, whether or not the financial statements have been adjusted by officers. The table below summarises the adjustments arising from the audit which have been processed by officers. None of the adjustments impact on total net expenditure.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
1	**Balance sheet - Debtors (and note 24):** The debtors balance was overstated by £58 million and cash understated by the same amount. The draft accounts assumed schools owed this amount to the Council in respect of school payroll expenditure. The error occurred as the monthly schools payroll direct debit was not posted correctly in the ledger during the year. The cash has been received by the Council throughout the year but this was not treated as remitted cash in the ledger. This error was not picked up through the schools payroll bank reconciliation process.	Nil	Cash: Dr 58,000 Debtors: Cr 58,000
2	**Balance sheet - Creditors (and note 25):** The creditors balance is overstated in respect of two misstatements: • The Council made a manual payment via CHAPS totalling £21.768 million to pay creditors due to a backlog in processing highways maintenance invoices. However, when the highways system was updated to enter the invoice this resulted in a duplicate creditor being raised. The year end creditor balance includes £21.768k million of invoices that had been paid before 31 March 2014. We are satisfied this error has not impacted on the income and expenditure account. • Two BACS payment runs totalling £11.162 million had been processed for payment at the end of March 2014 and recorded in the general ledger, but the payment had not cleared through the bank account as at 31 March. As part of the year end bank reconciliation process the Council treated the BACS payments as cash in transit and manually adjusted the creditors and cash Balance Sheet position. This manual adjustment has been carried out by the Council for a number of years. The corresponding entry to creditors is the overstatement of the cash balance.	Nil	Creditors: Dr 32,930 Cash: Cr 32,930
3	**Grants (note 14):** An amount of £6. 5million in the opening balance of Capital Grants Receipts In Advance relates to projects that have finished and were funded by other capital expenditure. As such this amount is not 'receipts in advance' and should be accounted for as a usable reserve – Capital Grants Unapplied.	Nil	Capital Grants Receipts In Advance: Dr 6,530 Capital grants unapplied: Cr 6,530
	Overall impact	**£ Nil**	Total Current Assets: Cr £50,423 Total Current Liabilities: Dr £50,423 Total Long Term Liabilities: Dr 6,530 **Net Assets: Dr 6,530** **Total Reserves: Cr 6,530**

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Misclassifications & disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	8,887	Adjustments between accounting basis and funding basis under regulations (note 10)	We identified inconsistency between related notes to the accounts. Note 10 shows £106,502k for 'Amount of Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES' and the same disclosure in note 21 'the Capital Adjustment Account ' is £115,389k. The difference of £8,887k relates to the disposal proceeds against the Capital Receipts Reserve. The Council has amended note 10 to classify the amount as part of the Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES total. In addition, a number of amendments have been made to the capital grants entries in note 10 to ensure consistency with the Capital Adjustment Account.
2	Disclosure	n/a	Explanatory Foreword	The explanatory forward should be used to paint a high level story of the accounts and major changes in the year for the reader . There have been a number of key changes such as retirement benefits (IAS19), school transfers and taking on public health responsibilities that are not referenced in the forward. The Council has amended the IAS19 analysis and will consider the need for fuller disclosure in future years. In our view, the Explanatory Foreword meets the minimum requirements of the Code.
3	Disclosure	n/a	Comprehensive Income and Expenditure Statement	The 'Service Reporting Code of Practice' sets out the disclosure requirements for the cost of services in income and expenditure statement. The disclosure in the draft accounts did not follow the Code. Officers have amended the accounts to comply with the Code.
4	Disclosure	n/a	Critical judgements in applying accounting policies (note 4)	The Council has amended the note to include the following additional judgements: • the number of schools and the carrying value that are currently being sponsored to transfer to Academy status in 2014/15 • the consideration given to quantitative and qualitative characteristics in deciding that the Council does not need to produce group accounts in 2013/14.
5	Disclosure	n/a	Officers Remuneration (note 6)	A small number of changes have been made to the figures reported in the disclosure for the remuneration paid to senior employees. The parameters of the Greenbury report used to compile the note were not complete.

Misclassifications & disclosure changes

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
6	Disclosure	34,322	Grant Income (note 14)	The 'Other DFES grants' total was overstated in the note as the Education Funding Agency grant of £34,322k was double counted. There is no impact on the grant income in the Comprehensive Income and Expenditure Statement as the error was only in the disclosure note.
7	Disclosure	n/a	Pension Costs	Note 36a: The note has been updated to reflect the transfer of NHS employees to the Council as part of the public health responsibilities. These staff are with the NHS pension agency. Note 36b: The 2012/13 pension costs for the defined benefit scheme have been restated to reflect the changes to IAS19 for 2013/14. An additional table has been added to the note to disclose the figures before and after the change in accounting policy. Note 36b is now shown as restated. Two disclosure headings were out of date and have been updated for the Code requirements.
8	Disclosure	n/a	Financial instruments (note 37)	A number of amendments have been made to the Financial Instrument note to enhance disclosure: • a table disclosing the comparison between the carrying and fair value of the PFI liability • the split of long term investments in the fair value calculation table of available for sale assets and unquoted equity investments as only available for sale assets can be measured at fair value.
9	Disclosure	n/a	Annual Governance Statement	A small number of amendments have been made to the Annual Governance Statement to meet the requirements of CIPFA's Delivering Good Governance framework.

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve officers' decision not to amend the items recorded below:

Detail	CIES £'000	Balance Sheet £'000	Reason for not adjusting
Property, Plant and Equipment (note 15) The Council has made a critical judgement that £31,057k within the AUC opening balance and £6,209k of in year capital expenditure, a total of £37,266k, relating to spend on assets that have been revalued in 2013/14 should not be added to the asset register as an addition in 2013/14 as this would be overstating the value of the assets in the Balance Sheet. The Code requires assets to be revalued ignoring construction works. Once construction is complete, the costs should be transferred to land and buildings and then valued. There should be no impairment against the AUC costs. The Council has accounted for this expenditure as an 'impairment charge where assets have been revalued in year' in note 10 (Adjustments between accounting basis and funding basis under regulations) and in note 15 as 'impairment losses recognised in the surplus/deficit on the Provision of Services' which does not comply with the Code requirements to account for the capital expenditure as a downward revaluation. There is no impact on the CIES or Balance Sheet. The misstatement is between the Revaluation Reserve (RR) and Capital Adjustment Account (CAA) as currently the £37,266k is accounted for through the CAA. If the Code was followed, it is likely that an element of the £37,266k would go to the RR. This accounting treatment has also impacted on the AUC accumulated depreciation opening balance. This should be nil for 2012/13 and 2013/14. Note 15 has been amended to include an additional disclosure of £26,624k for 2012/13 and £31,057k in the 'other movements in cost or valuation' line to ensure the opening balance is fairly stated. However, based on the above explanation of the unadjusted misstatement these entries would not be required if the Council followed the Code in respect of AUC and valuations. The Council has revised its accounting treatment for capital spend on assets during 2013/14 which will remove the AUC to impairment accounting entry in future.	Nil	Nil	We adopted this accounting policy to mitigate the double counting that would occur if we followed the Code. This was due to the respective timing of our revaluations and additions from assets under construction. To mitigate the double counting, we impaired the value of assets under construction for revalued assets as the value is likely to be within the revaluation. This issue was raised last year and we agreed to change our practice by adding the value in assets under construction to the asset at the end of the year **prior** to the asset being revalued, where such value is significant. However, we have always said that we would not be able to adjust for assets under construction held at 31 March 2013 for assets valued in 2014 as the books were closed. Our proposal was accepted for this, particularly as it doesn't impact the primary statements. To make the changes required would involve a significant amount of work and the risk of making errors to statements already audited is high. It is unlikely that £37,266k would go to the RR as stated, as it would be split between impairment, a reduction in the RR and additions to the RR, depending on the revaluation of the individual asset.
Overall impact	**£ Nil**	**£ Nil**	

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Governance and Audit Committee in April 2014 and no issues were brought to our attention that impacted on the audit at the planning stage. We have not been made aware of any incidents or issues since this date and during the course of our accounts audit that impact on the audit opinion.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Council. The unadjusted misstatement identified in the accounts has been attached as an appendix to the letter. • We have requested specific representations in respect of the critical judgement in respect of the valuation approach adopted for 2013/14 and confirmation that the Net Book Value of Property, Plant and Equipment is fairly stated as at 31 March 2014.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience.

The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We reviewed the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted the Council has sound processes in place for financial governance, planning and control. It continues to face significant financial pressures to balance its budgets and has adopted 'Facing the Challenge' as a programme to transform services to meet increasing demands with reduced funding.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

We have completed the following high level reviews:

- Prioritising resources; and
- Understanding costs.

We have not identified any significant weaknesses that impact on our conclusion.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

The tables below and overleaf, summarise our overall rating for each of the themes reviewed. These were identified as a risk in the Audit Plan and the summary findings below address the risk 'Review and update our risk assessment agreed during our 2012/13 financial resilience review to reflect the up to date position on arrangements relating to key indicators of financial performance, financial governance, strategic financial planning and financial control.'

Theme	Summary findings	RAG rating 2013-14
Key indicators of performance	• We have reviewed six key indicators of performance using published financial ratios from the Audit Commission and benchmarking against the Council's nearest neighbour group. The review considered the following: liquidity; borrowing; workforce; performance against budgets; reserve balances; and schools balances. • Overall the ratio analysis has shown a relatively positive outlook for the Council and although outliers were identified these are understood by the Council and are monitored as part of the quarterly budget reports to Cabinet.	**Green** **(2012-13 Green)**
Strategic financial planning	• The Council has robust strategic financial planning arrangements in place. The Council's Medium Term Financial Plan (MTFP) is set for the period 2014-17 and takes account of the directorate and service business plans for the 2014/15 year. There are strong links between the MTFP and the Council's key priorities over the challenging transformation period. • The Council started the budget planning for 2014/15 early in the 2013/14 financial year to allow sufficient time for consultation on difficult decisions it may face. The Council undertook extensive consultation and reported the outcome of the feedback as part of approving the final budget for the year.	**Green** **(2012-13 Green)**
Financial governance	• The Council has sound financial governance arrangements. There is a robust process for setting the budget and identifying significant annual savings . • Cabinet members are engaged and have a good understanding of the financial environment the Council operates in. Training has been provided for new members of the Governance & Audit Committee to ensure they are well equipped to carry out the responsibilities of the committee. • Financial health indicators are reported as part of the detailed quarterly revenue and capital budget monitoring to Cabinet although these generally report the financial position at the end of the month and are not forward looking.	**Green** **(2012-13 Green)**

Theme	Summary findings	RAG rating 2013-14
Financial control	• The Council has well established financial control arrangements in place with the 2013/14 reported underspend being the 14th consecutive year of managing the budget effectively. Savings totalling £270m have been made over the three year period 2011/12 to 2013/14 with a further £81m identified in the 2014/15 budget. Without strong financial control, this significant challenge could not have been achieved. • The Project Initiation Document (PID) process has been fully reinstated for the 2014/15 budget setting. However, due to the changes in the directorate structure not all PIDs have been submitted to central finance at the end of June 2014 when the planned deadline was 1 May 2014. For effective management of the budget, and to ensure savings are delivered as planned, the Council should ensure all PIDs are received as part of the budget planning process. • The Council has effective finance and internal audit teams which are well placed to help the Council move forward in the difficult financial environment. • The risk management arrangements have improved during the year through the positive approach taken to using the GRACE system for recording and updating risks in 'real' time. Training has been provided and the system is actively used although it is recognised that some divisions are stronger at this than others.	**Green** **(2012-13 Green)**
Prioritising resources	• The Council has clearly identified its strategic aims and objectives as part of Facing the Challenge in July 2013. There is strong leadership from the Corporate Board . The Council has considered ways of making savings in 2014/15 through non-statutory functions and following consultation has allocated budget resources to meet the needs of the public whilst balancing the budget. There is an understanding by the Council of the impact on services and users on the decisions it has to makes.	**Green** **(Not reported in 2012/13)**
Improving efficiency & productivity	• The Council continues to focus on the unit costs of the demand led services. Unit cost information for adults and children's services, and for the Social Fund, are reported quarterly to Cabinet, with a small number of other costs. The Council has recognised there is more to do to develop a wider understanding of costs and the central finance team has worked with budget holders during the year to raise awareness of unit costs and their responsibilities in monitoring costs at this level. • 'Facing the Challenge' is the plan for whole Council transformation over a three year period. The Council recognised that the levels of savings needed in the future could not be delivered in the standard way used previously and a major change was needed. This programme's aim is to improve efficiency and productivity. During the 2013/14 year the Council successfully completed phase 1. This was the review of 12 frontline and corporate services to determine a preferred option of delivery model for the future. The Council is now entering into phase 2. This is a highly ambitious programme for the future vision of the Council.	**Green** **(Not reported in 2012/13)**

The table below summarises our findings and overall ratings for the risks identified in the Audit Plan dated April 2014.

Risk area	Summary findings	RAG rating
Review the budget setting process for 2014/15 and the achievement of savings in 2013/14, including the savings from adults transformation project	We reviewed the budget setting process for 2014/15 , including the Medium Term Financial Plan 2014-17 and reported our findings against the Strategic Financial Planning characteristic set by the Audit Commission. A summary of our findings is on page 20 of this report. We reviewed the financial outturn and savings achieved in 2013/14, including savings from adults transformation project, and reported our findings against the Financial Control characteristic set by the Audit Commission. A summary of our findings is on page 21 of the report. The detailed findings and recommendations are reported separately in our 'Report on Value for Money' for the year ended 31 March 2014.	Green
Review the governance arrangements put in place to successfully deliver the Facing the Challenge transformation plans, including the decision making of phase 1 as reported to County Council	The County Council approved Facing the Challenge: Whole Council Transformation in July 2013. The Transformation Plan has been designed around three key themes: Market Engagement and Service Review; Integration and Service Redesign; and Managing Change Better. Each theme has a clear timetable for delivery as set out in the plan. The Council will deliver the transformation over three phases with phase 1 being delivered September 2013 to April 2014 and then phases 2 and 3 by April 2015 and 2016 respectively. There are 12 services included in phase one from frontline and corporate support services. The net budget for market review for these services is £98m. The Council is using a review team of in-house service improvement managers and external advisors that have experience of delivering change programmes. It needs to ensure it builds capacity, knowledge and skills within the Council for the successful delivery of the transformation agenda in the longer term without the continual need for external support. The governance arrangements for Facing the Challenge were set out in the 'Delivering Better Outcomes' report approved at the County Council meeting in September 2013. Five groups have been identified at a strategic level that form the governance of the programme. The aim is for the groups to shape and drive the transformation agenda. Their role is to ensure Facing the Challenge is delivered effectively and efficiently. The different layers of the governance arrangements should ensure the Council meets the financial and policy objectives. The five groups are: Members/County Council; Transformation Board; Leader (Cabinet Member for Transformation); Corporate Directors; and Transformation Advisory Group (TAG).	Green

Risk area	Summary findings	RAG rating
(continued) Review the governance arrangements put in place to successfully deliver the Facing the Challenge transformation plans, including the decision making of phase 1 as reported to County Council Page 69	The Council's decision-making framework is set out in the Constitution. This places responsibility for strategic decisions with Members and responsibility for the delivery or implementation of the decisions with officers. Individual key decisions will be in the standard way, through Cabinet Committees. The Legal and Democratic services team are responsible for ensuring that when key decisions relating to transformation are made, advice is provided on whether any further key decisions will be required to implement the Member decision. This arrangement should ensure that change can occur at the required pace and that transformation is not delayed due to poor planning. To support the whole scale programme a Corporate Programme Office has been set up. This is a dedicated team who work with the individual programme managers to ensure all key decisions are made in a planned and robust way. The work of the office is important to underpin good governance and the Council should ensure this is used effectively to support the transformation. A report to County Council in March 2014 updated all members on the governance arrangements and set out the success of these in providing a basis for the phase one delivery. The Transformation Board has met during the period and TAG meets weekly with both groups focussed on monitoring progress against the three themes. The Council recognises lessons learnt from phase 1 and is open about the challenges it faces as it moves to the next phase. The Facing the Challenge transformation team have met the agreed deadlines for delivery of Phase 1 market engagement and service reviews. The report to County Council in May 2014 informed members that all review activity has been successfully completed and the preferred option to proceed to the next stage has been identified for all but one area where there are clear reasons for the delay. The next stage of the process is for phase one reviews to proceed to full business case development. The Council was an early volunteer for the Local Government Association (LGA) Corporate Peer Challenge. As part of the review, the team looked at the Council's approach to transformation with a focus on the robustness of plans, the management of risk and supporting the required cultural change. The arrangements were found to be robust. The recommendation from the review in respect of developing implementation plans alongside the full business case has been agreed by the Council as necessary for it to benefit from new service delivery models as quickly as possible.	

Risk area	Summary findings	RAG rating
Understand the new arrangements for commercial services. Page 70	The Governance and Audit Committee Trading Activities sub-committee received a report in March 2014 setting out progress on the changes to the arrangements for commercial services. The new arrangements, set up from 1 April 2013, were a response to an external review in 2011 that recommended improvements were made to the governance arrangements. The Council simplified the corporate structure from 1 April 2013 to operate Commercial Services trading from two legal entities: Commercial Services Kent Ltd and Commercial Services Trading Limited . These are both wholly owned by Kent County Council through an intermediary holding company – Kent County Trading Limited. Commercial Services Kent Limited has been set up to trade exclusively with the Council as a Teckal compliant company under a managed service arrangement (mainly providing energy and education services). Commercial Services Trading Limited has been set up with the intention of trading with the wider public and private sectors. As part of the simplified arrangements, the Council also reduced the number of business units from 26 to five to enable the business units to be managed more effectively going forward. A joint Company Board has been established for the two limited companies. The Board comprises: three Non-Executive Directors (NED) , one of whom is the Chair (and has the casting vote); and from Commercial Services - the Managing Director; Chief Operating Officer; Group Finance Director; and Planning Director (who has no voting rights). The Council appointed the NEDs as independent members of the Board which gives greater transparency to the decision making. Two of three NED positions were appointed by March 2014 and the third one has recently been appointed. The Board meets eight times a year. In addition to the Board, two sub-committees, Remuneration and Audit, were established in January 2014 and will meet quarterly. The Council's Head of Internal Audit is a member of the Audit Committee. The Council identified in early 2013 that it needed to improve the governance and accountability between itself and the companies. It developed an agreement between the Council, the companies and its Directors. These agreements were adopted at the Shareholder Board (comprising the Head of Paid Service, Corporate Director of Enterprise & Environment, section 151 officer and three Cabinet Members) meeting in December 2013, after many weeks of negotiation with the Directors of the Company. The findings have been rated as amber as the assessment period covers the 2013/14 financial year. Although robust arrangements for the governance of commercial services is in place by the end of the year, these were not in place throughout the financial year. The improvements made to the arrangements were mainly from January 2014.	**Amber**
Review the progress made against any recommendations made as a result of the 2012/13 financial resilience review	The Council has made progress against all four recommendations in 2012/13 financial resilience report. Not all of the recommendations are fully implemented yet but sufficient work has been undertaken to demonstrate there are adequate arrangements in place to address issues. In summary: • Long term borrowing continues to be monitored as part of the treasury management arrangements and reported as part of the key performance indicators in the quarterly budget monitoring reports. • The Medium Term Financial Plan 2014-17 includes horizon scanning for a three year period. • Unit costing is now reported for the Social Fund in the quarterly budget monitoring reports in addition to the costing for adults and children's, including asylum, which are seen as the key areas for demand led services. • Risk management arrangements have been embedded through the use of GRACE system during the year.	**Green**

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	207,900	207,900
Grant certification	4,700	0
Objection work in relating to 12/13	0	1,695
Total audit fees	**212,600**	**209,595**

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Grant certification

The Audit Commission has removed the Teachers' Pension Return from the list of grants covered by the certification arrangements. Therefore, the fee for grant certification in 2013/14 has not been charged as we are not auditing the return under the Code of Audit Practice arrangements.

Objection work relating to 2012/13

We undertook an investigation in the year into an objection made in respect of the 2012/13 financial statements. Upon conclusion of our work, we certified the closure of the 2012/13 financial statements in July 2014.

Fees for other services

Service	Fees £
Certification of Regional Growth Fund and TIGER 2013 claims	6,500
Certification of Initial Teacher Training 2012/13 claim	3,500
Review of residential price increases	7,220

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

Appendix A: Action plan

Priority
Significant deficiency – risk of significant misstatement
Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should enhance the Explanatory Foreword to reflect the changes to the Council and accounting treatments in the financial year.	Medium	Agreed – the foreword will be reviewed and enhanced	By 31 March 2015 – Chief Accountant
2	The schools payroll direct debit should be processed through the ledger as remitted cash on a monthly basis. This should be confirmed through the schools payroll bank reconciliation process and followed up if variances are identified.	High	Agreed – a review of the process will be undertaken to ensure that the direct debits are processed through the ledger on a monthly basis and that the schools payroll bank reconciliation is undertaken on a monthly basis. Ensure that responsibility for this process is clearly identified.	With immediate effect – Assessment & Income Manager and HRBC Development & Control Manager
3	The Council should update its rolling programme of asset valuations to ensure that all assets within a class are valued simultaneously.	High	There has been no change to the Code and the Code states "a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date". We believe that we conform to this. However, we will review the tranches that we value on an annual basis and will ensure that the assets not revalued are not materially different at the balance sheet date.	Capital Finance Manager

Appendix B: Audit opinion

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

Opinion on the Authority financial statements

We have audited the financial statements of Kent County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
give a true and fair view of the financial position of Kent County Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:
in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:
securing financial resilience; and
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, *Kent County Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Delay in certification of completion of the audit

We are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Kent Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2014. As the authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Also, we cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

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

Grant Thornton
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RH10 9GT

24 July 2014

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By:	John Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement Andy Woods, Corporate Director of Finance and Procurement
To:	Governance and Audit Committee – 24 July 2014
Subject:	**External Audit – Pension Fund Audit Findings Report 2013/14**
Classification:	Unrestricted

Summary: This paper sets the context to the External Auditor's Annual Pension Fund Audit Finding Report

FOR DECISION

Introduction and background

1. Grant Thornton, as External Auditor to the Council, is required to report to the Committee the findings from the audit of the 2013/14 Pension Fund financial statements (included in the Council's financial statements).

2. The report include the key messages arising from the audit work undertaken to address the risks identified in the Audit Plan presented to this Committee in April 2014.

Process

3. The 2013/14 Pension Fund financial statements were provided to Grant Thornton for audit on 13 June 2014. The audit of the financial statements started on 17 June 2014 and despite the pressures on the audit team and officers to respond quickly to queries the work was substantially complete by 27 June 2014.

4. Members will have the opportunity to ask questions about the audit and report to help inform their decision before formally approving the 2013/14 financial statements.

Recommendations

5. Members of the Governance and Audit Committee are asked to:

    - take note of the findings in the report.

Neeta Major
Head of Internal Audit
(Ext: 4664)

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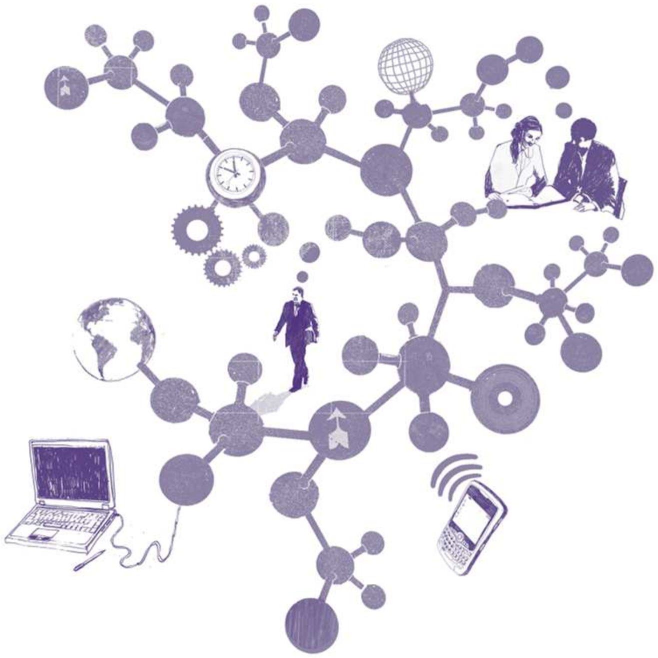
The Audit Findings Report for Kent Superannuation Fund

Year ended 31 March 2014

24 July 2014



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of Kent Superannuation Fund's ('the Fund') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2014.

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

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements.

We have not identified any adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). The draft and audited financial statements recorded net assets carried forward of £4,137,259k. We have agreed with officers, a small number of adjustments to improve the presentation of the financial statements.

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

- the financial statements provided to audit on 13 June 2014 were complete and prepared in accordance with the CIPFA's Code of Practice for Local Authority Accounting
- officers produced high quality working papers to support the financial statements and provided timely responses to audit queries
- officers agreed to amend the financial statements for all recommended accounting and disclosure changes we identified.

Acknowledgement

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

Grant Thornton UK LLP
July 2014

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance and Audit Committee on 30 April 2014. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you.

Audit opinion

We anticipate that we will provide an unqualified opinion as set out in Appendix A.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	We rebutted this presumption and did not consider this to be a significant risk for the Kent Superannuation Fund since: • The nature of the Superannuation Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Superannuation Fund, its fund managers and the custodian provides a very strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules. They are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred. They are subject to agreement between the transferring and receiving funds.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against other risks

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

Transaction cycle	Description of potential risk	Work completed	Assurance gained & issues arising
Investments	• Investments not valid • Alternative investments not valid • Investment activity not valid • Fair value measurements not correct*	We have undertaken the following work in relation to this risk: • We have reconciled information provided by the fund managers, the custodian and the Superannuation Fund's own records. We confirmed the existence of investments directly with independent custodians and fund managers. • We tested purchases and sales during the year to detailed information provided by the fund managers. • We selected a sample of the individual investments held by the fund at the year end and tested the valuation of the sample by agreeing prices to third party sources (quoted investments) or by review of the valuation methodology used to ensure it represents fair value (unquoted investments and direct property investments).	Our audit work has not identified any significant issues in relation to the risk identified. We did identify one non-trivial missclassification of purchases and sales of investments. The net effect on the reported investment position was nil. The detail of this finding is set out on page 12.

* The risk for 'Fair value measurements not correct' consists of three individual risks based on the type of investment. These are;

- Fair value measurements of securities quoted using prices (unadjusted) in active markets for identical investments not correct
- Fair value measurements priced using inputs (other than quoted prices from active markets for identical investments) that are observable either directly or indirectly not correct
- Fair value measurements priced using inputs not based on observable market data (using models or similar techniques) not correct

Audit findings against other risks (continued)

Transaction cycle	Description of potential risk	Work completed	Assurance gained & issues arising
Benefit Payments	• Benefits improperly computed/ liability understated	• We confirmed the existence of controls operated by the fund to ensure benefits are correctly calculated and that the appropriate payments are generated and recorded. • We tested the key controls identified. • We undertook substantive testing of benefit payments.	Our audit work has not identified any significant issues in relation to the risk identified.
Contributions	• Recorded contributions not correct	• We confirmed the existence of controls operated by the fund to ensure that it identifies and receives all expected contributions from member bodies. • We tested the key controls identified. • We substantively tested contributions deductions .	Our audit work has not identified any significant issues in relation to the risk identified.
Member data	• Member data not correct	• We confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the pensions administration system and the maintenance of member records. • We tested the key controls identified. • We reviewed the reconciliation of member numbers for each category by reference to starters, retirements, deferrals and other relevant changes and sought explanations for variances.	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Income to the fund is accounted for on an accruals basis	• The Fund's accounting policies are appropriate under IAS 18 Revenue and the Code of Practice on Local Authority Accounting. • Accounting policies are adequately disclosed in the financial statements.	●
Judgements and estimates	• Key estimates and judgements include; – Investment valuation – Promised value of future retirement benefits	• The policies adopted for accounting estimates are appropriate under the Fund's accounting framework • Our testing indicates that estimates included in the financial statements have been calculated based on reasonable judgements and assumptions. Estimates are calculated based on the best available information. • The level of judgement required by the Fund is low . Estimates used are generally supported by adequate working papers. • Disclosure of accounting policies in the financial statements is in line with the recommended disclosures .	●
Other accounting policies	• We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	●

Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Misclassifications & disclosure changes

We noted that the fund had reclassified comparative figures for prior year expenditure within the draft fund account between 'administrative, governance and oversight expenses' and 'investment management expenses'. We have agreed with officers that the restatement was highly immaterial and therefore no restatement was required under accounting standards. Officers therefore reinstated the comparative figures used in the 2012/13 statement of accounts.

Our testing of purchases and sales of equity investments identified a number of purchase and sales transactions which had been double counted on the 'Shareholder' share management system. This was the result of recording of stock splits on that system. We have confirmed that the transactions had been recorded correctly in the general ledger. As the 'Shareholder' system was used to compile Note 13a, this has resulted in a reduction to purchases at cost of £28,652k and an reduction of sales proceeds to the same amount. The net position is therefore nil and does not affect the net assets position of the fund.

During the audit we also identified a number of narrative presentation and disclosure items in the financial statements and recommended additional disclosures to enhance the presentation of the financial statements. All amended disclosures have been agreed and applied in the Pension Fund accounts.

There are no unadjusted misstatements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

From the work we completed we did not identify any significant weaknesses in internal controls.

Assessment

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

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Fund.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Fund audit	30,568	30,568
Total audit fees	**30,568**	**30,568**

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm we are independent and are able to express an objective opinion on the financial statements.

We confirm we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Future developments

Developments relevant to your Pension Fund and the audit

Political	Environmental	Social	Technological
Developments relevant to the next financial year			
1. Financial reporting CIPFA has published best practice guidance relating to the identification and disclosure of administrative and investment management expenditure. This applies from 2014/15 and will enable consistent reporting across the LGPS facilitating more meaningful comparisons in this area. The definition is separated into three distinct categories of costs.	**2. Legislation** Under the Local Government Pension Scheme (LGPS 2014), pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Administering authorities will need to ensure their updated administration systems are calculating new pensions accruals correctly from 1 April 2014; dealing effectively with more complex data requirements and that new contribution rates are being correctly applied by employers.	**3. Actuarial valuation** Following the 31 March 2013 actuarial valuation all employers will need to consider the level of additional employer deficit contributions required and how to fund them.	**4. Other issues** The number of LGPS employers continues to grow as local authorities outsource services. Affected funds need to consider the impact this has on their exposure to risks and their investment strategies.
Developments relevant to future periods			
1. Financial reporting Changes to the Pension SORP may affect the investment disclosures in the Net Asset Statement and Fair Value determination (changing the classification from level 1, 2 & 3 to A, B & C). A revised SORP will be issued in 2014 and may find its way into the LG code in 2015/16.	**2. Legislation** From April 1 2015 The Pensions Regulator will have formal powers and responsibilities for oversight of the LGPS. This will include monitoring implementation of new governance arrangements, which require the creation of a scheme manager and pension board for each LGPS. The Administering Authority will need to determine how it will meet the requirement to have a pension board and the consequent changes it will need to make to its general governance arrangements.	**3. Structural reform** DCLG is consulting on the potential use of Collective Investment Vehicles and passive management of funds. The outcome of this consultation may lead to a change in administration of some schemes and significant changes in investment strategies.	**4. Other issues** The Pensions Regulator, Financial Conduct Authority and HMRC continue to commit resources to combat pension liberation schemes. More guidance and potential changes to HMRC registration of new schemes is likely.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

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

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

Appendices

Appendix A: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Kent County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement's Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

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

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Grant Thornton
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24 July 2014

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By: John Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement

Andy Wood, Corporate Director of Finance and Procurement

To: Governance and Audit Committee – 24 July 2014

Subject: **External Audit Value for Money report 2013/14**

Classification: Unrestricted

Summary: This paper sets the context to the External Auditor's Value for Money report

FOR ASSURANCE

Introduction and background

1. Grant Thornton, as External Auditor to the Council, is required to report the results of the work undertaken to assess the Council's arrangements to secure value for money. As part of the VFM Conclusion we have undertaken a review of the Council's financial resilience in 2013/14, covering four areas:
   - key financial indicators
   - strategic financial planning
   - financial governance
   - financial control

   For the last three years Grant Thornton have produced a national summary of the outcome of the financial resilience reviews that they have undertaken for their clients - most recently in the form of a report called '2016 tipping point? Challenging the current'. Grant Thornton will produce a similar document later this year that will reflect that their growing number of audit clients. We will form part of the basis of their national report this year.

2. The attached report sets out the findings from the review.

Recommendation

3. Members are asked to note the report.

Neeta Major
Head of Internal Audit
Ext: 4664

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Report on Value for Money for Kent County Council

Year ended 31 March 2014

Report date 24 July 2014

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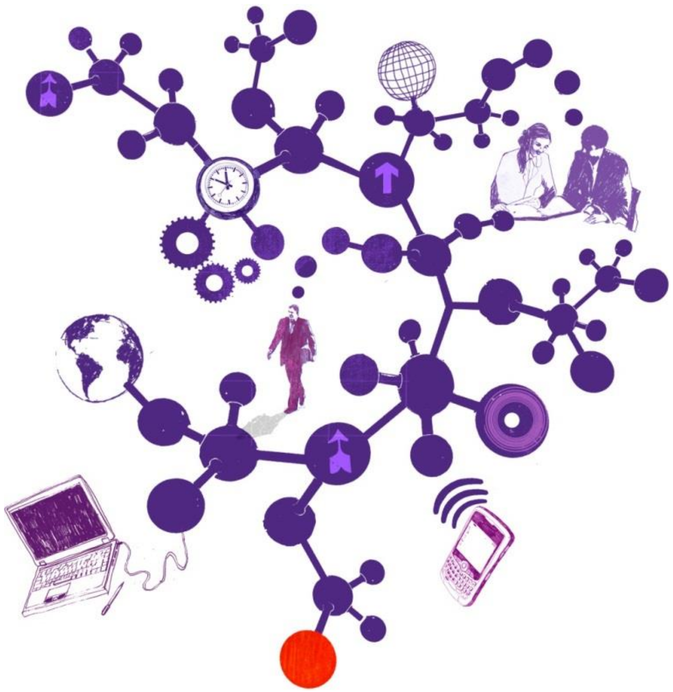

Contents

Introduction

What is this report?

This report summarises the findings from our work supporting our Value for Money (VfM) conclusion as part of the statutory external audit.

It compliments our Audit Findings Report, by providing additional detail on the themes that underpin our VfM conclusion.

Value for Money Conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience: the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (defined by the Audit Commission as "twelve months from the date of issue of the report".

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness: the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Code require auditors to identify significant risks to the VfM conclusion and to plan sufficient work to evaluate the impact of those risks, if any.

Our approach

The approach involves:

- desktop analysis of relevant documentation
- meetings with key internal stakeholders
- a risk assessment to identify any significant risks.

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2013-14 and what that says about those arrangements
- any significant risks that we have identified.

Introduction

What is this context?

Nationally

The 2010 Spending Review set the Coalition Government's financial settlement for the four years to 2014/15, and the 2013 Review then covered 2015/16. By the end of this period, central funding to local government will have reduced by 35%.

2013/14 is the third year of councils having to deliver efficiency savings in response to the 2010 Spending Review and, given the 2013 Review and the budget statement in 2014, this will need to continue for the foreseeable future. Delivering efficiency savings and maintaining financial resilience is becoming increasingly difficult, even for top-performing councils. The challenges include:

- responding to welfare reform; and
- the drive towards more integrated health and social care.

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Demand for many demography-driven council services is expected to rise, whereas demand for some income-earning services is falling.

To fulfil their statutory requirements, councils must continue to provide certain services. But the opposing trends in funding and demand will create a sizeable funding gap even if carefully managed. In short, the sector is working through its greatest financial challenge of recent times.

Locally

Kent is divided into 12 local authority districts and Medway Unitary Authority. The Kent County Council (KCC) area excludes Medway. It is the largest county council in the country. Kent's population is currently estimated to be 1,480,200 people with a forecast growing trend which is putting increasing pressure from higher demand on services.

Kent has traditionally been a high performing Council. In 2010 there was a 'poor' Ofsted inspection but the Council has worked hard since to improve the quality of the service and achieved an overall 'adequate' rating for children's services in January 2013. All improvement notices were removed during 2013/14.

Similar to all other public sector bodies, Kent is facing a significant financial challenge to deliver its current level of services with reducing funding. The Council launched 'Facing the Challenge' in July 2013 which is a whole Council transformation programme to deliver better outcomes and improved life opportunities for individuals at less cost to public spending. This is a highly ambitious programme which will alter the traditional council structure over the next two years. This is the Council's response to one of the most challenging, and continuous, financial periods . It has has made savings totalling £269 million in the past three years. As part of the 2014/15 budget setting process, the Council predicts it will make a further £239 million savings by 2016/17 and has built in £81.8 million savings into the 2014/15 budget.

Now, more than ever, it is important that councils have sound arrangements for securing Value for Money.

Executive Summary

Overall Risk Assessment

The following significant risks were identified during our VfM planning, which we have responded to in the course of our work:

- Review the budget setting process for 2014/15 and the achievement of savings in 2013/14, including the savings from adults transformation project
- Review the governance arrangements put in place to successfully deliver the Facing the Challenge transformation plans, including the decision making of phase 1 as reported to County Council
- Understand the new arrangements for commercial services.
- Review the progress made against any recommendations made as a result of the 2012/13 financial resilience review

Our findings in respect of these risks has been reported in the 2013/14 Audit Findings Report.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against key indicators of financial performance and the three expected characteristics of proper arrangements, as defined by the Audit Commission:

- strategic financial planning
- financial governance
- financial control.

Overall our work highlighted the Council has sound processes in place for financial governance, planning and control. It continues to face significant financial pressures to balance its budgets and has adopted 'Facing the Challenge' as a programme to transform services to meet increasing demands with reduced funding.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Overall our work did not highlight any significant weaknesses that impact on our conclusion.

Executive Summary

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

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Financial Performance	• We have reviewed six key indicators of performance using published financial ratios from the Audit Commission and benchmarking against the Council's nearest neighbour group. The review considered the following: liquidity; borrowing; workforce; performance against budgets; reserve balances; and schools balances. • Overall the ratio analysis has shown a relatively positive outlook for the Council and although outliers were identified these are understood by the Council and are monitored as part of the quarterly budget reports to Cabinet.	Green
Strategic Financial Planning	• The Council has robust strategic financial planning arrangements in place. The Council's Medium Term Financial Plan (MTFP) is set for the period 2014-17 and takes account of the directorate and service business plans for the 2014/15 year. There are strong links between the MTFP and the Council's key priorities over the challenging transformation period. • The Council started the budget planning for 2014/15 early in the 2013/14 financial year to allow sufficient time for consultation on difficult decisions it may face. The Council undertook extensive consultation and reported the outcome of the feedback as part of approving the final budget for the year.	Green
Financial Governance	• The Council has sound financial governance arrangements. There is a robust process for setting the budget and identifying significant annual savings . • Cabinet members are engaged and have a good understanding of the financial environment the Council operates in. Training has been provided for new members of the Governance & Audit Committee to ensure they are well equipped to carry out the responsibilities of the committee. • Financial health indicators are reported as part of the detailed quarterly revenue and capital budget monitoring to Cabinet although these generally report the financial position at the end of the month and are not forward looking.	Green

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Financial Control	• The Council has well established financial control arrangements in place with the 2013/14 reported underspend being the 14th consecutive year of managing the budget effectively. Savings totalling £270m have been made over the three year period 2011/12 to 2013/14 with a further £81m identified in the 2014/15 budget. Without strong financial control, this significant challenge could not have been achieved. • The Project Initiation Document (PID) process has been fully reinstated for the 2014/15 budget setting. However, due to the changes in the directorate structure not all PIDs have been submitted to central finance at the end of June 2014 when the planned deadline was 1 May 2014. For effective management of the budget, and to ensure savings are delivered as planned, the Council should ensure all PIDs are received as part of the budget planning process. As at 11 July all remaining PID's have been received. • The Council has effective finance and internal audit teams which are well placed to help the Council move forward in the difficult financial environment. • The risk management arrangements have improved during the year through the positive approach taken to using the GRACE system for recording and updating risks in 'real' time. Training has been provided and the system is actively used although it is recognised that some divisions are stronger at this than others.	**Green**

Next Steps

Area for consideration	Recommendation	Responsibility	Timescale	Management response
Key performance indicators	Capital budgets need to be realistically set and closely monitored so there is a smaller underspend at year end.	Corporate Director of Finance and Procurement	31 March 2015	Agreed. This has proven to be the holy grail but we continue to press for more realistic timings for projects from the service managers.
Strategic Financial Planning	The Council needs to ensure that financial planning remains aligned to Facing the Challenge and is responsive to the changing Council structure.	Corporate Director of Finance and Procurement	On-going	Agreed. This is a 'constant' and we remain committed to this.
Financial Governance	The Council needs to ensure that all officers responsible for budget monitoring are aware of the unit costs.	Corporate Director of Finance and Procurement	31 March 2015	Agreed. This will have increasing importance and as a first step we are introducing intensive commercial expertise training for finance staff so they can help service managers look at their budgets.
Financial Control	The Council should ensure that PIDs are fully completed before the start of the financial year to ensure there is no slippage in the total deliverable in the year.	Head of Financial Management	February 2015	Agreed. We have reviewed the PID template ready for 2015/16 and beyond for completion before April 2015.
	The Council needs to ensure that where posts are removed or restructured all tasks undertaken by that role are captured.	Corporate Director of Finance and Procurement	On-going	Agreed.

Key Indicators of Financial Performance

We have made use of the Audit Commission's Financial Ratios Analysis Tool and VfM Profiles Tool to benchmark the authority against its statistical nearest neighbours for relevant KPIs up to and including 2012-13. For Kent, the statistical nearest neighbour group is the following county councils: Cambridgeshire; Derbyshire; Essex; Gloucestershire; Hampshire; Hertfordshire; Lancashire; Leicestershire; Nottinghamshire; Northamptonshire; Oxfordshire; Staffordshire; Warwickshire; West Sussex; and Worcestershire.

We have also made use of published material on rates of sickness absence.

Area of focus	Summary observations	RAG-Rating
Council's own financial health indicators	• The Council monitors its own performance against five financial health indicators: cash balances; long term debt maturity; outstanding debt owed to the Council; percentage of payments made within payment terms; and recent trend in inflation indices. • The Council currently has a policy to use cash to fund capital expenditure rather than borrow and there has been a consistent downward trend in cash balances held over the past few years. However, cash balances in 2013/14 were higher as the Council only repaid £2m debt principal in the year. • Debt owed to the Council increased by £5.79m between March 2013 and March 2014. The main area of debt owed is within Families and Social Care (FSC) directorate and was largely due to invoices raised to the Home Office for unmet asylum costs. The total year end position is £25.17m, with £22.24m in FSC and £2.93m • The Council has set a local payment target of 20 days which is 10 days less than the public sector average. Invoices paid within 20 days is 75.3% in 2013/14, compared to 77.3% in 2012/13.	**Green** **(2012-13 Green)**
Liquidity	• The working capital ratio in 2012/13 was 1.76% which is an increase from 1.22% in 2011/12 . The working capital ratio indicates whether a council has enough current assets to cover its immediate liabilities. The increase is a positive movement as it shows a greater stability in the Balance Sheet. The Council monitors the ratio as part of budget monitoring and reports this to Corporate Board. • The working capital ratio based on the audited 2013/14 financial statements is1.63% .Current assets total £468,592k and current liabilities total £287,796k. • The Council is considered the 'norm' for the ratio with its nearest neighbours ranging from 2.77 to 0.723 in 2012/13.	**Green** **(2012-13 Green)**
Borrowing	• The Council reports performance against prudential borrowing indicators in the full quarterly revenue and capital monitoring report in appendix 5. Its prudential borrowing indicator for 2013/14 was £993m. The operational boundary borrowing position (excluding debt relating to Medway Council) as at 31 March 2014 is £969m which means the indicator has been met. • The Council also set an authorised limit for external debt relating to KCC assets and activities of £1,033m for 2013/14. It has not needed to utilise the additional borrowing limits in the financial year and does not plan to in the MTFP. • The Council's Long-term Borrowing to Council Tax Revenue is 2.12 which indicates that it has long term borrowing which exceeds tax revenue by twice. This is the highest amongst the comparator group, with other authorities typically having a ratio of 1.32 or less. • The Council's ratio of long-term borrowing to long-term assets has slightly increased in 2013/14 to 0.59. This compares to the median of the comparator group of 0.28. In recognition of its comparative long term borrowing ratio, the Council has set a prudential indicator of 15% of net revenue being used for debt repayment. For 2013/14, the actual ratio was 13.62%.	**Green** **(2012-13 Green)**

Key Indicators of Financial Performance

Area of focus	Summary observations	RAG-Rating
Workforce	• The average sickness absence level for the public sector in 2012/13 was 8.7 days per FTE, local government average was 8.8 and the private sector average for the same year was 7.2. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year as it often results in additional costs through using agency staff. • During 2013/14 the sickness rate at KCC fell to 6.84 days per FTE, a reduction of over 0.5 days per FTE, when compared with last year's figure of 7.38 days per FTE. This is a considerable achievement and demonstrates the Council's efforts to effectively manage sickness.	**Green** **(2012-13 Green)**
Performance against budgets (Revenue Capital & Savings)	• The Council has achieved an underspend for the past 14 years. This is a strong achievement in the current financial climate. • The year end financial outturn shows an underspend of £9.865m (excluding schools). This is offset by a reported reduction in school reserves for 2013/14 of £2.349m. This gives a total underspend as at 31 march 2014 of £7.471m. Plans for utilising the underspend have been included in the final outturn report presented to Cabinet in July 2014. • The Council achieved its planned savings of £95m in 2013/14. This is demonstrated by the underspend of the revenue budget and the outturn report including an overview of the whether the directorate had met its savings. • The year end capital outturn is an underspend of £53.038m with this money being re-phased into the 2014/15 financial year. The original capital budget for 2013/14 was £286m and the revised budget approved for the year was 256m. This underspend represents 21% of the planned spend for the year. The Council needs to ensure that the capital budget is realistic.	**Green** **(2012-13 Green)**
Reserves balances	• The Council has maintained the level of the general fund reserve, in line with its MTFP 2013-15, at £31.7m at year end. This amounts to 3.4% of the 2014/15 net revenue budget, and 2.2% of the gross revenue budget (excluding schools). • There has been a small decrease of £0.7m in earmarked reserves in 2013/14. • The useable reserves to gross revenue expenditure ratio is around 18% for 2012/13. There has been a relatively steady position for reserve balances over the past five years. Compared with its comparator group, KCC is below the median.	**Green** **(2012-13 Green)**
Schools balances	• The 2013/14 accounts showed a total carry forward to 2013/14 of £12.468m. This comprises a carry forward of £9.927m on the centrally retained Dedicated Schools Grant (DSG) budget and £2.542m on the schools' unallocated budget. The schools unallocated reserve now stands at £5.917m, and its use is determined by the Schools' Funding Forum who have committed the majority of the unallocated reserve and estimated that over half will be spent in 2014/15. • There has been a decrease of £2.394m in school reserves which is less than the budgeted position. This is partly due to the delegation of pupil referral units to schools part way through the financial year and a drawdown from the school unallocated reserve. • The Council's share of schools balances in relation to the total DSG allocation received for the year remains at 7%. This is average for the nearest neighbour group.	**Green** **(2012-13 Green)**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Focus of the MTFP	• The Council has developed a Medium Term Financial Plan (MTFP) for 2014-2017 which is an increase view to cover a three year period (previous MTFP was for 2013-15). The MTFP was approved by the County Council alongside the revenue and capital budgets for 2014/15 on 13 February 2014. The Council has balanced its budget for 2014/15, identifying net revenue savings of £81 million. The budget strategy set for 2013/14 was based around the 4 P's: Prevention; Productivity; Procurement; and Partnership. These themes continue to underpin the latest MTFP. • The MTFP includes the national and local context for Kent to establish the overall challenges the Council is facing. It also includes clear spending demands and pressures alongside the potential income generation and savings proposals. As part of the budget proposals the Council has confirmed that it will continue to use its cash reserves to protect front-line services. However, it has recognised that reserves will need to be replaced if consumed and this is not a long term solution to a budget deficit. For 2013/14, the Council used £9m of earmarked reserves to balance the budget and plans to use further reserves this year. As part of the budget outturn report, £4m of the underspend was transferred to fund the 2014/15 budget. The need to replace these reserves in 2015/16 has created an additional pressure for next year. • The MTFP recognises that the focus of the budget over the next few years will be on reducing the demand led services of children's and adults. These are high spend areas and focus is placed on these to ensure savings can be achieved. Ofsted removed all children's service improvement notices in 2013/14 and although a new inspection is anticipated by the Council the directorate is recognising that savings need to be made without risking the achievements of the improved quality of the service. For adults, the general demand across the country has reduced which is at odds with the demographic of Kent. As part of the MTFP, the Council has stated that it is seeking to better procure services, increase prevention and improve partnership with the NHS to deliver better outcomes at lower cost. The Council has started to work towards this through the Kent Pioneer and Better Care Fund plans. • The Vision for Kent is the Council's countywide strategy for the social, economic and environmental wellbeing of Kent's communities. This sets out a 10-year vision for these ambitions with the capital investment programme focussed on achieving the vision for the period 2012-22. The vision is set around three key ambitions for Kent: Grow the economy; Tackle disadvantage; and Put the citizen in control. To achieve these ambitions, the Council has set a three year capital programme for the period 2014-17 totalling £634.6 million. • The Council set a new capital strategy for 2013/14 which focuses on capital investment and a greater focus on the Council's strategic priorities to ensure it maximises the value of its assets. During the financial year, the Council has utilised the limits in the strategy and has started to make equity investments and soft loans. It has developed fiscal indicators in the strategy with the key indicator being to limit the cost of borrowing to 15% of overall revenue and capital spend.	**Green** **(2012-13 Green)**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Adequacy of planning assumptions	• The Council remains prudent in its spending plans and recognised that savings will be more difficult to achieve in the future without cutting services. As part of Facing the Challenge the Council reconfigured the directorates from five to four from 1 April 2014. This added a complication to the budget setting process as savings needed to be identified by Corporate Directors that were originally assigned to a different directorate. This has impacted on the prompt allocation of all savings to the relevant managers. • The assumptions around the national budget announcements and pressures are built into the MTFP, with the Council providing a clear assessment of how it is has interpreted this in relation to the residents of Kent. For example, the budget consultation asked residents whether they would accept a small increase in council tax to help protect frontline services. Around 70% of residents agreed with this and the Council has increased council tax by 1.99% (the maximum level before a referendum is triggered). • The budget recommendations paper to County Council in February 2014 included a high level three year plan. The Council predicts growing spending pressures and anticipated sustained funding reductions from central government. In the medium to long term, these high level assumptions appear reasonable for the future financial position. • The 2014/15 budget process built in scenario planning and stress testing before publishing the budget for consultation. The Council is working with and external efficiency partner to help transform adult social care in Kent. This work has involved making a number of assumptions and carrying out data analysis to ensure the savings plans are achievable over the three year period.	**Green** **(2012-13 Green)**

Scope of the MTFP and Links to Annual Planning	• The Council's MTFP 2013-15 is linked closely with the Bold Steps for Kent and other key Council policies. For the 2014/15 budget, the MTFP 2014-17 has been aligned with Facing the Challenge as the strategic vision and objectives for the future.
	• The three themes of Facing the Challenge underpin the financial assessment. These are:
	    • Market Engagement: the Council is testing the services it delivers against the best in the public, private and voluntary sectors to identify the most appropriate service delivery vehicles to drive out best value. It plans to become a lead commissioning authority and the County Council meeting in May 2014 agreed to develop a Strategic Commissioning Plan and Outcomes Framework to enable focus on this approach.
	    • Service Review and Integration: the Council plans to fundamentally transform the way it delivers its services to get the best possible outcomes at lower cost
	    • Demand Reduction: the Council has recognised that it needs to reduce reliance on publically funded services and identify activities which the Council does not need to statutorily provide.
	• The Council has clearly built these into the budget planning and makes strong links between the transformation agenda and the need to make significant savings in the next three years.
		Green
		
		(2012-13 Green)

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Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Review process	• The MTFP is reviewed and updated as part of the annual planning cycle. The MTFP 2014-17 covers the longer term financial planning view to support the whole Council transformation programme. • The annual budget goes through a number of iterations before final approval at Full Council. The Council started developing the savings requirements and budgets in early 2014 to ensure there was sufficient time for review by members before the consultation with the public. There is a comprehensive review process at all stages to ensure plans are robust and deliverable. • The Council reviews its financial performance regularly with quarterly reporting to Cabinet on the achievement of its corporate priorities. The reporting is clear and focused on the risk areas and performance targets that are not being met.	**Green** **(2012-13 Green)**
Responsiveness of the Plan	• The local budget consultation ran for a month at the end of 2013. The Council received feedback from the following activities: directly to the Council through its website; via BMG consultants through workshop sessions or on-line survey of a statistical sample of residents; and responses from staff survey conducted by BMG consultants. The main consultation was based on a campaign "2 minutes 2 questions" where the Council asked residents to answer two fundamental questions with the option to explore issues in greater detail by completing an on-line tool exploring services they valued most. This method has been very effective in engaging members of the public and the Council received 3,163 responses to the"2 minutes, 2 questions" and 487 responses to the on-line tool. This is significantly higher than the limited responses received to the 2013/14 budget consultation. • The 2014/15 final draft budget and MTFP included a number of changes from the budget presented for consultation. The MTFP had sufficient flexibility to enable members to respond to the feedback and further pressures by identifying savings to ensure that the budget presented for County Council approval in February was balanced. • There remains significant uncertainty about the financial position for 2015/16 and beyond. The Council has a good track record of delivering its annual budgets and savings plans which gives confidence that the business planning process is resilient enough to ensure good outcomes can be maintained despite major spending reductions. • The Council undertakes scenario planning for its major areas of spend and uses this to inform decision making. Members and officers have a clear understanding and awareness of the challenges the Council is facing and have been responsive to the Facing Challenge phase 1 programme.	**Green** **(2012-13 Green)**

Financial Governance

Area of focus	Summary observations	RAG-Rating
Understanding of the financial environment	• The Corporate Board has a sound understanding of the financial environment that the Council operates within. The introduction to the annual budget and MTFP sets out the national and local pressures and identifies the need for integrated thinking to meet these pressures, not only within the Council, but with its stakeholders. • The Council understands the challenges facing Kent residents. Through the budget consultation, it sought views about potential council tax increases and fed back clearly the reasons for increasing council tax by 1.99% in 2014/15 after three years of freezes. Cabinet recognises this hits the most vulnerable people in Kent following changes to the welfare benefit restrictions and liaises closely with the district councils about the changes and impact on residents. • Another example of the Council understanding the local financial environment is that as part of the proposal to amend the Kent Freedom Pass it sought the views of parents and users of the pass. As a result of feedback, the Council proposed a new scheme with different terms and conditions for member approval. The Council has also announced that it will provide additional financial support for young people in sixth form, at college or studying at work-based learning providers by reducing the cost of the Kent 16+ Travel Card. • It has continued to work with small and medium businesses in Kent and is an agent for the Regional Growth Fund money to help expand businesses in East Kent by creating / protecting jobs in an area of high unemployment and the Thames Gateway Innovation, Growth and Enterprise Fund offers 0% loans to growing businesses in Dartford, Gravesham, Medway, Swale and Thurrock. • The Cabinet receives quarterly revenue and capital budget monitoring reports which include detailed variance analysis and explanations on a directorate basis. The report also details the Council's key activity indicators and financial health indicators which gives decision makers the relevant information to make informed decisions. • Financial awareness training is provided to budget holders and a training session was given to the Governance and Audit Committee in July 2013 to ensure new members are aware of the financial environment and accounting framework before approving the financial statements. • The Council has approved and communicated to staff and members the financial regulations and standing orders in which the Council operates. These have been issued to all officers with financial management responsibilities. We have not identified any breaches in the Council's compliance with the financial regulations during 2013/14.	**Green** **(2012-13 Green)**

Financial Governance

Area of focus	Summary observations	RAG-Rating
Executive & Member Engagement	• There continues to be strong member and corporate director engagement on financial matters through the Corporate Board. • Cabinet portfolio holders are actively engaged in the budget setting and monitoring financial delivery. Members are aware of the need for greater savings in future years and have been involved in the Facing the Challenge progress through a variety of ways: all members through reports to County Council; Transformation Board members; and Transformation Advisory Group. • Members outside of Cabinet are also actively involved in understanding the financial environment . The business planning process for 2013/14 was reviewed and challenged by Cabinet Committees and the contribution from members of these committees was acknowledged by the Cabinet. • The Governance and Audit Committee meet throughout the year and have clear terms of reference for their responsibilities in ensuring the financial governance of the Council. There is a member work and development programme that is reviewed at every committee meeting to ensure that the committee receives relevant training to carry out its function. The Committee's membership changed following the elections in May 2013 and training has been provided on the financial statements, and role of internal and external audit to ensure new members are properly equipped to effectively carry out their role. • The LGA peer review commented on the open and honest engagement from members. Members commented that on the whole they feel engaged in the transformation agenda. The Council acknowledges that significant cultural change is required to achieve the desired approach to risk and to facilitate transformational change and commercialisation. Engagement across all levels at the Council, not just at the Executive and Member level, will help to deliver the ambitious transformation programme in the planned timeframe. Without this cultural change there is a risk the programme will not succeed.	**Green** **(2012-13 Green)**
Overview for controls over key cost categories	• The Council monitors and reports the revenue budget on a Cabinet portfolio basis. The reporting from the ledger is based on the pre-election portfolios and a decision was made to continue with that structure throughout 2013/14. • The Council acknowledged that managers understanding of costs was an area to be strengthened in the future as part of the 2012/13 vfm review. The Council has continued to focus unit cost reporting on the demand-led services of adults and children's social care, including asylum, but also reports at a cost level for the Social Care Fund for 2013/14. This is set out in the annexes of the quarterly budget monitoring report to Cabinet. • Improvements have been made in the understanding of costs by the budget holders through working with the central finance revenue budget monitoring team. Financial monitoring at an individual cost level is the responsibility of budget holders and central finance works closely with the budget holder to enable them to carry out their role more effectively. The Council is using unit cost information to transform its demand-led services to reduce overall costs. • Financial regulations are reviewed and updated as appropriate. • As a result of the continued focus of the Council to understand all of its costs, including those low risk budgets, especially given the size of the cost reductions over the next three years, this category remains as amber rated.	**Amber** **(2012-13 Amber)**

Financial Governance

Area of focus	Summary observations	RAG-Rating
Budget Reporting (Revenue & Capital)	• Comprehensive revenue and capital budget monitoring reports are presented to Cabinet quarterly with exception reports being presented in July, October, January and April. These highlight significant issues arising in a specific budget since the last full quarterly report and give the Cabinet sufficient information to make decisions as necessary between the detailed reporting. The budget reports set out detailed analysis of the variances to the budget and the corrective management action being taken to address the pressures so the year end budget is met. • The full budget monitoring reports were simplified and streamlined during 2013/14 . The information has been presented more clearly, repetition has been removed and the size of the report has reduced. Member feedback has been positive. However, these are still long reports and a further review is planned in 2014/15. Members of financial management have recently undertaken 'continuous improvement' mapping to improve the efficiency of report production. • The quarterly budget reports include sections for: revenue and capital budget monitoring; key activity monitoring; financial health indicators; prudential indicators; impact on revenue reserves; and directorate staffing levels. The reports enable members to make informed decisions on the budgeted outturn position and for corporate directors to understand the financial position. • In recognition of the changes that were likely to arise from Facing the Challenge, the Cabinet Member for Finance & Procurement agreed that the portfolio reporting basis would not be updated post-election. He reported to Cabinet that in "in terms of competing priorities, value added and risk, the work involved in mapping the pre-election portfolios to the post-election portfolio structure exceeds the benefits to be had, given the relatively short period that these new portfolios will be in existence before a further major change takes effect." This is a reasonable basis for reporting in 2013/14. • The Council has also updated the style of the MTFP 2014-17. The traditional portfolio by portfolio format has been removed to ensure the document more closely resembles the budget monitoring headings reported throughout the year to Cabinet and Cabinet Committees. In addition, the financial appendices to the MTFP now include a summary of 2014-15 budget setting out the planned changes for the new directorate structures and the detailed savings proposals, and a high level three year budget summary showing the key changes in funding and spending for each year. This has improved the MTFP.	**Green** **(2012-13 Green**
Adequacy of other Committee Reporting	• The Cabinet meets every month. There is a clear agenda and forward plan for the meetings. It discusses and takes decisions on the most significant issues facing the Council. The quarterly budget reports include financial health indicators covering cash balances, debt, payments made within agreed terms and inflation indices. • From the 1 April 2014, six Cabinet committees were created: Adult Social Care and Health; Children's Social Care and Health; Education and Young People's Services; Environment and Transport; Growth Economic Development and Communities; and Policy and Resources. These committees will meet quarterly to support the work of Cabinet and have taken on the responsibilities of the previous committees.	**Green** **(2012-13 Green**

Financial Control

Area of focus	Summary observations	RAG-Rating
Budget setting & monitoring - revenue & capital	• The Council has a robust process in place for setting the budget and has a strong record of achieving its budgeted outturn with an underspend for the past 14 years. • The Council met its aim to publish the 2013/14 budget much earlier than in previous years, and continued this trend by publishing the 2014/15 budget for public consultation in November 2013. This allowed for longer review of the draft budget by its stakeholders, and for members to give full consideration to the responses before approving the final budget in February 2014. The Cabinet's response to the consultation feedback is available on the Council's website. • The annual budget is built from a historical baseline adjusted for any growth, inflationary pressures and savings options. • The 2014/15 Budget Book sets out the budget in an a-z alphabetical listing identifying individual service budgets and which portfolio and new directorate is responsible for each line in the Budget. The expenditure budget is split between staffing and non-staffing and income between service income and grants. It also shows key performance and activity levels. The services continue to be split into four main sections: Direct service to the public; Financing items; Assessment services; and Management, support services (including support to front line services) and overheads. • The Council has reported and approved a revenue budget requirement of £940.313m for 2014/15. Extensive consultation and analysis has been undertaken to determine the revenue budget. The Council introduced stronger measures of budgetary accountability for Directors' budgets, placing more individual responsibilities for working within budgetary limits, and linking this to Director performance reviews and appraisals for the budget planning for 2014/15. • The capital investment proposals total £634.6m over three years from 2014-15 to 2016-17. This includes the roll-forward of £53m from the 2013/14 underspent capital budget. This is due to variances on a number of projects, as well as aligning some of the planned schemes in line with the Capital Strategy. The slippage on the 2013/14 capital programme needs to investigated by officers as the Council cannot deliver its ambitions without delivering the capital works alongside the revenue savings.	**Green** **(2012-13 Green)**

Financial Control

Area of focus	Summary observations	RAG-Rating
Savings plans setting & monitoring	• The Council has historically had a robust process in place for identifying and monitoring savings. The budgeted savings target for 2013/14 was £91.8m which was achieved by year end. The revenue underspend is £9.865m, which is greater than the £4m required to be rolled forward into 2014/15 budget to help deliver the savings. The Council has reported that it cannot be precise in how it delivered the £91.8m but that the underspend confirms all savings were made. A variance analysis at the directorate level is included in the outturn report reported in July 2014. Reporting against the original savings plans is seen as good practice and should be considered in future. • At the start of the financial year, the budget is closely monitored at the individual savings level to ensure that the approved savings are deliverable, and that if any savings move from amber to red rated corrective actions are put in place. As the year progresses, the budget monitoring places greater focus on the overall budget delivery. This approach has been effective to date although the challenge ahead is significantly greater than in 2013/14 so the Council needs to be reactive to additional pressures and slippage. • The Cabinet is being asked to approve the rolling forward of the uncommitted underspend of £4.766m into Economic Downturn reserves. • The savings target for the 2014/15 financial year is £81.4m. Although this is a reduction in the savings target for the current financial year, there is less reliance on one-off savings and draw-down of reserves which means that underlying savings required are more challenging to identify. The 2014/15 budget setting followed the same process as adopted in 2012/13 with budget savings being identified within each directorate. All savings identified in the budget are owned by Heads of Service. However, some staff within the directorates have commented that savings targets were imposed on them and that they are struggling to meet the level required. An example of this is in Families and Social Care children's services savings, where the 2014/15 savings target includes a pressure of £1m not delivered in 2013/14. This has been raised with the Budget Programme Board (BPB) by the budget holder and manager of the service and the team are currently reviewing how to meet the savings target. Directors have the opportunity to engage in the budget setting and identification of savings throughout the year. • The traffic light rating of savings reported as part of the budget approval in February 2014 showed £62m were green and £38m were amber. None of the savings were rated as red. However, the Council has identified that there is an added risk this year from Facing the Challenge due to the new directorate structure and changes to the staffing levels. The risk of not delivering the required savings in 2014/15 is included as a 'high' rated risk on the corporate risk register. • As a result of the savings being harder to identify, the Council has re-introduced the savings Project Initiation Document (PID) process for the 2014/15 budget with an enhanced template. For all projects over £200,000 the responsible directorate/ manager prepares a PID identifying how savings will be delivered, the quantum of savings and project milestones. The PIDs were due for completion by 1 May but at the end of June 2014 the central finance team monitoring has not received a PID for all savings. There was a gap of £7m mainly in respect of waste and children's savings. The outstanding PIDs are being chased by the Business Partners who should ensure these are completed in a timely manner by the directorate. Reporting of the PIDs is to the BPB and Cabinet as in previous years. BPB is chaired by the Deputy Leader and Cabinet Member for Finance and Procurement. • The Council has worked effectively with its efficiency partner for the Adult Social Care transformation. The outturn report confirmed that the savings required in 2013/14 totalling £18m had been met. The work has secured savings of around £30m over the next two years through re-engineering the processes for allocating support after first contact and significantly reducing delay and from changing the approach to re-ablement. This is an important achievement for the Council on the transformation programme.	**Amber** **(2012-13 Amber)**

Financial Control

Area of focus	Summary observations	RAG-Rating
Key financial accounting systems	• The Council has used Oracle as its main accounting system for a number of years. There is a sound understanding of the ledger within the financial systems team. They are able to interrogate the system and run specialist reports as needed by budget holders and directors. • The Council has a strong history of producing its accounts earlier than the statutory 30 June deadline to receive its audit opinion towards the end of July. It is the earliest county council to receive an audit opinion which is a result of the liaison and co-operation with its external auditors. • Internal Audit has not reported any limited assurance reports on the key financial systems during 2013/14.	**Green** **(2012-13 Green)**
Finance department resourcing	• The Corporate Director of Finance and Procurement is well respected across the Council and is a member of Corporate Management Team so has a good oversight of the financial impact of all key decisions made. He is closely involved in Facing the Challenge; the finance team is overseeing the cost analysis being prepared for the service review options. • The restructure of the finance department in 2012/13 centralised the finance staff from the previous devolved directorate finance teams. Through this exercise, there was a reduction in the number of finance staff overall. Although there has not been any significant impact on the effectiveness of the finance function in the year, the work we have undertaken on the 2013/14 financial statements has identified a small number of processes that have not been routinely completed. The Council needs to ensure that where posts are removed or restructured all tasks undertaken by that role are captured.	**Green** **(2012-13 Green)**

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Financial Control

Area of focus	Summary observations	RAG-Rating
Adequacy of Internal audit arrangements	• The internal audit team has recruited a number of new auditors during the year and is now at full capacity. As set out in the Annual Report 2013/14 presented to Governance and Audit Committee in July 2014, this has enabled IA to deliver 97 audits and projects during the year. The team has issued 75 final reports, 3 draft reports and undertaken 19 compliance visits. The team has achieved delivery of 92% of the 2013/14 plan. • The IA plan for 2014/15 was drafted following an extensive risk assessment process that involved meeting with directorate and divisional management teams and confirming the risks identified with the Corporate Directors. The plan was approved by the Governance and Audit Committee in April 2014 and progress reports are presented to the committee at every meeting. • The Head of IA is leaving this role in September 2014. The Council has recruited an experienced auditor to fill the role and a small handover period has been planned to ensure minimal impact on delivery of the 2014/15 plan. • Internal audit has raised its profile within the Council over the past couple of years and is experiencing a greater workload as officers in the directorates request investigations or audits. The team also undertakes a number of 'watching brief' audits as part of the IA audit plan. It is a positive approach for internal audit to be involved at the early stages of an implementation project as it enables them to give a greater insight into the control environment and risks associated with the project before the system/plan is fully developed.	**Green** **(2012-13 Green)**
Assurance framework/ risk management processes	• The Council has a risk management policy and strategy. The roles and responsibilities for managing risk are clearly set out and GRACE (the system implemented in early 2013), is used to record risks and the control measures, is fully in use by officers. There are 17 regular users of GRACE across the Council. • Risk registers are maintained on GRACE at the Corporate, Directorate and Divisional level. With the exception of public health all registers are maintained on the system. There remains a varied quality of the risks but through monitoring by the corporate risk team these can be addressed in a timely manner. Officers have acknowledged that it is an efficient way of monitoring risks as the system is live. GRACE is personalised to the individual reviewing the system with a snapshot of the directorate or divisional risk status update. • Risk management continues to be reported to the Governance and Audit Committee with the corporate risk register presented every six months. The corporate risk team attend the Directorate management teams quarterly to raise awareness of the risks in that area. • The LGA peer review commented that the *"risk management arrangements for the transformation programme are appropriate. The programme has its own risk register which is reviewed monthly and reported to the Transformation Advisory Group. It uses a standard risk management methodology. The risk register includes 17 risks, the highest referring to the inability of achieving the financial savings. All risks have identified controls and actions and appropriate level risk owners. This supports robust programme management*." Sound risk management arrangements are imperative for the Council to have in place to deliver the transformation programme in a quick and efficient way. • Based on the work of the Corporate Risk Manager in implementing the system and training officers on GRACE, and the improved attitude across the Council to raise and monitor risks, the rating has been increased from amber to green.	**Green** **(2012-13 Amber)**

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By: **John Simmonds, Cabinet Member for Finance & Procurement**

Andy Wood, Corporate Director of Finance & Procurement

To: Governance and Audit Committee – 24th July 2014

Subject: **SCHOOLS AUDIT ANNUAL REPORT**

Classification: Unrestricted

Summary: The Annual Report summarises the Schools Financial Services compliance programme and other activities undertaken during 2013-14 to enable the Chief Finance Officer to certify that there is a system of audit for schools which gives adequate assurance over financial management standards in schools. This report only covers Kent maintained schools, as Academies and Free Schools are not part of the County Council.

FOR ASSURANCE

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1. Introduction

The DfE requires that the Chief Finance Officer, (i.e. the Corporate Director of Finance and Procurement), signs an annual assurance statement, confirming that there is a **system of audit for schools** which gives adequate assurance over their standards of financial management and the regularity and propriety of their spending.

2. Approach

To enable the Chief Finance Officer to sign off the 2013-14 DfE Schools Financial Value Standard (SFVS) Assurance Statement, the following work strands have been completed:

Compliance programme

A new comprehensive compliance programme has been developed and is being delivered by Schools Financial Services. In 2012-13, Deloittes were engaged by the Local Authority to undertake 50 compliance visits in schools to ensure adequate assurance. The new compliance programme has been agreed with Internal Audit as a suitable approach in line with audit methodology and would meet the definition of an “adequate system of audit”. It is planned this will be a five year rolling programme, with 100 compliance visits being completed on an annual basis. The visits are determined on a risk basis, with schools considered to be of the highest financial risk being undertaken first. Every school will have at least one visit every five years, with schools presenting a higher financial risk being visited more frequently. The new compliance programme involves a two day visit in the school with a total of four days allowed to undertake the preparation, report writing, following up on recommendations and analysis of the Schools Financial Value Statement (SFVS), which is a self-assessment completed by schools.

Following an initial pilot programme in the autumn term, over 80 of the visits were completed between January and March 2014 reaching the targeted 100. Following the testing in the school, verbal feedback is given on the day and a draft report is sent to the school within 10 working days. On receipt of the schools response, any appropriate amendments are made by SFS and a final report issued. This report is sent to the Headteacher and Chair of Governors to be presented at the next full governing body meeting with the expectation that the recommendations will be put in place promptly. Schools Financial Services are currently contacting schools to follow up on the recommendations made from this tranche of visits. Where necessary further visits are undertaken in schools to check the controls have been put in place. An evaluation of our compliance process is being sent to schools to further engage them and to inform SFS of any developments that could enhance the programme.

Review of SFVS – The annual self- assessment is sent to SFS as part of schools' statutory requirements. This document is used as part of the risk analysis to determine the order of compliance visits. The contents are analysed to ensure the school's opinion is in line with the compliance findings.

Review of financial information **–** Schools Financial Services analyse schools Revenue and Capital three year budget plans, half year accounts, six and nine monthly monitoring along with the year end returns that feed in to the corporate accounts.

Provision of financial support **–** As part of our traded services, 35% of schools purchase a weekly or monthly contract where experienced SFS staff work with the schools and 95% of schools purchase a core finance package offering support in all aspects of budgeting, financial controls and procedures.

Training **–** There is a comprehensive finance training programme for Head teachers, senior leaders, bursars and governors and Finance Groups for bursars and other finance staff. Eighty two training courses plus 16 finance groups were attended by over 2000 delegates in the last financial year.

Themed audits undertaken by Internal Audit - Alongside the work completed by SFS, Internal Audit undertakes themed audits in schools. A procurement audit, sampling 20 schools, was completed in 2012-13.

3. Summary of Findings

It should be noted that the schools visited in the 2013-14 tranche would be considered to be in the top 150 schools presenting the highest financial risk and would therefore not reflect the overall position of all schools had the sample been done using random criteria.

A total of 160 tests form the compliance programme and on average schools have received ten recommendations to improve their practices. The highest number of recommendations received was a special school with 17 and SFS have worked with this and other schools with a higher than average number of recommendations to improve the financial management in their school. The lowest number of recommendations achieved by one school was two.

The key areas of recommendations are:

Financial planning, budgetary control and monitoring – Factors used by the school to produce the three year budget plan are tested along with the information received by governors on the budget and subsequent monitoring. It is recognised that setting the school budget is now more complex, than in previous years, with larger proportions of their income being determined from pupil data and different funding streams available throughout the year. To support the schools, SFS provide detailed feedback on the analysis of the three year plans, half yearly accounts, six and nine monthly monitoring and closedown information. The feedback along with additional training and budget information sessions at the Finance Groups attended by over 630 bursars in 2013-14 has seen an improvement in the information sent in by the schools.

Procurement – An area of concern recognised by the compliance test and Internal Audit highlighted the schools' lack of understanding around procurement. To improve awareness a new information section is being created on the schools intranet system, a member of the procurement team is attending the Finance Groups and this topic is being covered in the Autumn District Governors meetings. Schools Financial Services are working with the Procurement team to produce a flowchart, specifically for schools so that they can easily navigate through Spending the Councils Money and the procurement rules.

Payroll – As part of the payroll checks, the Single Central Record, appointment and terminations forms are checked to ensure correct payments are made. In most cases the financial element is correct with the majority of recommendations concerning recruitment issues where only one reference is available and incorrect assumptions have been made over the portability of DBS (Disclosure and Barring) checks. Schools Financial Services work closely with Schools Personnel Service (SPS) where there are individual school issues. Schools Personnel Service also regularly presents at the Finance Groups ensuring school staff receive up to date information.

The training programme in SFS is regularly reviewed to ensure areas of concern highlighted as part of the compliance programme and the analysis of schools information are promoted in all courses.

Schools Financial Services continue to work with and inform colleagues both within our own and other directorates to ensure appropriate advice and support is given to schools to ensure they are financially well managed.

In light of this, and considering the entire population of schools overall, I believe that there are adequate controls in schools to safeguard key financial management risks with specific areas of concern being highlighted and addressed as described above.

4. Opinion

It is considered that the comprehensive compliance programme undertaken in 2013-14, the statutory information analysed, training undertaken, traded work completed in schools and the schools' own self assessments of the SFVS provides suitable assurance for the SFVS Statement to be signed.

5. Recommendations

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

Yvonne King

Schools Financial Services Manager

By: Neeta Major, Head of Internal Audit

To: Governance and Audit Committee – 24 July 2014

Subject: **INTERNAL AUDIT ANNUAL REPORT**

Classification: Unrestricted

Summary: The Annual Report summarises the output of the Internal Audit annual plan, provides the opinion on the Council's system of internal control and provides commentary on the performance of the Internal Audit Section.

FOR ASSURANCE

Introduction and background

1. Public Sector Internal Audit Standards require that the Head of Internal Audit must deliver an annual internal audit opinion and report that can be used by the organisation to inform its Annual Governance Statement. This report must:

- include an opinion on the overall adequacy and effectiveness of the organisation's control environment;
- present a summary of work that supports the opinion
- provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Head of Audit Annual Report

2. The Annual Report is attached at Appendix 1.

3. The report supports the Annual Governance Statement by providing my opinion in relation to the internal control environment, risk management processes and corporate governance of the Council.For the year 2013/14 I can provide **Substantial** assurance in relation to **corporate governance, risk management and internal control arrangements** during the year i.e. the arrangements and controls are generally well designed and applied consistently but there are some weaknesses that require management attention.

4. In particular there are some outstanding improvements required to the payments process and controls over and within operations remote from the Council. The Council has been receptive to Internal Audit's recommendations in these areas and actions have commenced to implement these recommendations. Internal Audit will be monitoring this closely in 2014-2015 due to its relevance to the overall assurance opinion going forward.

5. A summary of the work to support the opinion and key themes arising out of the work of Internal Audit is detailed within the Annual Report.

Follow up process

6. No changes are proposed to the follow up process which was detailed in the annual plan reported in April 2014.

Key Developments

7. Each year Internal Audit carries out a self assessment against the relevant Internal Audit standards. From 1 April 2013, new standards known as Public Sector Internal Audit Standards became the applicable standards and this is the second year we have assessed conformance against these standards (in 2012-2013 we did some pre implementation work to identify gaps). We are already mostly compliant with the exception of a couple of newer requirements. This is being addressed through implementation of a Quality Assurance Improvement Programme and an Internal Audit Handbook which will address the minor remaining gaps.

8. It should be noted that the new standards require Internal Audit to commission an independent review of Internal Audit's conformance within five years of the new standards being issued. It is planned that the first independent review will be commissioned in quarter 4 of 2015/2016 and results reported to Governance and Audit Committee.

Recommendations

9. Members are asked to:

- Note for assurance the internal audit annual report for 2013/2014 ***(Appendix 1).***
- Note the key developments in relation to relevant standards for Internal Audit and the plan to commission an independent review of conformance in 2015/2016.

Neeta Major
Head of Internal Audit
Ext: 4664

Appendix 1

Kent County Council

Internal Audit Annual Report 2013/14

Contents

I. Introduction

Purpose of this report

Internal Audit is an independent, objective assurance and consulting function designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by using a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual written report to those charged with governance (i.e. the Governance & Audit Committee) presenting an opinion on internal controls, risk management processes and governance arrangements.

This report summarises the work that the Council's Internal Audit and anti-fraud service has undertaken during 2013/2014. It also highlights the key issues with respect to internal control, risk and governance arising from that work and presents my opinion based on the work performed during the year.

The report builds on the matters reported to the Governance & Audit Committee throughout the year.

Overview of work done

The original Internal Audit Plan for 2013/14 included a total of 98 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 Council.

As a result of this liaison, changes have been agreed to the Plan during the year. A number of projects have been deleted from the Plan as a result of changing priorities or if other assurances are available to the Council. In addition, other audits have been added where an emerging risk has been highlighted requiring independent assurance. Details of the changes to the Audit Plan have been reported to the Governance and Audit Committee throughout the year. The total number of projects undertaken in 2013/14 was 98, including compliance audits and advisory work undertaken. At the time of preparing this report most substantive work had been completed and the reporting position was as follows:

- 76 – final report/assurance work completed
- 3 – draft reports issued or in the process of being finalised
- 19 – establishment visits undertaken

Internal Audit also undertook 50 investigations into financial irregularities which include allegations of fraud or irregularities by staff or third parties. We have used the outcomes from both our audit and fraud work to inform our audit plan for 2014-2015 which was approved at the April Governance & Audit Committee.

Objectives

The majority of reviews Internal Audit undertake are designed to provide assurance to management on the operation of the Council's internal control environment. At the end of an audit we provide recommendations and agree actions with management that will, if implemented, further enhance the environment of the controls in practice.

Other work undertaken includes the provision of 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 plan is 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 Council.

II. Scope, Responsibilities and Assurance

Scope

In accordance with Public Sector Internal Audit Standards, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on the Council's behalf.

For 2013/2014 the dynamic external environment of the public sector and the internal responses to these changes meant that the plan continued to include an emphasis on ensuring that the foundations of sound internal control were in place throughout the period of change, both within the Council's main sites and other remote sites. In addition the plan included a number of risk based audits following an assessment of control risk based on:

- Interviews with Members and officers across the Council
- A review of the corporate risk register, business plans, policies and procedures, committee papers and the budget book
- Outcomes from previous audit reviews and fraud investigations

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 independently 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 providing assurance on the controls in place. 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 that could result in fraud or error, Internal Audit procedures alone do not guarantee that fraud will be detected; this should be a function of the controls put in place by management. Accordingly, our examinations as Internal Auditors should not be relied upon solely to disclose fraud, misappropriation 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. We have met with each of the Corporate Directors and their team, seeking specific feedback on the adequacy of the Internal Audit service and identifying future directorate risk areas arising through their business planning process.

Limitations to the scope of our work

There have been no limitations to the scope of our work.

Limitations on the assurance that Internal Audit can provide

It should be noted that the assurance expressed within this report can never be absolute i.e. we cannot guarantee that all aspects of control are adequate. Internal Audit provides “reasonable assurance” to the Section 151 Officer, the senior management team, and the Governance & Audit Committee, based on the work performed.

Assurance (Opinion)

The Head of Internal Audit is required to provide an opinion on the overall adequacy and effectiveness of the Council’s:

- Corporate Governance
- Risk Management
- Internal Control.

This is collectively referred to as “the system of internal control”.

Basis of our assessment

The opinion on the adequacy of the system of internal control in 2013-2014 is based upon the result of Internal Audit reviews undertaken and completed during the period in accordance with the plan approved by the Governance and Audit Committee. While based predominantly on 2013-14, the results of the preceding two financial years audit activity have also been considered, to the extent that these systems operated during 2013-2014 and subject to completion of any actions agreed in individual audit reports. This approach provides Members with a broader view of the effectiveness of the overall control framework by enabling the opinion to be formed over a greater number of audit reviews. This also avoids the risk of the annual opinion being unduly skewed.

We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Opinion for 2013/2014

Based on the work that Internal Audit has performed and taking into account individual strengths and weaknesses identified, **substantial** assurance can be provided on the adequacy of overall governance arrangements, risk management arrangements and the system of internal control operating during 2013-14.

Risk management arrangements have significantly improved within the Council and there has also been a marked improvement in the majority of core controls at the centre and within Directorates.

However this year Internal Audit has raised particular concern over certain outstanding improvements required to aspects of the payment process and risks in relation to controls over and within operations remote from the Council. The Council has been receptive to Internal Audit’s recommendations in these areas and actions have commenced to implement these recommendations. Internal Audit will be monitoring this closely in 2014-2015 due to its relevance to the overall assurance opinion going forward.

Key issues and implications for the Annual Governance Statement

In making its Annual Governance Statement, the Council considers the Head of Internal Audit's opinion as well as other sources of assurance e.g. External Audit, peer reviews, Government inspections and management assurances. For 2013/2014, although the audit and irregularity work completed by Internal Audit identified a number of improvements to be made, these do not constitute systemic failures of internal control across KCC. Our key conclusions across the three opinion areas are as follows:

Corporate Governance

The Council's approved and adopted Code of Corporate Governance is consistent with the principles of good governance set out in the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government Framework' (2012). The Code is kept under review by the Council's Monitoring Officer and amended as necessary. The outcome of the review and any resultant changes are reported to the Governance & Audit Committee on an annual basis. During 2013/2014 the Council took part in an LGA peer review of corporate governance in which the LGA acted as a critical friend to challenge the Council in a number of areas including governance arrangements and decision making. It concluded that governance arrangements were found to be robust with Cabinet Committees (introduced in the previous year) providing a good forum for engagement and debate.

Internal Audit undertakes an annual review of the Council's Corporate Governance arrangements and this involves assessment on a cyclical basis of whether the Council meets key governance principles. The results over the previous three years have been as follows:

Year	Scope of review	Assurance
11/12	Standards of conduct and behaviour Developing the capacity and capability of Members	Substantial
12/13	Review of revised governance arrangements, including roles and responsibilities.	Substantial
13/14	Review of outcomes from LGA Peer review and Informal Decision making review Light touch review of Council's self assessment against the CIPFA/SOLACE guidance.	Substantial

Risk Management

In 2013/14 we reviewed Council-wide risk management arrangements through interviews with officers and by reviewing relevant documentation including risk management guidance, risk registers, risk reports and minutes of meetings.

Since the previous review completed in 2012/2013, the audit confirmed further upward direction of travel with good engagement and dialogue with staff and senior managers about risk management during a period of significant change.

A number of areas were identified where controls were found to be operating adequately and effectively including maintenance and robust monitoring and reporting to senior management and Members. In light of the Transformation Programme, the audit confirmed that a separate Transformation risk register has been developed which is regularly monitored and updated.

A small number of areas for improvement were identified in relation to some divisional risk registers and some enhancements to the Risk Management guidance during a period of change. Recommendations have been made accordingly.

Internal Controls

In relation to internal controls, Internal Audit has concluded an overall substantial assurance over the control environment within the Council and its Directorate functions. This reflects a marked improvement in core controls at the centre and within Directorates.

Notable improvements relate to revenue budget monitoring, procurement controls and observed improvements in contract management processes in several areas. It was apparent in 2013-2014 that where lapses were observed, these had often already been highlighted by management and were being addressed. This was a significant shift from 2012-2013.

There are still outstanding pockets e.g. aspects of the payments process, where controls need to be improved further and Internal Audit will be monitoring implementation of recommendations made in these higher priority areas.

This year, Internal Audit has raised particular concern over risks in relation to the controls over and within operations remote from the Council e.g. companies in which the Council has an interest and other remote sites. Internal Audit has evidenced instances where such sites are exposed to increased risk where they have separate systems from the Council. This is of particular relevance as the Council continues through its transformation programme and recommends more alternative service delivery models. If this risk is not adequately managed, the Internal Audit opinion in future years could be impacted. The Council has been receptive to Internal Audit's recommendations in relation to governance and monitoring controls and this is an area which Internal Audit will be monitoring closely in 2014-15 due to its relevance to the overall assurance opinion going forward.

As well as the above, in the coming year within the 14-15 Internal Audit plan, we will be focusing on the following key areas of assurance activity:

- Governance over new commissioning arrangements
- Assurance over the data used to form the basis of transformation decisions
- Payment and monitoring controls over efficiency and other partners and contractors.

Summary of Internal Audit work undertaken in 14/15

Core work

Opinions	No. of audits	% of audits
High / compliant	8	10%
Substantial	35	44%
Adequate	10	12%
Limited	5	6%
Opinion not applicable- advisory reviews	20	25%
Assurance opinion pending completion of work	1	1%
Total	**79**	**100%**

Limited opinions were given to:

- Accounts Payable
- Foster Care Payments
- UASC Budget
- Schools Themed Review - procurement
- BACS/CHAPS Review Commercial Services

Appendix A sets out the summaries of all reports issued since the last report to Governance & Audit Committee in April 2014. Appendix B lists all internal audits and the overall assurance rating for them.

Advisory reviews relate to watching briefs, whereby Internal Audit advises on risk and control mitigations whilst projects are being implemented, or systems and frameworks developed. They also include anti fraud proactive reviews that provide guidance on how controls can be implemented to reduce the risk of fraud and error. Whilst these reviews are not assurance reviews, information from them still informs the overall opinion from the Head of Internal Audit.

In addition to the core work shown below, a total of 19 establishment audits were undertaken during 2013/14. A summary of assurances and key themes can be found at page 24.

Follow ups

As detailed previously, at the end of each audit we make recommendations to improve the control environment. We follow up on all high and medium priority recommendations as they fall due and report progress to Governance and Audit Committee. The results of the follow ups are detailed in the table below.

	High	Medium
Number of recommendations falling due in 13/14	52	210
Recommendations with revised implementation dates or in process of being followed up	9	38
Number of recommendations implemented	43	172
Number of recommendations outstanding at time of report	0	0

At the time of writing this report no high or medium priority recommendations were outstanding, 27 recommendations had been rescheduled and will be followed up in 2014-2015 and 20 recommendations are in the process of being followed up. Of the 27 rescheduled, 5 are high priority; in all cases we consider the revisions to be reasonable and will follow up at the revised due date.

Anti Fraud work

In common with most large organisations the Council is subject to fraud. During 2013-14, 50 irregularities were reported to Internal Audit of which 19 have been carried forward to 2014/15. The Council adopts a zero tolerance approach to fraud. Accordingly, all reported irregularities were or are still in the process of being investigated.

To date, 3 of these have been reported to the police, another 3 resulted in formal disciplinary action and, of these, 1 member of staff was dismissed for gross misconduct. Other outcomes have included demotion, resignation prior to disciplinary, financial recovery and written warnings. Internal Audit has continued to proactively address fraud during 2013-14. This proactive work included raising the level of fraud awareness within the Council, assessing fraud risks and promoting the Council's anti-fraud strategy.

This approach has maintained the level of reported suspicions of irregularity to Internal Audit compared with previous years. This does not however indicate a consistent level of fraud, but rather a high level of awareness which is very encouraging.

An analysis of the types of irregularities reported is shown below:

Type of Fraud	Number
Procurement	1
Social care fraud	14
Economic and third sector support fraud	0
Payroll and contract fulfilment fraud	5
Employee expense fraud	4
Abuse of position for financial gain	4
Manipulation of financial or non financial data	2
Disabled parking concessions	10
Other	10
Total	**50**

(Categorised in accordance with the Audit Commission's Fraud and Corruption Survey 2013/14).

The Council is required to take part in the Audit Commission's National Fraud Initiative which is a biennial exercise. The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. The subsequent 'matches' are made available to the Council to review and consider investigating. It is important to note that a match does not automatically indicate that fraud is taking place and there is usually a reasonable explanation for the match. All high priority matches have been reviewed and the remaining reports remain available for further analysis. No potential frauds have been identified, although £33,500 of overpaid care home fees and/or pensions were identified. These occurred as payments continued for a few days (the majority less than 30) after the client had died. Recovery is made whenever possible; however identifying and contacting the next of kin in relation to pension overpayment can be problematic.

Liaison with External Audit

We have continued to work very closely with the External Auditors and continue to maintain a very good working relationship with them.

With the move from the Audit Commission to Grant Thornton, there has been a revised external audit approach which the Council is now more familiar with. In 2013/2014 we formalised a revised protocol between Internal and External Audit in accordance with the new firm's procedures.

III. Internal Audit Performance

Internal audit performance

Members of the Governance and Audit Committee receive regular reports on Internal Audit's performance against a range of indicators throughout the year. Internal Audit's performance against those targets for the year ended 31 March 2014 is shown below:

Performance Indicator	Target	Actual
Effectiveness		
% of recommendations accepted (Note 1)	98%	97%
Efficiency		
% of plan delivered	90%	92%
% of available time spent on direct audit work	85%	86%
% of draft reports completed within 10 days of finishing fieldwork (Note 2)	90%	93%
Preparation of annual plan	By March	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AGS	Met
Quality of Service		
Average Client satisfaction score (Note 3)	90%	87%

During 2013/14 Internal Audit has continued to carry several vacancies as well as secondments and the section is still not at full establishment. Despite these changes the section had delivered 92% of the plan by 31st March 2014. As at end of June 2014 the Plan is 99.21% complete enabling the overall audit opinion to be given.

Note 1

As directorates are encouraged to operate within an environment of increased risk appetite and balance the cost of risk mitigation in accordance with the Council's objectives, it is likely that this target will become unrealistic. Our revised approach for 14/15 (detailed in 14/15 Audit Plan) will ensure all risks are highlighted and responded to or escalated appropriately.

Note 2

Performance compared to 12/13 (86%) improved through focusing more effort on this target, identifying where problems may be occurring and implementing corrective action wherever appropriate. This focus will be maintained in 2014/15 to ensure the positive direction of travel continues.

Note 3

The issue of any limited and adequate assurance opinions will impact on this metric. This is unavoidable for a service which by its very nature relies on feedback from the teams it has to review and challenge. No performance concerns have been highlighted from the client feedback responses and scores improved within the year.

Public Sector Internal Audit Standards

From 1 April 2013, the Relevant Internal Audit Standard Setters have adopted a common set of Public Sector Internal Audit Standards (PSIAS). The purpose of these standards is to supersede the previous CIPFA Code of Practice and to:

- Define the nature of internal auditing in the UK public sector
- Set basic principles for internal audit
- Establish a framework for providing internal audit which adds value
- Establish a basis for the evaluation of internal audit performance

This is the second year we have assessed conformance against these Standards. We are currently in the process of implementing a formal Quality Assurance and Improvement Programme and Internal Audit Handbook, which addresses minor remaining gaps in meeting the Standards. Other gaps have already been addressed through changes to the Internal Audit Charter.

Internal Audit Charter

Each year the Internal Audit Charter is reviewed to ensure that it is up to date and meets the needs of the Council. The Charter has been amended to ensure compliance with the Public Sector Internal Audit Standards. A revised version can be found at Appendix C of this report.

Changes made were minor and related to the following clarifications:

- The status of Internal Audit in the organisation.
- Internal Audit work also includes consultancy engagements and the scope of the work will include assessment of controls to meet agreed-upon objectives.

2013/14 Acknowledgements

We are grateful for the assistance and cooperation provided by the Council's staff during the course of our work. This has been much appreciated, and also, the ongoing challenge and support of the Governance and Audit Committee.

Appendix A - Summary of individual internal audit projects issued since April 2014

Conversion to Academies

Scope

The overall objective of the audit was to provide an assurance that, for schools converting to Academy status, processes are in place to ensure achievement of all requirements for a safe and complete handover of schools.

Overall Assessment – Substantial

There are a number of key stages and processes which have to be followed throughout the conversion process, together with internal and external stakeholders who are communicated with.

The 'Substantial' assurance has been given as a number of areas were identified where controls were found to be operating adequately and effectively. We found that the required information about contracts, property and staff had been obtained through the consultation process and included in the Commercial Transfer Agreement. Any issues identified had been addressed and resolved prior to conversion. Bank statements and other relevant financial documentation had been obtained and the final financial reconciliation carried out.

Only 3 recommendations to further improve controls have been made, none of which are high priority. These include documenting conversion procedures, evidencing checks of the final financial reconciliation amount and improving instructions for the removal of the KCC title and VAT registration number from all documentation, destruction of unused KCC cheque stationery and storage of historical financial records for six years plus current year.

Transaction Data Matching (TDM)

Scope

The overall objective of the audit was to provide assurance that the TDM process continues to ensure timely and accurate payments to providers and that the expenditure incurred is appropriate, authorised and accounted for accurately.

Overall Assessment – Substantial

The Transaction Data Matching (TDM) system is an automated invoice processing system used for payments to Home Care providers. In 2013, payments to the value of £34 million were made through the TDM system. The matching mechanism within TDM allows the invoice payment process to be largely automated, as payments are automatically made where the electronically uploaded provider invoices meet specified matching conditions against the weekly upload of service delivery orders from the SWIFT system.

The 'Substantial' assurance is based on data analysis and testing using a 6-week representative sample of TDM reports and transactions between October and December 2013. A number of areas were identified where controls are operating adequately and effectively. The majority of weekly provider invoices are paid in accordance with the matching criteria agreed with the system provider and regular budget monitoring ensures that current and forecast spend is reviewed. The TDM system is operating as expected and regular reports are produced of unpaid invoices from care providers for investigation and resolution.

We have made four recommendations to further improve controls, none of which are high priority. These include establishing the feasibility of investigating and recovering certain overpayments and reviewing the effectiveness of the current tolerance levels for data matching.

Information Governance Toolkit Compliance Review

Scope

The overall objective of the audit was to provide assurance as to the adequacy and effectiveness of the key controls being applied regarding the Information Governance (IG) environment, focusing on an assessment of compliance with the Department of Health & Social Care Information Governance Toolkit.

Overall Assessment – Advisory

The Information Governance (IG) Framework essentially determines how to collect and store data, and specifies how data is to be used and when it can be shared in order to ensure personal information is held and processed legally, securely, efficiently and effectively. The report included a position statement of preparedness for the final Toolkit submission two months prior to the deadline.

Considerable work has been undertaken in the last two years to develop Information Governance (IG) processes, including enhancement of policies and procedures, implementation of e-learning tools and information asset surveys. Information Governance audits are conducted annually with a cyclical review of key areas and the evidence to support the self-assessed scores on the Council's Information Governance Toolkit is appropriate where it has been provided.

Five recommendations to further improve controls were made, 2 of which are high priority. The high priority recommendations were to add further evidence to the Council's Information Governance Toolkit submission and to update the Data Quality Plan for Children's Services following the implementation of the replacement IT system, Liberi. Other recommendations included restricting devices that can be attached to corporate machines to copy data (such as USB memory sticks), improving the Public Health Information Asset Register and producing an Information Asset Register for portable devices and removable media for the SC Directorate.

Oracle General Ledger

Scope

The overall objective of the audit was to identify, examine and evaluate key controls for the application. These controls include day to day operations, the support provided by system administrators as well as third party support of the application.

Overall Assessment – Substantial

The Oracle General Ledger system is part of the corporate Enterprise Resource Planning (ERP) e-business suite. This was implemented in January 1999 and a major upgrade was completed in November 2010. Two minor upgrades were performed in February 2012 and February 2013. This module is therefore running on the latest version. The system relies on a number of feeder systems which are regularly interfaced. The system is operated and monitored by finance which is responsible for statutory duties such as the preparation, monitoring and reporting of revenue and capital budgets; the closedown of the accounts each financial year; the publication of the financial statements and the completion of statutory returns and claims.

The substantial assurance is based on sample testing and interviews with key officers, which confirmed that in areas relating to first line support, database maintenance and the day to day operations of Oracle General Ledger, key controls are in place and operating as intended. There are effective application management governance arrangements and training is in place for staff. Overall controls are in place to maintain a separation of duties and limit access to the General Ledger application to authorised users. There are effective controls relating to data input and output as well as interface reconciliation. Data backups covering the Oracle application are performed and a Business Continuity and Disaster Recovery Plan is in place.

We have made one recommendation to further improve controls, and this is not a high priority, which includes carrying out periodic reviews of user access to the Oracle General Ledger system.

Public Health Operational Arrangements

Scope

The overall objective of the audit was to provide assurance that risks are being managed adequately and effectively in order to support KCC service and corporate objectives, achieve required Public Health Outcomes and meet relevant legislative requirements.

Overall Assessment – Substantial

Responsibility for Public Health transferred from the National Health Service to Local Government on 1st April 2013. Kent County Council acquired responsibility for delivering the Public Health Outcomes Framework along with a budget of approximately £48.9m. A significant element of the service is delivered by providers through commissioning and contract arrangements.

The "Substantial" assurance is based on testing which identified that commissioning of new services in 2013/14 originated from a clearly identified need and procurements had been undertaken in accordance with the Council's requirements. Contract monitoring arrangements transferred from the Primary Care Trusts (PCTs) had been reviewed and robust measures had been put into place. There were action plans in place for performance indicators that were not meeting the minimum acceptable standard.

We have made four recommendations to further improve controls, none of which are high priority. These include enhancing the risk management process and ensuring there is a process in place to monitor the risk registers of clinical providers.

Risk Management

Scope

The overall objective of the audit was to provide an assurance that the Council has adequate, robust risk management arrangements in place to support delivery of objectives and the Annual Governance Statement.

Overall Assessment – Substantial

The Council has an established risk management policy & strategy, roles and responsibilities have been determined, and a system for recording risks and their associated control measures (GRACE) is in place. Risk registers are maintained on GRACE at Corporate, Directorate and Divisional level and risk management is reported to the Governance and Audit Committee.

The 'Substantial' assurance has been given as a number of areas were identified where controls were found to be operating adequately and effectively. Risk registers are in the main being kept up to date and are monitored regularly. The mechanism for scoring risks is consistently applied for both current and target scores all risks had allocated owners, with the exception of those which had only recently been added to the registers. Risk Management is monitored and regularly reported to senior management and Members for consideration.

Only 3 recommendations to further improve controls have been made, none of which are high priority. These include reviewing risk management guidance going forward to ensure it provides the necessary information for managing risk in light of the Transformation Programme.

Performance Management Framework

Scope

The overall objective of the audit was to provide assurance that the performance reporting to Cabinet is reliable and that performance indicators are based on sound data. The audit focused on the data quality of the Corporate key performance and activity indicators reported within the quarterly performance report to Cabinet.

Overall Assessment – Substantial

A wide range of performance indicators are monitored and reported at Divisional and Directorate level. The key performance indicators are agreed through the business planning cycle each year and progress against targets is regularly reported to Cabinet Committees and the Performance and Evaluation Board through Directorate Dashboards. A quarterly performance report is also produced and presented to the Leader and Cabinet through the Cabinet Board.

The substantial assurance is based on sample testing that confirmed controls are operating adequately and effectively. In particular we found that the key performance indicators (KPIs) within our sample were supported by Directorate dashboards that had been presented to Cabinet Committees, Performance Indicator Definition (PID) forms in place and targets had been set. Testing also confirmed that appropriate processes were in place to check the completeness and accuracy of the underlying data.

We have made two recommendations to further improve controls, none of which are high priority, which include; alignment of reported KPI results and targets so that the Corporate performance report, Directorate dashboards and business plans / strategic priority statements all agree, with formal approval obtained for revisions made to targets or KPI definitions. Only fully completed PID forms to be accepted for KPIs reported to Cabinet and Cabinet Committees.

Procurement

Scope

The overall objective of the audit was to provide assurance that risks are being managed adequately and effectively in order to meet service and corporate objectives, focusing on compliance with policies and procedures in place in relation to procurement.

Overall Assessment – Substantial

The central Strategic Sourcing and Procurement (SS&P) team are responsible for ensuring that spend is effective and that best value is achieved through effective category management, reviewing expenditure across the whole Council, standardising systems and processes and improving governance.

The substantial assurance is based on the progress that has been made by the SS&P team to support and monitor procurements throughout the authority to ensure compliance with policy and procedures. This includes the introduction of quality control processes, standardising working practices and documents, the improvement of 'Spending the Council's Money' and increased use of the Kent Portal and ProContract with the majority of contracts awarded through ProContract promoted to the contract register.

We have made five recommendations to further improve controls, none of which are high priority, which include; monitor through exception reporting instances where orders over £50K are not released by the appropriate level of authority; retaining source data used to populate achievements against targets; formally recording declarations of interest raised by members of the SS&P team and reminding staff of the requirement for consistency and compliance with policy and good practice at all times.

Oracle Accounts Receivable

Scope

The overall objective of the audit was to identify, examine and evaluate key controls for the Oracle Accounts Receivable application. These controls included day to day operations, the support provided by system administrators as well as third party support of the application.

Overall Assessment – Substantial

The Oracle Accounts Receivable system is part of the corporate Enterprise Resource Planning (ERP) e-business suite. This was implemented in January 1999 and the last major upgrade was completed in November 2010. Minor upgrades were performed in February 2012 and February 2013. This module is therefore running on the latest version.

The substantial assurance is based on sample testing and interviews with key officers, which confirmed that in areas relating to first line support, database maintenance and the day to day operations of Oracle Accounts receivable, key controls are in place and operating as intended. There are effective application management governance arrangements in place with training for staff, including development of e-learning modules. Overall controls are in place to maintain a separation of duties and limit access to the Accounts Receivable application to authorised users only. There are effective controls relating to data output as well as interface reconciliation. Data backups covering the Oracle application are performed and a Business Continuity and Disaster Recovery Plan is in place.

We have made one recommendation to further improve controls, and this is not a high priority, which includes a process to develop and run a report to detect any potentially duplicate Customer records on the Accounts Receivable system for investigation.

Corporate Purchase Cards follow up

Scope

The overall objective of the audit was to provide an assurance that Corporate Purchase Card risks are being managed adequately and effectively in order to meet the service and corporate objectives.

Overall Assessment – Substantial

There are approximately 470 Corporate Purchase Cards in use throughout all directorates. The average expenditure on these cards each month in 2013/14 has been about £280,000 with an average of 1,700 transactions per month. Previous audits were completed on Corporate Purchase Cards in the 2011-12 and 2012-13 financial years, with assurance levels of Limited and Adequate respectively.

The 'Substantial' assurance is based on sample testing that showed a number of areas where controls were operating adequately and effectively; in particular it was found that all expenditure items tested were supported with appropriate documentation, which is a clear improvement since the last audit.

Only 2 recommendations have been made, none of which are high priority. These include reminding users to ensure supporting VAT receipts are retained to support purchases and to include an adequate description for each purchase on eSolutions

Appraisal Process

Scope

The overall objective of the audit was to provide assurance that risks relating to the appraisal process are managed effectively in order to meet service and corporate objectives.

Overall Assessment – Substantial

Total Contribution Pay (TCP) is the process the Council uses to measure individual performance throughout each year. The total contribution assessment takes into account all the elements of an individual's performance during a work year including their day to day behaviours, the quality of their output, the level at which they work and the degree to which they are developing their skills. Approximately 8,000 employees received a TCP rating in January 2013, excluding those 'not assessed'.

The 'Substantial' assurance is based on there being a process in place for ensuring all staff are awarded a TCP rating within the agreed timescale and managers who have not submitted ratings by the deadline are chased for submission. There are detailed, up to date procedures and guidance notes available for both appraisers and appraises on KNet. Management information and associated reports are produced by Human Resources and these are reviewed by senior management and Members at appropriate times in the process.

We have made 3 recommendations to further improve controls, none of which are high priority, which include improving appraiser training, e-learning and guidance to ensure all staff have targets set at the start of the year and receive a copy of their appraisal back with comments from manager and grandparent.

Local Members Grants and Highways Fund

Scope

Preventing fraud through design or redesign of policy and procedures is a key element of the Council's Anti-Fraud and Corruption Strategy. The purpose of the review was to highlight potential weaknesses or risks in existing controls, policies or procedures in relation to the administration of the two grant schemes.

In April 2014, before this review was concluded, the current schemes identified above ceased and have been replaced by one single Members' Grant Scheme. We continued with the review as the recommendations identified were still likely to be relevant to the new scheme.

Overall Assessment – Advisory

We found that there was a good process in place for approving grants, and the review did not identify any instances of fraud; however, in our view, the process for administering Local Community Grants had some susceptibility to fraud and error.

During the review we identified an inconsistent approach to some aspects of the Local Community Grant administration, for example, in how grants that had been awarded were followed up after the monitoring and evaluation forms were sent out. We also identified that the applications were not subject to a risk based evaluation.

9 recommendations were made in total, 3 of which were high priority. These recommendations related to the development of administration and evaluation guidance, undertaking risk based evaluations and the monitoring arrangements for grants that had been awarded. The service has reported that these three recommendations, as well as the remaining six, have now been implemented.

Payments Process

Scope

The overall objective of this work was to provide assurance that there are sufficient controls in place regarding the payments process and to follow up on the recommendations made during the 2012/13 Payments audit.

Overall Assessment – Limited

Accounts Payable is an integrated module of the Oracle Financial Information System. Payments can be processed by being entered into Accounts Payable via iProcurement (iProc) which is an online automated purchase requisition management facility, or via manual invoice processing.

The Limited assurance is based on a number of issues that require prompt management attention to help ensure that the system is able to meet the Council's objectives. Particular areas for attention include the arrangements in place for the set-up of new commercial suppliers and aligning the authority limits in the iProc system and AP Authorised Signatory List with the Council's delegated authority matrix.

We have made nine recommendations to improve on existing controls, of which four are high priority and three are medium priority. All recommendations have been accepted by management. The high priority recommendations include implementing a system to verify new supplier requests, aligning authorisation limits across the Council, introducing a warning message when iProc vacation rules are applied and ensuring that work is continued to ensure verification of amendments to supplier bank account details, irrespective of the team processing the change.

ELS Capital

Scope

The audit examined the two areas where cost overruns can occur, covering the feasibility study and initial cost estimate and the procurement processes and contract management arrangements. The overall objective was to provide assurance that the current arrangements in place over capital contracts are adequate and effective.

Overall Assessment – Adequate

The audit examined two contracts; a large academy new build contract and the temporary enlargement of Primary School.

The new build academy was delivered on time given genuine delays including the discovery of additional asbestos and severe weather conditions. The cost was within the sum agreed by Partnership for Schools and to the required quality. The temporary enlargement of the Primary School was completed in two phases with the second phase resulting in a saving from the original tendered amount. The audit confirmed robust tender procedures and adequate project management arrangements.

An examination of a sample of initial cost estimates identified a number of individual school building projects that showed disparate actual costs compared to the first estimate of costs. These were largely due to the initial estimates not including all phases of projects and changes to the design brief to include further infrastructure requirements and changes made as a result of public consultation.

Five recommendations were made, none of which was high priority. The recommendations included improving the process for feasibility studies and initial estimates, the need to reconcile payments with project milestone payments and the need to inform all parties involved in the tender process when deadlines are changed.

Good Day Programme

Scope

The overall objective of the audit was to provide assurance that risks are being managed adequately and effectively for the programme to meet its objectives.

Overall Assessment – Adequate

The Good Day Programme is the redesign of day services for Learning Disability clients, to move away from a day centre model to a more integrated approach. The programme was approved by Cabinet in June 2008 and was due to complete in 2012, but has now been extended to the financial year 2014/15.

The 'Adequate' assurance is based on visits to completed projects which identified positive benefits to service users and to the wider community. There was also evidence of effective consultation. Testing did not identify any complaints about the transformation of the service post-completion.

We have made 6 recommendations to further improve controls, of which one is high priority. This was to draw up project plans containing key tasks, milestones and accountable owners.

Commercial Services Internal Audit

Scope

The overall objective of the audit was is to assess the level of reliance that the KCC Head of Internal Audit can place on the work and opinion of the Commercial Internal Audit Manager, when formulating the overall KCC audit opinion.

Overall Assessment – Partial reliance

Commercial Services (CS) is a trading name of Commercial Services Trading Ltd and Commercial Services Kent Ltd, which are both Kent County Council wholly owned companies (via an intermediary holding company). In 2012 CS set up a separate audit team which reports to the Executive Chairman and operates independently of the KCC Internal Audit team.

The CS Internal Audit Manager has made considerable progress in developing the internal audit team, charter, and associated procedures. Overall we have been able to place partial reliance on the work of CS Internal Audit based in our review of a sample of audit files and reports. There were instances where we would not necessarily have reached the same opinions on assurance level or issue priority and instances where we believe the scope was too restricted. It is acknowledged that opinions are subjective and may take into account wider information. In addition in our view there are some skills gaps e.g. in relation to fraud, Finance and IT where it is challenging for a small team without access to a wider resource base to deliver all the necessary assurances.

For this reason, over the course of the year, we have sought additional assurances through regular meetings with the team, requests from management, additional work undertaken by the Council's Internal Audit team and more recently attendance at the newly formed CS Audit sub Committee.

We have made five recommendations to further improve controls, two of which are high priority. This includes copying draft audit Engagement Plans to the KCC Head of Internal Audit for review and improving on the current approach to following up issues in order to provide more timely assurance on the completion of agreed management actions.

Contract Letting and Compliance – Specialist Children's Services

Scope

The overall aim of the audit was to provide assurance that procurement/ contract risks were being managed adequately and effectively in order to meet service and corporate objectives.

Overall Assessment – Adequate

The audit reviewed the procurement and contract management processes for two framework contracts. Some areas of good practice employed by Strategic Commissioning were evidenced. There were Expression of Interest and Invitation to Tender processes with tenderers being notified of the tender outcomes in a timely manner.

However, the audit identified some issues with the overall procurement and contract management for the contracts reviewed. The current Strategic Commissioning Team had already recognised several of these issues and these are therefore being taken into consideration by Social Care, Health and Wellbeing for the future.

The recommendations included the need to consider contracts which may have been signed above an individual's delegated authority and contracts being incomplete and unsigned. In addition other recommendations included the extension of tender deadlines and the need to inform all parties involved in the tender process when deadlines are changed.

There were 5 recommendations none of which were high priority.

Schools Financial Services-System of Schools Audit

Scope

The overall objective of the audit was to provide assurance that the regime of compliance visits undertaken by the Returns and Compliance (R&C) team is adequate and effective to support the Section 151 Officer's certification for the Schools' Financial Value Standard. This is to confirm that 'there is in place a system of audit for schools which gives adequate assurance over their standards of financial management and the regularity and propriety of their spending'.

Overall Assessment – Adequate (Final Draft)

In order to enable the Corporate Director of Finance & Procurement to sign the annual assurance statement, there is a rolling programme of extensive compliance visits to schools in place. The visits are determined on a risk basis, every school having at least one visit every five years, with schools presenting a higher financial risk being visited more frequently.

The adequate assurance is based on the good progress that has been made by the R&C team since the last audit was completed in 2012. Areas of good practice include the risk assessment used to identify schools for visits and the arrangements to promptly issue compliance reports to schools and to deal with management responses to the recommendations raised. The team has developed a bespoke work programme template that is used for all compliance visits.

However the audit identified a number of areas for further improvement. We have made nine recommendations, three of which are high priority. These included enhancements to the coverage of the work programme to improve effectiveness of compliance visits, retaining documentation to support and evidence findings and development of a formal protocol to follow up on recommendations raised during compliance visits. We also noted that whilst key performance indicators (KPIs) are in place, the R&C team's performance is not formally measured against them.

Social Care Client Billing

Scope

The overall objective of this work was to provide assurance that there were sufficient controls in place regarding the accuracy of the data in the SWIFT system used to generate the Kentcare Accounts.

Overall Assessment – Substantial

The SWIFT system is the client database that is used to record information on service users and providers. Service users are financially assessed to determine their contribution towards the cost of care that they receive. People receiving both Non Residential care and Residential care and who have been financially assessed to make a contribution will receive a Kentcare Account.

The Substantial assurance is based on our main finding that the Social Care Client Billing process was operating reliably; in particular, new clients are added to SWIFT promptly and accurately, financial assessments are being completed in a timely manner and Kentcare Accounts are calculated correctly. One area for improvement was identified, where sample testing revealed four instances of data input errors when the information from financial assessments were entered onto SWIFT. In all cases the errors were minor and did not affect the overall calculation and billing of the Kentcare Accounts for the client's contribution towards their care.

We have made one Medium priority recommendation to reinforce to staff the need to accurately enter financial data onto SWIFT.

Company Governance

Scope

The overall objective of this review was to provide ongoing advice in relation to governance and management controls over companies in which the Council has an interest. The intention of this review was to ensure that the advice could be built into future arrangements as the Council moves to providing more services through alternative service delivery models including companies.

Overall Assessment - Advisory

Some extremely positive steps have been taken over the last year e.g. using Commercial Services as an example, the setting up of a shareholder board, the appointment of highly qualified Non-Executive Directors, attempts to introduce a suitable governance structure including a company audit committee and remuneration committee and recognition that a protocol agreement is necessary to ensure that there is sufficient protection afforded to KCC as shareholder. However the review confirmed that the Council is still at a relatively early stage of development in relation to its approach to overall company governance. In particular the Council needs to address its commercial capability and 'client' side capacity which can lead to gaps in scrutiny, monitoring and control over companies. Without such capacity, the Council can become too reliant on external "experts" without the in-house skills and experience to challenge and hold Directors to account in a meaningful way.

Recommendations have been made to clarify Council's strategic intent in relation to its companies; to improve levels of assurance over important decisions in particular those which have a financial or reputational impact; to more closely scrutinise changes to dividend policy and amounts; and to introduce a more transparent open book approach and a simplified governance framework for both the Council and its companies to operate within.

Establishments

Scope and Progress

A programme of compliance audits is undertaken ongoing throughout the financial year; this includes, but is not limited to, Children's Centres, Adult Day Care, outdoor education centres, country parks, youth hubs and libraries. To date we have completed nineteen audits at seven Children's Centres, two outdoor education centres, two country park and four adult day care centres, two libraries and two youth hubs. The audits review financial controls as well as quality/performance elements and safety and security controls. Seventeen final reports and two draft reports have been issued.

Summary of findings

In the main key strengths for 2013/14 have included engagement with service users as well as cleanliness/infection control, health and safety risk assessments and building security.

Areas for improvement include:

- Improving asset registers, stock records and stock checks.
- Recording expenditure at point of commitment.
- Implementing controls over authorisation/verification of timesheets.
- Arrangements for data protection and records management, including adequately securing records and laptops out of office hours.
- Improving gaps in key training and in training records.
- Retaining records of fire alarm testing and of fire drills.

Overall 16 of the 19 establishments audited were rated as adequate or above. Only three received limited assurance opinions (two outdoor education centres and one childrens centre).

Procurement in schools

Scope

The overall objective of the audit was to provide assurance that procurement/contract risks are being managed adequately and effectively by schools in order to meet their and Kent County Council (KCC) service and corporate objectives.

Overall Assessment - Limited

Since 1990 Kent County Council has delegated funding to schools in accordance with legislation and the KCC 'Scheme for Financing Schools'. Schools are expected to comply with the 'Scheme for Financing Schools' and KCC's procurement regulations entitled 'Spending the Council's Money'.

The 'Limited' assurance is based on a number of areas for improvement which were identified. These include reminding schools and governors of the need to comply with KCC's procurement regulations including using different suppliers, obtaining tenders for goods and services costing over £49,999 and seeking three written quotations for goods and services costing over £8,000. One supplier had been used for building maintenance totalling over £87,000 without a tender process. At another school, invoices for building work carried out during the Summer holidays did not specify the work which had been completed and had been paid with cheques signed in advance by the authorised signatories.

We have made three recommendations to improve on existing controls, one of which is high priority recommending that Schools Financial Services reinforces to schools the need to comply with procurement policies. The recommendations have been accepted by management.

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Kent Support and Assistance Service

Scope

The overall objective of the audit was to provide advice and challenge on the development of processes to manage administration of payments made through KSAS and to mitigate any risk of fraud or error.

Overall assessment – Advisory

The KSAS replaced the DWP Crisis Loans from 1st April 2013, with a transfer of funding to Local Government, for a specified period, to be used to make crisis payments to individuals in urgent need of support. This meant a new model of payments for KCC and an additional risk of fraudulent claims/transactions. Therefore Internal Audit worked with the officers delivering the implementation project, and subsequently the service, on both the commissioning and contact centre sides to review proposed and actual controls, in advance of and during implementation.

The advice provided was based on attendance at meetings, discussions with key officers, review of procedures and visits to the contact centre to observe the process in practice.

A number of enhancements were recommended, particularly in relation to payment methods and monitoring processes, and many were implemented in real time. However additional work is in progress to provide assurance that all areas for development identified have now been addressed.

Revenue Budget Monitoring Follow Up

Scope

The overall objective of the audit was to follow up on high and medium recommendations from the 2012/13 audit which had focused on key controls within Revenue Finance. (There were no high priority recommendations raised in the previous audit).

Overall Assessment – Recommendations implemented (Final Draft)

Following the restructure of Finance in 2011/12, the approach to budget monitoring has changed. Budget Managers are now required to take ownership and monitor budgets proactively with varying degrees of support from Finance according to the risk profile afforded to each budget. This requires Budget Managers to be provided with the right tools to undertake their role effectively, including access to reports through the Collaborative Planning system.

The audit confirmed that controls within the areas where we carried out follow-up testing were operating adequately and effectively and that the four medium priority issues identified in the previous audit had been resolved. In particular, a clear improvement was seen in the administration of the Resource Accountability Statements and the notification of cash limit changes to Budget Managers throughout the year.

No further recommendations have been made as a result of this follow up audit

Integrated Youth Services Commissioning and Contract Management

Scope and Progress

The overall objective of the audit was to provide an assurance that youth services were appropriately commissioned with adequate monitoring to ensure that outcomes are achieved; and instances of non-compliance or unsatisfactory performance are identified with measures put in place, where relevant to address them.

Overall Assessment – Substantial (Final draft)

During 2012 Youth Services invited organisations to bid for 46 lots (contracts) to provide youth based services. An innovative and inclusive approach was used via a Dynamic Purchasing System (similar to a multi supplier framework but remains open to enable new provides to join throughout the four years the framework is in place) which encouraged small and locally based organisations to bid for the work. This resulted in 22 organisations (including voluntary) winning the lots. The Restorative Justice Services contract was an open procurement competitive tender and was awarded in 2013. It is jointly funded by KCC (60%), Kent Police (28%) and Kent Probation (12%).

The substantial assurance is based on the robust and collaborative approach in identifying the youth services' requirements. In addition there are good processes in place for the management and monitoring of the contracts, identifying issues of poor performance and addressing them, including in some instances terminating contracts.

We identified one minor weakness with regards the uploading of data from barcodes to the Youth Services web based system and have made one high priority recommendation to address this.

Appendix B - Detailed Analysis of internal audit projects in 2013/2014

Project	Progress at July 2014	Date to G&A	Overall Assessment	Project	Progress at July 2014	Date to G&A	Overall Assessment
Core Assurance							
Corporate Governance	Draft Report	On finalisation	Substantial	Completeness of contracts	Complete	April 2014	Substantial
Annual Governance Statement	Complete	September 2013	Substantial	Contract compliance (below £50k)	Complete	April 2014	Substantial
Schemes of Delegation	Complete	N/a	Advisory only	Company Governance	Complete	July 2014	Advisory
Risk Management	Complete	July 2014	Substantial				
Business continuity and resilience planning	Complete	April 2014	Substantial				
Performance Management Framework inc data quality	Complete	July 2014	Substantial				
Information Governance	Complete	July 2014	Advisory only				
Records Management	Complete	April 2014	Adequate				
Procurement	Complete	July 2014	Substantial				
Business Planning	Complete	September 2013	Substantial				
Recruitment and Selection	Complete	April 2014	Adequate				
Appraisal Process	Complete	July 2014	Substantial				
Workforce Planning	Complete	April 2014	Substantial				

Core Financial Assurance							
Accounts Payable inc iProcurement (Payments process)	Complete	July 2014	Limited	Local budgetary reviews	Complete	April 2014	Substantial
Debt Recovery	Complete	April 2014	Substantial	Compliance programme (Establishments)	Complete	Update in each paper	Various*
Cash and Bank (inc reconciliations)	Complete	April 2014	Substantial	Half year journal and AP IDEA testing	Cancelled	N/a	N/a
Treasury Management follow-up	Complete	April 2014	High	Corporate Purchase Cards – follow-up	Complete	July 2014	Substantial
Pension Contributions follow-up	Complete	April 2014	High				
Pension Fund Investments follow-up	Complete	April 2014	High				
Foster Care Payments	Complete	April 2014	Limited				
Social Care Client Billing	Complete	July 2014	Substantial				
Transaction Data Matching	Complete	July 2014	Substantial				
Client Financial Affairs/CMS	Deferred to 14/15	N/a	N/a				
Payroll Schools	Complete	September 2013	Adequate				
Payroll – starters, leavers and overpayments follow-up	Complete	April 2014	Substantial				
Schools Financial Services	Complete	July 2014	Adequate				
Revenue Budget Monitoring follow-up	Complete	July 2014	Advisory				

* Relates to the annual programme of establishment visits, progress and key themes are summarised on p.24

Project	Progress at July 2014	Date to G&A	Overall Assessment	Project	Progress at July 2014	Date to G&A	Overall Assessment
Risk/Priority Based Audit							
Broadband Delivery UK	Complete	N/a	Advisory only	Schools themes review – Procurement	Complete	July 2014	Limited
Regional Growth Fund	Complete	April 2014	High	ELS Capital Projects	Complete	July 2014	Adequate
Property – statutory compliance	Complete	April 2014	Adequate	Community Learning Services	Complete	December 2013	Adequate
Enterprise replacement – watching brief	Complete	N/a	Advisory only	Locality Boards	Cancelled	N/a	N/a
Total Facilities Management	Deferred to 14/15	N/a	N/a	Complaints, comments and compliments	Complete	N/a	Advisory
Public Health Outcomes	Merged with Operational	N/a	N/a	Troubled families	Complete	N/a	Compliant
Public Health Governance	Fieldwork complete	On finalisation	In progress	Integrated Youth Services	Final Draft	July 2014	Substantial
Public Health Operational Arrangements	Complete	July 2014	Substantial	Communications	Complete	April 2014	Substantial
Good Day Programme	Complete	July 2014 Check AI commented	Adequate	Grant funding (inc Turner and Big Society)	Complete	N/a	Advisory
Supervisions	Deferred to 14/15	N/a	N/a	Highways – Customer claims handling	Complete	December 2013	Substantial
Enablement Service	Deferred to 14/15	N/a	N/a	Coastal Protection Loans	Complete	April 2014	Substantial
Direct Payments follow-up	Complete	N/a	Advisory only	Haulage and Transfer Stations	Cancelled	N/a	N/a
UASC Budget	Complete	April 2014	Limited	Waste – Contract Management Process	Cancelled	N/a	N/a
Children’s Services Improvement Programme	Complete	December 2013	Adequate	Transport Contracts – Cyclical Review	Complete	April 2014	High

Project	Progress at July 2014	Date to G&A	Overall Assessment	Project	Progress at July 2014	Date to G&A	Overall Assessment
Strategic Commissioning-Operational Frameworks	Complete	December 2013	Advisory only	Adverse Weather, winter service delivery	Complete	December 2013	Substantial
Strategic Commissioning – Quality Assurance Framework watching brief	Complete	April 2014	Advisory only	BACS/CHAPS Review – Commercial Services	Complete	April 2014	Limited
Contract letting and compliance Adult's	Complete	December 2013	Substantial	Carbon Reduction Commitment	Complete	December 2013	Compliant
Contract letting and compliance Children's	Complete	July 2014	Adequate	Kent Support and Assistance Service	Complete	July 2014	Advisory
Adult Social Care Transformation Programme	Complete	N/a	Advisory only	Culture and Sports	Deferred to 14/15	N/a	N/a
Early Years	Complete	December 2013	Substantial	Schools Deficit Budgets	Cancelled	N/a	N/a
Conversions to Academy	Complete	July 2014	Substantial	Member Grants	Complete	July 2014	Advisory only
EduKent	Complete	April 2014	Advisory only	Member Highways Fund	Complete	July 2014	Advisory only
KIASS	Complete	April 2014	Advisory only	Section 17 Payments	Deferred to 14/15	N/a	N/a
Healthwatch	Deferred to 14/15	N/a	N/a	Declaration of Interests	Complete	September 2013	Advisory only – Fraud Prevention Review
Commercial Services – Review of internal Audit	Complete	July 2014	Partial reliance				

Project	Progress at July 2014	Date to G&A	Overall Assessment	Project	Progress at July 2014	Date to G&A	Overall Assessment
IT Audit							
Website	Deferred to 14/15	N/a	N/a	Oracle General Ledger – application	Complete	July 2014	Substantial
E-Payments	Cancelled	N/a	N/a	Oracle Accounts Receivable – application	Complete	July 2014	Substantial
Laptops, Notebooks and PCs	Complete	April 2014	High	Oracle Payroll – application	Complete	April 2014	Substantial
User Remote Access	Complete	April 2014	Substantial	SWIFT application	Complete	April 2014	Substantial
ICT Governance	Deferred to 14/15	N/a	N/a	WAMS application	Complete	December 2013	Substantial
User IT Literacy	Cancelled	N/a	N/a	ICS Watching Brief	Complete	N/a	Advisory only
User equipment asset management	Complete	December 2013	Substantial	CRM Watching Brief	Deferred to 14/15	N/a	N/a
				Unified Comms – pre-implementation	Complete	April 2014	Substantial

Key	Audit Assurance definitions
High	There is a sound system of control operating effectively to achieve service/system objectives. Any issues identified are minor in nature and should not prevent system/service objectives being achieved.
Substantial	The system of control is adequate and controls are generally operating effectively. A few weaknesses in internal control and/or evidence of a level on non-compliance with some controls that may put system/service objectives at risk.
Adequate	The system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non compliance with some controls that may put system/service objectives at risk.
Limited	Adequate controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied. Certain weaknesses require immediate management attention as if unresolved they may result in system/service objectives not being achieved.
No assurance	The system of control is inadequate and controls in place are not operating effectively. The system/service is exposed to the risk of abuse, significant error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.

Appendix C - Internal Audit Charter

Introduction:

This charter formally defines the purpose, authority and responsibility of Internal Audit within Kent County Council. The Charter will be reviewed annually to ensure it is up-to-date and relevant.

Purpose:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. [1]

Kent County Council's Internal Audit mission statement is, "To support service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives and manage their risks effectively".

Authority:

The requirement for the Council to 'maintain an adequate and effective system of internal audit of its accounting record and its systems of internal control' is contained in the Accounts and Audit Regulations 2011. This supplements the requirements of Section 151 of the Local Government Act 1972 for the Council to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. The council has delegated this responsibility to the Corporate Director of Finance & Procurement.

Status of Internal Audit in the Organisation:

The Head of Internal Audit reports directly to the Corporate Director of Finance (Section 151 Officer) and quarterly to the Governance and Audit (G&A) Committee. The Head of Internal Audit also regularly meets with the Chair of the G&A Committee. The Head of Internal Audit will also report to senior management and Members when necessary, including statutory officers, Head of Paid Service, Monitoring Officer and the Leader of the Council.

The G&A Committee Board are responsible for ensuring Internal Audit are independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate.

Responsibility:

It is the responsibility of management to establish and maintain systems of corporate governance, risk management and internal control to provide assurance that the Council's objectives are being achieved and to minimise the risk of fraud or irregularity.

Internal Audit will contribute to the corporate governance process by providing an assurance on the effectiveness of these systems of risk management and internal control, making practical recommendations for enhancements where considered necessary. Management has responsibility to implement audit recommendations or accept the risks resulting from not taking action. However, Internal Audit will consider taking matters to higher levels of management or to the Governance and Audit Committee, if it is felt that the risk should not (or need not) be borne.

Professional Standards:

The Council's Internal Audit activity will conform to standards and guidance contained in the Public Sector Internal Audit Standards. This is structured around four attribute and six performance standards, including criteria for measuring the performance of the internal audit function and conduct of internal auditors.

Independence and Objectivity

Internal Audit will be sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations.

The Head of Internal Audit will have free and unrestricted access and freedom to report in his/her own name to the Corporate Director of Finance, Head of Paid Service and Chairman of the Governance and Audit Committee.

In addition, Internal Audit will be responsible for determining its priorities based on an evaluation of risk. Auditable areas which are deemed to represent the most significant controls that are operating in order that KCC delivers its business objectives, are identified from directorates' annual operating plans, consultation with managers and Internal Audit's experience of the directorates. These are used to determine the strategic and annual audit plans. The audit plan will be flexible enough to accommodate the needs of senior management and Members depending on the relative significance of emerging risks. The Governance and Audit Committee will approve the plan and at each of its meetings will receive reports summarising significant finding of audit work undertaken.

Internal Audit will also report to the Governance and Audit Committee, at each of its meetings, progress on the directorates' implementation of recommendations made by Internal Audit.

Objectivity will be preserved by ensuring that all members of staff are free from any conflicts of interest and do not undertake any duties that they could later be called upon to audit, including where members of staff have been involved in, for example working groups, consultancy etc. Internal Auditors will also refrain from assessing specific operations for which they were previously responsible, within the previous year. [1]

Audit Scope

Internal Audit activity will be undertaken to provide assurance to senior management (Corporate Directors) and the Governance and Audit Committee (referred to as 'Board' in the PSIAS) as to the adequacy and effectiveness of the Councils' systems for corporate governance, risk management and internal control. It will include:

[1] Public Sector Internal Audit Standards

[2] IIA International Standards

Reviewing the soundness, adequacy and application of financial and other management controls;

Reviewing the extent of compliance with, relevance and financial impact on strategic and operational goals of established policies, plans and procedures;

Reviewing the extent to which the organisation's assets and interests are accounted for and safeguarded from losses arising from:

Fraud and other offences

Waste, extravagance and inefficient administration, poor value for money and other causes

Reviewing the suitability and reliability of financial and other management data developed within the organisation

Reviewing awareness of risk and its control and providing advice to management on risk mitigation and internal control in financial or operational areas where new systems are being developed or where improvements are sought in the efficiency of existing systems

Promoting and raising fraud and corruption awareness

Investigating allegations of fraud and corruption

Providing advice (consultancy) to Directorates for a variety of issues, such as project assurance, controls advisory requests, areas of concern and lessons learnt reviews.

Internal Audit's activities extend to all remote establishments, wholly owned companies and trading activities.

Internal Audit is not relieved of its responsibilities in areas of the Council's business that are subject to review by others but will assess the extent to which it can rely upon the work of others and co-ordinate its audit planning with the plans of such review agencies.

The Head of Internal Audit will provide an annual audit opinion as to the adequacy of the Council's internal controls and risk management processes. This will be used to support the Annual Governance Statement.

Fraud and Irregularity

Internal Audit does not have to investigate all cases of potential frauds and irregularities, however they must all be reported to the Head of Internal Audit or the Counter Fraud Manager who will determine if an investigation needs to take place. Internal Audit will report to the Governance and Audit Committee at the conclusion of each investigation, a summary of the fraud/irregularity, control weaknesses and the outcome. If a significant fraud or irregularity is identified this will be brought to the attention of the Chairman of the Governance and Audit Committee at the time of the investigation.

Right of Access

To fulfil its objectives, Internal Audit will be granted unrestricted access to all staff, Members records (documentary and electronic), assets and premises, deemed necessary in the course of its duties. Internal Audit will ensure that all information received as part of their work is treated confidentially at all times.

Internal Audit Resources

An internal audit plan is developed annually which takes into account the work that is needed to enable the Head of Internal Audit to provide an assurance on the control environment and governance across the Council. To ensure that there are adequate Internal Audit resources available to deliver the plan, an assessment is made to determine the number of staff days available; and to identify the knowledge and experience of staff to ensure that Internal Audit has the right skills mix to deliver the plan. On occasion, the Head of Internal Audit may use partner or third parties to deliver aspects of the plan. In these circumstances, the Head of Internal Audit will ensure the partner has the appropriate knowledge and experience to deliver the engagement, applies the quality assurance standards of the section and has access to all information and explanations required to undertake the engagement (coordinated through Internal Audit managers).

Review of the Effectiveness of the System of Internal Audit

In accordance with the Accounts and Audit Regulations (2006), there is a requirement for an annual review of the effectiveness of the system of internal audit. This is also part of the wider annual review of the effectiveness of the system of internal control. The Head of Internal Audit will carry out an annual review of the Internal Audit function which will be reported to the Governance and Audit Committee to enable it to consider the findings of the review. In addition, the Head of Internal Audit will arrange for an independent review to be carried out, at least every five years which will be reported to the Governance and Audit Committee. The Head of Internal Audit will review the Charter annually and attach a revised document to the annual internal audit report.

Provision of assurance to third parties

The Council's Internal Audit section is sometimes requested to undertake Internal Audit and assurance activity for third parties, such as Kent Fire and parishes. These include internal audit services, grant certification and financial account sign-off.

The same principles detailed in this Charter will be applied to these engagements.

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement. Internal auditors will address controls consistent with the engagement's objectives and be alert to significant control issues. [2]

[1] Public Sector Internal Audit Standards
[2] IIA International Standards

By: Deputy Leader and Cabinet Member for Finance and Procurement – John Simmonds
Corporate Director of Finance and Procurement – Andy Wood

To: Governance and Audit Committee – 24 July 2014

Subject: DRAFT STATEMENT OF ACCOUNTS 2013-14

Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2013-14.

FOR DECISION AND APPROVAL

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1. INTRODUCTION

1.1 The draft Statement of Accounts of the County Council for 2013-14 follows this report. The Accounts and Audit Regulations 2011 state that;

…no later than 30th September in the year immediately following the end of the year to which the statement relates
i) consider either by way of a Committee or by the Members meeting as a whole the Statement of Accounts;
ii) following that consideration, approve the Statement of Accounts by a resolution of that Committee or meeting;
iii) following approval, ensure that the Statement of Accounts is signed and dated by the person presiding at the Committee or meeting at which that approval was given;

1.2 The audit is now complete and we therefore recommend that the Accounts are finalised and signed today, as this will free up finance staff to move forward with new year tasks and projects. The Auditors have given an unqualified opinion.

1.3 Letters of Representation are provided in connection with the audits of the financial statements for the Council and the Kent Superannuation Fund; and these are required to be formally minuted by the Committee that they are approved.

1.4 Members are encouraged to scrutinise these Accounts and ask questions.

1.5 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 Emma Feakins, 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) and is known as the Code.

2.2 The Statement of Accounts for 2013-14 is the fourth to be prepared on an International Financial Reporting Standards (IFRS) basis.

2.3 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

Foreword Pages 3-6

2.4 The details of the revenue outturn are shown on Pages 3 and 4. This shows an underspend of £10m against the non-schools budgets. Details of underspends within the directorates have been detailed in the monitoring reports throughout the year and were reported in the Final Outturn report which went to Cabinet on 7 July.

2.5 There has been no change in the level of general revenue reserves and the balance stands at £31.7m. This is deemed to be an acceptable level of general reserves based on the current budget, and the Council's identified risks, by the Corporate Director of Finance and Procurement.

2.6 Capital expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £53.038m less than the latest revised cash limits. Of this, £53.337m reflected re-phasing of capital expenditure plans across all services and £0.299m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2014-15 and beyond in order to accommodate the revised profiles of capital expenditure.

2.7 The 2013-14 IAS 19 report shows an increase in the Pensions Reserve deficit of £135m. See Paragraph 2.16 for more information.

Statement of Responsibilities Page 7

2.8 This statement sets out the respective responsibilities of the Authority and the Corporate Director of Finance and Procurement in relation to the production of the final accounts.

Financial Statements Pages 8-13

Movement in Reserves Statement (MiRS)

2.9 This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Usable reserves have increased by £10m in 2013-14.

2.10 The MiRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:

i) The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

ii) The increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets.

iii) Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

Comprehensive Income and Expenditure Statement

2.11 The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by an authority during the financial year. As authorities do not have any equity in their Balance Sheets, these gains and losses should reconcile to the overall movement in net worth.

2.12 The CIES has two sections:

i) Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

ii) Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

Balance Sheet

2.13 The Balance Sheet summarises the Council's financial position at 31 March each year. In its top half it contains the assets and liabilities that it holds or has accrued with other parties. As local authorities do not have equity, the bottom half is comprised of reserves that show the disposition of an authority's net worth, falling into two categories:

i) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the General Fund Balance and the Capital Receipts Reserve), and

ii) Unusable Reserves, which include:
unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve);
adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).

2.14 Long-term assets have decreased by £108.1m. The majority of this decrease relates to the write out of schools that have changed status; £63.1m relates to schools that have transferred to academy status and £35m relates to schools transferring to foundation status.

2.15 Long-term investments have increased by £22.2m. £15.3m is for bonds and pooled fund deposits which mature after 12 months and £6.9m relates to equity investments.

2.16 Long term liabilities have increased by £91.2m. £135m of this is due to an increase in the liability related to defined benefit pensions schemes under IAS 19 reporting. The note to explain the increase can be found in Note 36 on page 86 of the Accounts. This increase is offset by a decrease of £26.4m of Long Term Borrowing and a decrease in PFI lease liabilities of £5m. Note 37 explaining the breakdown of borrowing can be found on page 92 of the Accounts..

2.17 Our net worth has decreased from £57m to -£157.9m. This is primarily due to the decrease in balances held for property, plant and equipment as explained in paragraph 2.15 (and page 36 of the Accounts) and the increase in the pensions liability explained on paragraph 2.16) and page 86 of the Accounts.

Cash Flow Statement

2.18 This statement summarises the changes in cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value and they account for £100m of the £107.4m on the balance sheet.

Significant Notes to the Accounts pages 14-102

Adjustments between accounting basis and funding basis under regulations

2.19 This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. It also supports the line in the MIRS and provides more detail on how this is split across usable and unusable reserves.

Officers Remuneration

2.20 Note 6 on pages 19-27 provides details of officers' remuneration over £50,000 and details on exit packages in bands on £20,000 split between compulsory redundancy and other departures.

Deposits in Icelandic banks

2.21 Note 8 on page 28 sets out the latest schedule of anticipated timings of repayments in relation to the Icelandic banks. Under regulations we have had to write the net impairment charge of £1.7m to the general fund. This was £1.2m of impairment plus £0.5m of accrued interest. Under the latest CIPFA LAAP Bulletin on Iceland Accounting our accounts show that of the £50m deposited we are accounting to recover approximately 98%. The most recent information is that a full 100% recovery from Heritable will now be made with the final dividend paid in the autumn and Landsbanki (LBI hf) is still forecast to recover 100%. So a full recovery is now anticipated.

Property, Plant and Equipment

2.22 Note 15 on pages 36-47 shows the movements on these assets, which have slightly reduced in value (relatively) from £2.01bn to £1.86bn.

Reserves

2.23 Details of reserves can be found in the following notes, Usable Reserves in Note 20 which also includes earmarked reserves, Unusable Reserves in Note 21, and earmarked reserves in Note 22 on pages 68-73. Earmarked reserves have decreased by £2.9m, the remainder of usable reserves have increased by £12.7m and unusable reserves by £224.7m (£125m of which relates to the Capital Adjustment Account).

Amounts Reported for Resource Allocation Decisions

2.24 Note 31 on pages 79-82 is also known as the segmental reporting note and is based on our management structure. It shows outturn information reported by directorate which is then reconciled to the cost of services in the Comprehensive Income and Expenditure Statement.

Pension Fund Accounts pages 103-129

2.25 Pages 103-129 contain a summarised extract of a more detailed statement produced for the Pension Fund.

Auditor's Report Pages 130-133

2.26 Within the Accounts and Audit Regulations 2011 we are required to open the accounts for public inspection. This enables any 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 2013-14 Accounts commenced on the 16th June and ended on the 11th July.

2.27 The external audit provides an independent opinion as to whether the Statement of Accounts gives a true and fair view of the financial position of Kent County Council at 31 March 2014 and its income and expenditure for the year ended 31 March 2014. The audit started in June and finished 11th July. Following approval of the Accounts by Members, the external auditor will issue their signed opinion. The Accounts are expected to be formally signed today (24th July), with an unqualified opinion.

Annual Governance Statement Pages 134-143

2.28 The Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including the management of risk. The Accounts include an Annual Governance Statement on pages 134 to 143 which confirms how the Council has discharged this responsibility, in accordance with the Accounts and Audit regulations 2011. The Statement confirms that, during the financial year 2013-14, overall Corporate Governance arrangements and internal controls in the Authority were in place. The Statement also identifies some governance issues that will be addressed in the current year.

2.29 CIPFA requires that the content of the Annual Governance Statement be approved by the Governance and Audit Committee. In approving the Statement, Members should consider the section headed "Review of Effectiveness", which summarises the assurances used to assess the effectiveness of the Council's governance framework. Members should also take into account the work of the Committee over the last year, any other information of which they are aware, as well as the reports included on this agenda, namely:

- the work of Internal Audit, as summarised in the Annual Report;
- the Treasury Management Annual Report;
- the conclusions from the external auditors.

Glossary

2.30 A glossary of some of the terms used within the Accounts is provided on pages 144-145.

Other Issues

2.31 Each year, our external auditors have to produce an Audit Findings 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 Errors, and the report is formally known as the ISA260. This report is provided at agenda item 9 of this Committee.

3. RECOMMENDATION

Members are asked to:

3.1 Consider and approve the Statement of Accounts for 2013-14.

3.2 Approval of the Letters of Representation

3.3 Note the recommendations made in the Annual Findings Report.

Emma Feakins
Chief Accountant
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Head of Financial Management
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GATWICK
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External Tel: (01622) 694622
Ask for: Andy Wood
Email: andy.wood@kent.gov.uk
Date: 24 July 2014
Our Ref:

Dear Sirs

Kent County Council - Financial Statements for the year ended 31 March 2014

This representation letter is provided in connection with the audit of the financial statements of Kent County Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

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

Financial Statements

i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. In addition, we have made a critical judgement in respect of the valuation approach adopted for 2013/14 and believe the Net Book Value of Property, Plant and Equipment is fairly stated as at 31 March 2014.

v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.

viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.

ix We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xii We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xiii We have communicated to you all deficiencies in internal control of which management is aware.

xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.

xv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xvi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xvii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xviii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xix We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xx We have disclosed to you the Council's relationship with its subsidiary companies, including the newly formed companies as at 1 April 2014. We have fairly reflected the transactions with the existing companies during the financial year and those considered as part of preparing the financial statements.

Annual Governance Statement

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

Approval

The approval of this letter of representation was minuted by the Council's Governance and Audit Committee at its meeting on 24 July 2014.

Signed on behalf of the Committee

Andy Wood
Corporate Director Finance and Procurement
24 July 2014

Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Reason for not adjusting
1	**Property, Plant and Equipment (note 15)**	
	The Council has made a critical judgement that £31,057k within the AUC opening balance and £6,209k of in year capital expenditure, a total of £37,266k, relating to spend on assets that have been revalued in 2013/14 should not be added to the asset register as an addition in 2013/14 as this would be overstating the value of the assets in the Balance Sheet. The Code requires assets to be revalued ignoring construction works. Once construction is complete, the costs should be transferred to land and buildings and then valued. There should be no impairment against the AUC costs. The Council has accounted for this expenditure as an 'impairment charge where assets have been revalued in year' in note 10 (Adjustments between accounting basis and funding basis under regulations) and in note 15 as 'impairment losses recognised in the surplus/deficit on the Provision of Services' which does not comply with the Code requirements to account for the capital expenditure as a downward revaluation. There is no impact on the CIES or Balance Sheet. The misstatement is between the Revaluation Reserve (RR) and Capital Adjustment Account (CAA) as currently the £37,266k is accounted for through the CAA. If the Code was followed, it is likely that an element of the £37,266k would go to the RR. This accounting treatment has also impacted on the AUC accumulated depreciation opening balance. This should be nil for 2012/13 and 2013/14. Note 15 has been amended to include an additional disclosure of £26,624k for 2012/13 and £31,057k in the 'other movements in cost or valuation' line to ensure the opening balance is fairly	We adopted this accounting policy to mitigate the double counting that would occur if we followed the Code. This was due to the respective timing of our revaluations and additions from assets under construction. To mitigate the double counting, we impaired the value of assets under construction for revalued assets as the value is likely to be within the revaluation. This issue was raised last year and we agreed to change our practice by adding the value in assets under construction to the asset at the end of the year **prior** to the asset being revalued, where such value is significant. However, we have always said that we would not be able to adjust for assets under construction held at 31 March 2013 for assets

stated. However, based on the above explanation of the unadjusted misstatement these entries would not be required if the Council followed the Code in respect of AUC and valuations. The Council has revised its accounting treatment for capital spend on assets during 2013/14 which will remove the AUC to impairment accounting entry in future.	valued in 2014 as the books were closed. Our proposal was accepted for this, particularly as it doesn't impact the primary statements. To make the changes required would involve a significant amount of work and the risk of making errors to statements already audited is high. It is unlikely that £37,266k would go to the RR as stated, as it would be split between impairment, a reduction in the RR and additions to the RR, depending on the revaluation of the individual asset.

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Maidstone, Kent
ME14 1XQ
Phone: +44 1622 696294
Ask for: Alison Mings
Email: alison.mings@kent.gov.uk

24 July 2014

Dear Sirs

Kent County Council Superannuation Fund - Financial Statements for the year ended 31 March 2014

This representation letter is provided in connection with your audit of the financial statements of the Kent County Council Superannuation Fund (the Fund) for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code).

Financial Statements

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code; in particular the financial statements show a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

2. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.

3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the

Code.

5. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

6. The financial statements are free of material misstatements, including omissions.

7. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

8. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

9. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

Information Provided

10. We have provided you with:

    a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

    b. additional information that you have requested from us for the purpose of your audit; and

    c. unrestricted access to persons from whom you determine it necessary to obtain audit evidence.

11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

12. All transactions have been recorded in the accounting records and are reflected in the financial statements.

13. We are not aware of any fraud or suspected fraud affecting the Fund involving:
    a. management;
    b. employees who have significant roles in internal control; or
    c. others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

15. We are not aware of any instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

16. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

Other

17. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.

Approval

The approval of this letter of representation was minuted by the Council's Governance and Audit Committee at its meeting on 24 July 2014.

Yours faithfully

Andy Wood
Corporate Director of Finance and Procurement
Kent County Council

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Contents

Notes to the Accounting Statements index

Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2013-14 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 Statement of Accounts for 2013-14 is prepared on an International Financial Reporting Standards (IFRS) basis.

The framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Financial Reporting Advisory Board and the UK 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 144 and 145.

The Accounts consist of:

- A Movement in Reserves Statement on pages 8 and 9.
- A Comprehensive Income and Expenditure Statement on pages 10 and 11.
- The Balance Sheet on page 12 which sets out the financial position of Kent County Council as at 31 March 2014.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 13.
- Notes to support the above primary statements, pages 14 to 102.
- The Pension Fund Accounts are on pages 103 to 129.

Revenue Budget and Outturn

In February 2013 the Council approved a net revenue budget for 2013-14 of £954.304m. In addition £16.081m of 2012-13 underspending was rolled forward and added to the budget. During the year, the Government announced changes to our funding levels of an additional £6.006m, largely one-off, which was also 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.

DIRECTORATE	Budget	Outturn	Variance
	£000's	£000's	£000's
Education, Learning & Skills	38,358	36,530	-1,828
Families and Social Care:			
- Specialist Children's Services	152,996	158,121	5,125
- Adult Social Care	327,919	327,453	-466
Enterprise and Environment	151,250	154,580	3,330
Customer and Communities	76,254	69,936	-6,318
Business Strategy and Support:			
- Public Health	384	-32	-416
- Regeneration & Economic Development	3,882	3,766	-116
- Business Strategy & Support Core Services	75,988	73,019	-2,969
Financing Items	149,360	142,644	-6,716
	976,391	966,017	-10,374
Delegated Schools Budgets	0	2,394	2,394
	976,391	968,411	-7,980

Foreword

FUNDED BY:-	Budget £000's	Outturn £000's	Variance £000's
Reserves	-16,081	-16,081	0
Formula Grant	-248,224	-248,223	1
Council Tax	-511,875	-511,875	0
Council Tax Freeze Grant	-5,776	-5,776	0
Retained Business Rates	-45,804	-45,811	-7
Business Rate Top Up	-118,329	-118,329	0
Small Business Rate Compensation Grant	-1,013	-1,013	0
New Homes Bonus Grant & Top Up	-5,864	-5,865	-1
Education Services Grant	-21,006	-20,490	516
Local Services Support Grant	-2,419	-2,419	0
Total Funding	-976,391	-975,882	509
NET OUTTURN POSITION	0	-7,471	-7,471

The net underspending within the directorates of £9.865m (excluding £2.394m delegated schools overspend) has been carried forward and will be added to the 2014-15 budget to support the re-scheduling of projects and to fund County Council and Cabinet decisions affecting the 2014-15 and future year's budgets.

Schools

In total, schools overspent against their delegated budgets by £2.394m, which has been drawn down from school reserves. This includes a £1.904m drawdown from school reserves as a result of 26 schools converting to new style academy status which allows them to take their reserves with them, and a £3.524m underspend against delegated budgets for the remaining Kent schools. In addition, there was £4.014m of overspending on the unallocated schools budget, largely due to £2.5m of schools collaboration work; £1.578m revenue contribution to capital for joint funded capital projects with schools in order to keep them warm, safe and dry; £0.889m for schools broadband; £0.3m for schools finance training, offset by an underspend on growth funding of -£0.934m and other minor variances of -£0.319m. Schools now have some £39.813m of revenue reserves and there is £5.917m of unallocated schools budget reserves.

Revenue Reserves

The general reserve position at 31 March 2014 is £31.725m, which is unchanged from the position as at 31 March 2013.

Investments in Iceland

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed and the Landsbanki's UK subsidiary Heritable went into administration. The Council had £50.35m deposited across these institutions, including £16m invested on behalf of the Pension Fund and £1.3m on behalf of the Kent and Medway Fire Authority. The £50.35m represented 10.9% of the total deposits of the Council of £462.8m. The Glitnir claims were paid in full in 2011-12. In 2013-14 the Heritable claim was paid to the expected 94% and there were repayments from Landsbanki. Latest indications suggest that we will recover 100% from Landsbanki as outlined in LAAP82 Update 8. In real terms this means a recovery of 98% of the original deposit plus interest to the respective claim dates although this will be increased when the Heritable dividend is received.

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 £219m. The expenditure analysed by portfolio was:-

PORTFOLIO	Revised Budget £'000s	Outturn £'000s	Variance £'000s
Education, Learning and Skills	121,376	96,274	-25,102
Adult Social Care and Public Health	5,018	4,209	-809
Environment, Highways & Waste	62,193	55,438	-6,755
Customer and Communities	4,531	3,139	-1,392
Regeneration & Enterprise	29,649	15,167	-14,482
Business Strategy, Performance and Health Reform	32,402	29,485	-2,917
Specialist Children's Services	1,925	344	-1,581
	257,094	204,056	-53,038
Devolved Capital to Schools	11,878	15,401	3,523
	268,972	219,457	-49,515
Property Enterprise Fund 1			0
Property Enterprise Fund 2		1	1
TOTAL	268,972	219,458	-49,514

Expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £53.038m less than cash limits. Of this, -£53.337m reflected re-phasing of capital expenditure plans across all services and +£0.299m was due to real variations on a small number of projects. These unspent capital resources will be carried forward into 2014-15 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2013-14 was £15.401m and the variance will be carried forward to 2014-15 as part of the overall schools reserves position.

The original Property Enterprise Fund (PEF1) was established in 2006-07 with 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. Non earmarked receipts are accounted for through this fund and the proceeds are used for the strategic acquisition of land and property to add value to the Council's portfolio, aid the achievement of economic and regeneration objectives and the generation of income.

In September 2008 the Council established a second Property Enterprise Fund (PEF2) with a maximum overdraft of £85m to be funded by prudential borrowing, but with the anticipation that the fund was to broadly breakeven over a rolling five year cycle. However, due to the slower than expected economic recovery, breakeven is likely to occur over a rolling seven to eight year cycle. This fund differs from PEF1 as only earmarked receipts are accounted for through PEF2 with the sole purpose of supporting the capital programme. The fund provides a prudent amount of funding up front, in return for properties which will be held corporately until the property market recovers. This enables the Council to take a longer term view on achieving the best value from our assets.

Both PEF 1 and PEF2 have served their purpose for KCC and will be closed as at 1st April 2014.

Details of the financing of capital expenditure are on page 48.

Capital Reserves

At 31 March 2014 the Council has earmarked and other capital reserves of £153.7m as shown on page 59.

Insurance Fund

IAS 37 Provisions, Contingent Liabilities and Contingent Assets requires that full provision should be made for all known insurance claims.

Based on current estimates of the amount and timing of fund liabilities, the insurance provision at 31 March 2014 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 IAS 37. Details can be found on page 74.

Pension Fund

Local Authorities are required to comply with the disclosure requirements of IAS 19 - Employee Benefits. Under IAS 19, the Council 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. IAS 19 is based upon 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 Comprehensive Income and Expenditure Account, the Balance Sheet and the Movement in Reserves Statement.

IAS 19

There have been amendments to IAS 19 for 2013-14. One amendment is that the expected rate of return and the interest cost has been replaced with a single net interest cost, this effectively sets the expected return equal to the discount rate. The other amendment requires that administration costs are recognised in the Comprehensive Income and Expenditure Statement.

The 2013-14 IAS 19 report shows that the Pension Fund now has a deficit of £1,029m. This is an increase in the deficit of £135m in year.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2013-14, earlier years and for future years. The balance currently stands at £1,283.1m as shown on the balance sheet on page 12. 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.

East Kent Opportunities

East Kent Opportunities (EKO) is a "Jointly Controlled Operation" and in 2013-14 the transactions and balances of EKO relating to KCC have been incorporated into the financial statements and notes of the Council's Statement of Accounts.

Further information about the Accounts can be obtained from Emma Feakins, Chief Accountant.

Telephone Maidstone (01622) 694634 or e-mail emma.feakins@kent.gov.uk.

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director of Finance and Procurement;
- 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 24 July 2014 on behalf of Kent County Council and have been re-signed as authorisation to issue.

Councillor Richard Long
Chairman of the Governance and Audit Committee

The Corporate Director of Finance and Procurement's Responsibilities

The Corporate Director of Finance & Procurement is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2014.

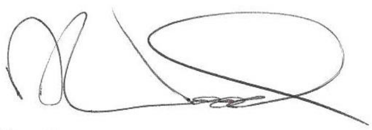
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Corporate Director of Finance and Procurement 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.

I confirm that these accounts give a true and fair view of the financial position of the Council at the reporting date and its income and expenditure for the year ended 31 March 2014.

Certificate of the Corporate Director of Finance and Procurement



Andy Wood
Corporate Director of Finance and Procurement
15 July 2014

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Restated Year ended 31 March 2013				
	General Fund Balance	**Earmarked GF Reserves**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31 March 2012	**-31,725**	**-200,698**	**-14,897**	**-74,002**	**-321,322**
Movement in reserves during 2012-13					
Surplus or (Deficit) on Provision of Services	124,681				**124,681**
Other Comprehensive Expenditure and Income					**0**
Total Comprehensive Expenditure & Income	**124,681**	**0**	**0**	**0**	**124,681**
Adjustments between accounting basis & funding basis under regulations - Note 10	-136,811		-18,685	-33,519	**-189,015**
Net increase/Decrease before Transfers to Earmarked Reserves	**-12,130**	**0**	**-18,685**	**-33,519**	**-64,334**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	12,130	-12,130			**0**
Increase/Decrease (movement) in Year	**0**	**-12,130**	**-18,685**	**-33,519**	**-64,334**
	Year ended 31 March 2014				
Balance at 31 March 2013 carried forward	**-31,725**	**-212,828**	**-33,582**	**-107,521**	**-385,656**
Movement in reserves during 2013-14					
Surplus or (Deficit) on Provision of Services	157,318				**157,318**
Other Comprehensive Expenditure and Income					**0**
Total Comprehensive Expenditure & Income	**157,318**	**0**	**0**	**0**	**157,318**
Adjustments between accounting basis & funding basis under regulations - Note 10	-154,543		-1,125	-11,446	**-167,114**
Net increase/Decrease before Transfers to Earmarked Reserves	**2,775**	**0**	**-1,125**	**-11,446**	**-9,796**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	-2,775	2,775			**0**
Increase/Decrease (movement) in Year	**0**	**2,775**	**-1,125**	**-11,446**	**-9,796**
Balance at 31 March 2014 carried forward	**-31,725**	**-210,053**	**-34,707**	**-118,967**	**-395,452**

Movement in Reserves Statement

	Restated Year ended 31 March 2013		
	Total Usable Reserves	**Unusable reserves**	**Total Council Reserves**
	£'000	**£'000**	**£'000**
Balance at 31 March 2012	**-321,322**	**140,948**	**-180,374**
Movement in Reserves during 2012-13			
Surplus or (Deficit) on Provision of Services	124,681		124,681
Other Comprehensive Expenditure and Income (total of *'s on CIES)		-1,310	-1,310
Total Comprehensive Expenditure and Income	**124,681**	**-1,310**	**123,371**
Adjustments between accounting basis & funding basis under regulations	-189,016	189,016	0
Net increase/Decrease before Transfers to Earmarked Reserves	**-64,335**	**187,706**	**123,371**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	0	0	0
Increase/Decrease (movement) in Year	**-64,334**	**187,706**	**123,371**
	Year ended 31 March 2014		
Balance at 31 March 2013 carried forward	**-385,656**	**328,654**	**-57,002**
Movement in reserves during 2013-14			
Surplus or (Deficit) on Provision of Services	157,318		157,318
Other Comprehensive Expenditure and Income (total of *'s on CIES)		57,585	57,585
Total Comprehensive Expenditure & Income	**157,318**	**57,585**	**214,903**
Adjustments between accounting basis & funding basis under regulations	-167,114	167,114	0
	-9,796	**224,699**	**214,903**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	0	0	0
Increase/Decrease (movement) in Year	**-9,796**	**224,699**	**214,903**
Balance at 31 March 2014 carried forward	**-395,452**	**553,353**	**157,901**

Comprehensive Income and Expenditure Statement

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 2014		
		Gross Expenditure	**Gross Income**	**Net Expenditure**
Service		**£'000**	**£'000**	**£'000**
Cultural and Related Services		48,577	10,262	38,315
Environmental and Regulatory Services		93,090	17,311	75,779
Planning Services		19,651	4,243	15,408
Central Services to the public		2,758	577	2,181
Children's and Education Services		1,335,673	993,873	341,800
Highways and Transport Services		176,777	24,599	152,178
Adult Social Care		501,855	119,695	382,160
Public Health		53,701	54,193	-492
Corporate and Democratic Core		41,439	24,969	16,470
Non Distributed Costs		18,860	24,030	-5,170
Cost of Services		**2,292,381**	**1,273,752**	**1,018,629**
Other operating Expenditure	**11**			108,651
Net Surplus on trading accounts	**32**			-6,755
Financing and Investment Inc and Exp	**12**			93,937
Taxation and Non Specific Grant Income	**13**			-1,057,144
(Surplus) or deficit on Provision of Services				**157,318**
(Surplus)/deficit arising on revaluation of non current assets			*	-61,656
Remeasurement of the net defined benefit liability			*	120,217
(Surplus)/deficit on revaluation of available for sale financial assets			*	-976
Other Comprehensive Income and Expenditure				**57,585**
Total Comprehensive Income and Expenditure				**214,903**

Comprehensive Income and Expenditure Statement

Service	Notes	Restated Year ended 31 March 2013 Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Cultural and Related Services		42,369	5,282	37,087
Environmental and Regulatory Services		87,620	9,513	78,107
Planning Services		23,075	5,390	17,685
Central Services to the public		2,845	475	2,370
Children's and Education Services		1,255,703	969,773	285,930
Highways and Transport Services		164,159	18,510	145,649
Adult Social Care		539,691	133,276	406,415
Corporate and Democratic Core		38,889	26,996	11,893
Non Distributed Costs		20,522	13,650	6,872
Cost of Services		**2,174,873**	**1,182,865**	**992,008**
Other operating Expenditure	**11**			99,197
Net Surplus on trading accounts	**32**			-5,585
Financing and Investment Inc and Exp	**12**			105,930
Taxation and Non Specific Grant Income	**13**			-1,066,869
(Surplus) or deficit on Provision of Services				**124,681**
(Surplus)/deficit arising on revaluation of non current assets			*	-5,244
Remeasurement of the net defined benefit liability			*	4,567
(Surplus)/deficit on revaluation of available for sale financial assets			*	-633
Other Comprehensive Income and Expenditure				**-1,310**
Total Comprehensive Income and Expenditure				**123,371**

The Comprehensive Income and Expenditure Statement for 2012-13, along with the Movement in Reserves Statement and the Cash Flow, has been restated due to amendments in IAS 19 - Employment Benefits which requires a new class of components for pension cost to be recognised in the financial statements. These new class of components have had no impact on the Total Comprehensive Income and Expenditure amount reported last year.

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.

		31 March 2014		31 March 13
	Notes	**£'000**	**£'000**	**£'000**
Property Plant & Equipment	**15**	1,860,130		2,016,868
Heritage Assets	**18**	7,134		6,637
Investment Property		33,956		22,322
Intangible assets		3,694		2,899
Long-term investments	**37**	22,194		0
Long-term debtors	**24**	73,309		59,759
Total long-term assets			2,000,417	2,108,485
Inventories		5,087		6,467
Assets held for sale (<1yr)		3,385		5,016
Short term debtors	**24**	165,025		163,748
Short-term investments	**37**	187,425		64,961
Cash and Cash equivalents	**26**	107,405		215,058
Total current assets			468,327	455,250
Temporary borrowing	**37**	-26,826		-2,327
Short term Lease Liability	**37**	-4,799		-4,462
Short term provisions	**23**	-22,879		-24,694
Creditors	**25**	-233,291		-227,581
Total Current liabilities			-287,795	-259,064
Creditors due after one year	**25**	-14,152		-27,970
Provisions	**23**	-16,568		-17,296
Long-term borrowing	**37**	-997,168		-1,023,575
Other Long Term Liabilities	**19/24/36**	-1,283,154		-1,154,942
Capital Grants Receipts in Advance	**14**	-27,808		-23,887
Long Term Liabilities			-2,338,850	-2,247,670
Net Assets			-157,901	57,001
Usable Reserves	**20**	-395,452		-385,656
Unusable Reserve	**21**	553,353		328,655
Total Reserves			157,901	-57,001

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

	Notes	2013-2014 £'000	Restated 2012-2013 £'000
Net (Surplus) or deficit on the provision of services		157,318	124,681
Adjustments to net surplus or deficit on the provision of services for non cash movements	**27**	-404,110	-394,754
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**27**	181,788	169,367
Net cash flows from operating activities	**28**	-65,004	-100,706
Investing Activities	**29**	168,822	-75,649
Financing Activities	**30**	3,835	100,718
Net increase(-) or decrease in cash and cash equivalents		107,653	-75,637
Cash and cash equivalents at the beginning of the reporting period		215,058	139,421
Cash and cash equivalents at the end of the reporting period	**26**	107,405	215,058

Note 1. Basis for Preparation/General

The notes to the financial statements on the following pages are in order of significance, primarily based on aiding an understanding of the key drivers of the financial position of the Council, whilst maintaining the grouping of notes between the income and expenditure statement and the balance sheet where appropriate.

The notes relating to specific financial statement lines include the corresponding accounting policy. As a result there is not a separate principal accounting policies note but note 2 details general accounting policies where there are not accompanying notes.

Details of the order of the notes can be found in the index on page 2 of the financial statements.

Note 2. General Accounting Policies (where there is no accompanying note)

General

The Council is required to prepare a Statement of Accounts by the Accounts and Audit Regulations 2011 in accordance with proper accounting practices. The Accounts of Kent County Council have been compiled in accordance with the Code of Practice on Local Council Accounting in the UK 2013-14 supported by International Financial Reporting Standards. These accounts are prepared in accordance with the historical cost convention, modified for the valuation of certain categories of non current assets and financial instruments. They are also prepared on a going concern basis.

Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

Note 2 - Accounting Policies

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

IAS 19 Employment Benefits - there has been a change to the accounting standard relating to post employment benefits. The impact of these changes are detailed in Note 6 on page 19.

Accounting for Schools

The accounting policies for Schools are in line with the Council's and therefore are compiled on an accruals basis. Schools balances are consolidated into the Council's accounts, with income and expenditure being attributed to the appropriate service line in the Comprehensive Income and Expenditure Statement and assets and liabilities included on the Balance Sheet. The Schools Reserve is held in a separate reserve and are located within Usable Reserves.

Intangible Assets

Assets that do not result in the creation of a tangible asset (which is an asset that has physical substance), 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.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation. The proportion of transactions and balances of Jointly Controlled Operations that relate to the Council are included in the Council's single entity accounts.

Support service and overheads

The cost of support services and overheads are allocated to services on the following basis in accordance with Service Reporting Code of Practice 2013-14 (SerCOP):

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Accounting for Value Added Tax (VAT)

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

Inventories

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

Carbon Reduction Commitment Allowances

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme finished on 31 March 2014. The Authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide as energy is used. As carbon dioxide is emitted a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured as the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the cost of the Authority's services and is apportioned to services on the basis of energy consumption.

Transfer of Public Health function

A reporting entity that receives a transfer of functions should disclose in its financial statements that the transfer has taken place giving the date of transfer, the name of the transferring body and the effect on the financial statements.

Public Health Services is about helping people to stay healthy, and protecting them from threats to their health. This service was transferred on the 1 April 2013 from Eastern and Coastal Kent PCT and West Kent PCT. There is a new service line on the Comprehensive Income and Expenditure Statement and there is no effect on the Balance Sheet.

Note 3. Accounting Standards that have been issued but have not yet been adopted

For 2013-14 there are amendments to the following accounting standards:

IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosures of Interests in Other Entities
IAS 27 Separate Financial Statements
IAS 28 Investments in Associates and Joint Ventures

The above amendments relate to the accounting treatment for entities in which the Authority has an interest. The decision on the appropriate accounting treatment is based on the measurement of control. There may be an impact for us when these standards are adopted.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Obligations
IAS 1 Presentation of Financial Statements

The impact of the above amendments will be reflected in the 2014-15 accounts.

Note 4. Critical Judgements in applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Council will make a provision where a future event is uncertain but there is a legal or constructive obligation.

- The Council has a policy to revalue its land and buildings on a rolling five year basis and undertakes an annual review to ensure that the carrying amount of assets not revalued in year is not materially different to their fair value at the balance sheet date. The main class of asset in the 13-14 tranche was primary schools which represented 49% of the total land and buildings net book value as at 31 March 2013. The net valuation increase on these assets was 5%. Applying this percentage increase to assets that have not been revalued in the past 2 years would result in an increase of £23m. The Council is therefore confident that the carrying amount of these assets as at 31 March 2014 is not materially different to their fair value as at 31 March 2014. For the assets that were revalued in 2013-14 the valuation date is as at the 1 April 2013. However, our impairment review has confirmed no significant changes to the value of the portfolio. The council is therefore confident that the carrying amount of these assets is not materially different to their fair value as at 31 March 2014.

- There is currently inconsistency across Local Authorities regarding the accounting treatment for different types of schools. Until the announcement of a definitive requirement by CIPFA, expected for the 2014-15 Statement of Accounts, the Council treats Community and Voluntary Controlled schools as on balance sheet and all other types of schools as off balance sheet.

- Five Community/Voluntary Controlled schools which were on balance sheet as at 31 March 2014 converted to academy status between 1 April 2014 and 1 July 2014. The net book value of these assets as at 31 March 2014 is £12.1m. A further 13 schools are due to convert to academy status between 1 August 2014 and 1 January 2015. The net book value of these assets as at 31 March 2014 is £20.9m. An additional £0.5m included in the balance sheet as at 31 March 2014 relates to playing fields at Voluntary Aided schools that have or will convert to academy status in 2014-15.

- Commercial Services released a provision of £2.5m as a prior year adjustment. The Council has decided to treat the £2.5m as an in year adjustment which follows the Council's policy on the release of unused reserves and provisions.

- The wholly owned subsidiaries and jointly controlled entities are reviewed on an annual basis as to whether group accounts are required. Based on the level of profits for these entities and that the majority of the transactions are between the Council and the subsidiaries, the Council has judged that Group Accounts are not required.

Note 5. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Council's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £2.05m for every year that useful lives had to be reduced. Over a period of 5 years (before the next valuation takes place) this could result in an error of £10.25m - this is not material.
	Under component accounting the authority has applied a de minimus threshold for each category of asset that is revalued in the current year. In 2013-14 the following de minimus thresholds were applied: Primary Schools: £2m Secondary Schools: £8m Special Schools: £2m Families & Social Care establishments: £2m Highways & Waste Depots: £1m County Offices: £2m Libraries: no componentisation Adult Education Centres: no componentisation Youth & Community Centres: no componentisation	If all assets had been componentised the difference between depreciation under componentisation and non componentisation is £5.375m. Over 5 years this would give a difference of £26.88m - this is not material.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and a single net interest cost (which effectively sets the expected return equal to the discount rate) on Pension Fund Assets.	The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. Accounting standard IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. The yield in excess of expected inflation from corporate bonds decreased from 1.0% to 0.8% during the year due to a decrease in corporate bond yields. Asset performance being less than expected over the year has also led to an increase in pension deficit. During 2013-14, the Council's actuaries advised that the net pensions liability had increased by £43.7m as a result of estimates being corrected due to experience and increased by £148m attributable to the updating of the assumptions.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Leases	For a number of leases identified by schools and directorates we have had to make assumptions on the fair value of the assets. This has been obtained by identifying the current costs of similar assets.	As the total depreciated value of leases is only £1,018k the effect of the estimation is not material.

Note 6. Officers Remuneration

Accounting Policy

Employee Benefits

Benefits Payable During Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Service lines within the Comprehensive Income and Expenditure Statement, but is then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to Service lines in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises the cost for restructuring.

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

Post Employment Benefits
The Council participates in two different pension schemes. Both schemes provide members with defined benefits (retirement lump sums and pensions), related to pay and service. The schemes are as follows:

- **Teachers and NHS Staff**

The Council contributes to the Teachers' Pension Scheme and the NHS Pension Scheme at rates set by the schemes actuary and advised by the Schemes Administrator. The schemes pay benefits on the basis of pre-retirement salaries of teaching staff and NHS staff. While the schemes are of the Defined Benefit type, they are accounted for as Defined Contribution Schemes and no liability for future payments of benefits is recognised in the Balance Sheet.

- **Other employees**

The liabilities of the Kent pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Note 6 - Officers Remuneration

The assets of Kent pension fund attributable to the Council are included in the Balance Sheet at their fair value:
– quoted securities – current bid price
– unquoted securities – professional estimate
– unitised securities – current bid price
– property – market value.

The change in the net pensions liability is analysed into the following components:

Service cost comprising:
– current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

– past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provison of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

– net interest on the net defined benefit liability (asset), i.e. the net interest expense for the Council - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (assets) during the period as a result of contribution and benefit payments.

Remeasurement comprising:
– net return on plan assets –excluding amounts included in net interest on the defined benefit liability (asset) - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

– actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve.

– contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Impact of amendments to IAS 19 on the Comprehensive Income and Expenditure Statement

The table below show the original and restated 2012-13 figures.

	2012-13	**Restated 2012-13**
	£'000	**£'000**
Expected return on assets in the scheme	-86,019	0
Interest on pension scheme liabilities	106,569	0
Net Interest in the Defined Liability	0	37,873
Non Distributed Costs - Administration Costs	0	1,313
Reversal of net charges made for retirement benefits in accordance with IAS 19	-73,895	-92,531
Total	**-53,345**	**-53,345**

Note 6 - Officers Remuneration

Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2013 to 31 March 2014

Regulations require the Council to disclose remuneration for all employees earning over £50,000 plus additional disclosures for those senior officers reporting directly to the Head of Paid Services and those earning over £150,000.

This note shows the number of employees whose total remuneration in the financial year 2013-14, 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. This includes all payments, regardless of whether or not they were due in the year e.g. advance payment of salary 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

d) but excludes Employer's Pension contributions

Remuneration	**Total number of employees**			
(£)	Non-Schools 31 March 2014	Schools 31 March 2014	Non-Schools 31 March 2013	Schools 31 March 2013
50,000 - 54,999	164	209	143	216
55,000 - 59,999	95	154	115	182
60,000 - 64,999	60	93	43	96
65,000 - 69,999	33	62	33	55
70,000 - 74,999	29	23	33	29
75,000 - 79,999	7	19	4	16
80,000 - 84,999	8	13	6	16
85,000 - 89,999	6	10	5	12
90,000 - 94,999	9	7	8	6
95,000 - 99,999	3	8	3	10
100,000 - 104,999	4	6	5	4
105,000 - 109,999	5	3	4	2
110,000 - 114,999	3	0	3	1
115,000 - 119,999	3	2	1	0
120,000 - 124,999	3	0	1	0
125,000 - 129,999	1	1	0	1
130,000 - 134,999	0	0	1	0
135,000 - 139,999	1	0	1	0
140,000 - 144,999	0	0	0	0
145,000 - 149,999	0	0	0	0
150,000 - 154,999	1	0	1	0
155,000 - 159,999	1	0	1	0

Note 6 - Officers Remuneration

Remuneration	**Total number of employees**			
(£)	Non-Schools 31 March 2014	Schools 31 March 2014	Non-Schools 31 March 2013	Schools 31 March 2013
160,000 - 164,999	1	0	2	0
165,000 - 169,999	2	0	0	0
170,000 - 174,999	0	0	0	0
175,000 - 179,999	0	0	0	0
180,000 - 184,999	0	0	0	0
185,000 - 189,999	1	0	1	0
Total	**440**	**610**	**414**	**646**

The number of employees shown against the above remuneration band will not tie up with the information on the following pages. This is because the table above refers to remuneration which includes items a-c as per the note on the previous page, whereas the following table relates purely to salary entitlement in the year, and only those staff whose annual salary is £150k or over should be included. The following tables are set-out in the format prescribed in the CIPFA Code, issued by The Chartered Institute of Public Finance and Accountancy.

The reduction in the number earning over £50k is mainly due to the transfer to Academy status for a significant number of schools; figures for Academies are not included in the above table.

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2013-14 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Corporate Director Business Strategy & Support - David Cockburn		198,849					198,849	41,758	240,607
Corporate Director Education Learning & Skills - Patrick Leeson		160,711		7,070			167,781	35,234	203,015
Corporate Director Families & Social Care - Andrew Ireland		167,292					167,292	35,131	202,423
Corporate Director Customer & Communities - Amanda Honey		163,711					163,711	34,379	198,090
Corporate Director Enterprise & Environment - Mike Austerberry		155,136					155,136	0	155,136

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2013-14 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Director of Governance & Law - Geoff Wild		136,252					136,252	28,143	164,395
Corporate Director Finance & Procurement - Andy Wood		126,048					126,048	26,470	152,518
Corporate Director Human Resources - Amanda Beer		117,225					117,225	24,617	141,842
Corporate Director Public Health - Meradin Peachey		91,839	3,079			352	95,270	14,085	109,355
Interim Corporate Director Public Health - Andrew Scott-Clark	1	6,550					6,550	917	7,467

1 Mr Scott-Clark has been the interim Corporate Director Public Health since 8 March 2014.

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2012-13 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Corporate Director Business Strategy & Support - David Cockburn		187,719					187,719	39,734	227,453
Corporate Director Customer & Communities - Amanda Honey		159,075	1,530				160,605	35,003	195,608
Corporate Director Education Learning & Skills - Patrick Leeson		154,530		7,070			161,600	33,936	195,536
Corporate Director Families & Social Care - Andrew Ireland		156,348					156,348	32,833	189,181
Corporate Director Enterprise & Environment - Mike Austerberry		151,500					151,500	0	151,500

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2012-13 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Director of Governance & Law - Geoff Wild		134,594		2,610			137,204	28,813	166,017
Corporate Director Finance & Procurement - Andy Wood		121,200					121,200	25,452	146,652
Corporate Director Human Resources - Amanda Beer		112,716					112,716	23,670	136,386

Note 6 - Officers Remuneration

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. Of the total redundancies made 58% of those are compulsory redundancies. We do not have detail across bands £0 - £20,000, £20,001 - £40,000 and £40,001 - £80,000 and have applied this percentage equally to each of those bands. The total cost in 2013-14 of £2.8m includes schools and commitments in 2014-15.

(a) Exit package cost band (inc special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13 £	2013/14 £
100,001-450,000	0	0	0	0	0	0	0	0
80,001-100,000	0	0	0	0	0	0	0	0
40,001-80,000	3	2	2	2	5	4	247,670	188,801
20,001-40,000	27	24	23	17	50	41	1,414,497	1,121,776
0-20,000	208	118	178	85	386	203	2,252,577	1,504,663
Total	**238**	**144**	**203**	**104**	**441**	**248**	**3,914,744**	**2,815,240**

Note 7. Members Allowances

The Council paid the following amounts to members of the Council during the year.

	2013-14 £'000	2012-13 £'000
Salaries	0	0
Allowances	1,609	1,646
Expenses	121	139
Total	**1,730**	**1,785**

In 2013-14 the cost of the County Cars were £44k.

Note 8. Deposits in Icelandic banks

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed and the Landbanki's UK subsidiaries Heritable went into administration. The Council had £50.35m deposited across these 3 institutions, with varying maturity dates and interest rates. Of the £50.35m, £1.3m was deposited on behalf of the Kent and Medway Fire Authority and £16m on behalf of the Pension Fund.

Investments included in the current assets figure in the Balance Sheet include the following deposits that have been impaired because of the financial difficulties experienced by Icelandic Banks.

Bank	Amount Invested £000's	Interest Rate	Amount due as at Claim Date £000's	Repayments to date £000's
Heritable	1,500	6.15	1,513	1,422
Heritable	2,000	6.19	2,113	1,987
Heritable	2,000	5.6	2,010	1,890
Heritable	3,250	6.1	3,253	3,058
Heritable	4,600	5.9	4,717	4,434
Heritable	5,000	6.25	5,004	4,704
Glitnir	5,000	5.5	5,276	5,127
Glitnir	5,000	6.3	5,212	5,065
Glitnir	5,000	6	5,150	5,004
LBI hf	2,000	6.19	2,125	1,125
LBI hf	5,000	6	5,300	2,807
LBI hf	5,000	5.96	5,291	2,802
LBI hf	5,000	5.93	5,028	2,663
Total	**50,350**		**51,992**	**42,088**

Note 8 - Iceland and Note 9 - Material Items of Income and Expenditure

Heritable

As at the 31 March 2014 the Council has received 94% of the recoverable amount as per LAAP Bulletin 82 update 8. The most recent information is that a full 100% recovery from Heritable will now be made, with the final dividend paid in the autumn.

LBI hf (formerly Landsbanki)

As at the 31 March 2014 the Council received 54.67% of the recoverable amount. The estimate of the recoverable amount from this Iceland-domiciled bank is 100%. This return is anticipated over the following period:

December 2014	7.50%	December 2018	7.50%
December 2015	7.50%	December 2019	7.83%
December 2016	7.50%		
December 2017	7.50%		

Glitnir Bank hf

The Council received 100% of the recoverable amount during 2011-12.

As part of the 100% recovery we received £2.96m in Icelandic Kroner for Iceland-domiciled accounts during 2011-12. This is placed in Escrow accounts and is reflected in the balance sheet as a short term investment.

Note 9. Material Items of Income and Expense

<u>Accounting Policy</u>

Exceptional Items

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

Material Items of Income and Expense

The net loss on disposal of non-current assets of £107.7m includes £63.1m which relates to schools transferring to academy status and £35m which relates to schools transferring to foundation status.

Note 10. Adjustments between accounting basis and funding basis under regulations

31 March 2014	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	-120,702			120,702
Impairment charge where assets have been revalued in year*	-37,266			37,266
Revaluation losses on Property Plant and Equipment and Assets held for Sale	-40,390			40,390
Movements in the fair value of Investment Properties	8,524			-8,524
Amortisation of intangible assets	-1,415			1,415
Capital Grants and contributions applied	103,279			-103,279
In year revenue expenditure funded from capital under statute	-92,806			92,806
Prior year revenue expenditure funded from capital under statute	-11,733			11,733
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income and Expenditure Statement*	-115,389			115,389
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	64,237			-64,237
Capital expenditure charged against the General Fund	19,952			-19,952
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	69,622		-69,622	0
Application of grants to capital financing transferred to the Capital Adjustment Account			58,933	-58,933
Correction to prior year capital receipt			-757	
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	7,661	-7,661		0

Note 10 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Cash sale proceeds from disposal of investment properties	1226	-1,226		
Use of the Capital Receipts Reserve to finance new capital expenditure		7,005		-7,005
Correction to prior year capital receipt		757		
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-1,595			1,595
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-84,764			84,764
Employer's pensions contributions and direct payments to pensioners payable in the year	69,858			-69,858
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	2,802			-2,802
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4,356			-4,356
Total Adjustments	**-154,543**	**-1,125**	**-11,446**	**167,114**

Note 10. Adjustments between accounting basis and funding basis under regulations

Restated 31 March 2013	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	-108,230			108,230
Impairment charge where assets have been revalued in year*	-31,483			31,483
Revaluation losses on Property Plant and Equipment	-20,095			20,095
Movements in the fair value of Investment Properties	-909			909
Amortisation of intangible assets	-863			863
Capital Grants and contributions applied	67,016			-67,016
In year revenue expenditure funded from capital under statute	-73,953			73,953
Prior year revenue expenditure funded from capital under statute	-14,807			14,807
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income and Expenditure Statement	-122,826			122,826
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	60,993			-60,993
Capital expenditure charged against the General Fund	27,992			-27,992
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	76,383		-76,383	0
Application of grants to capital financing transferred to the Capital Adjustment Account			42,864	-42,864
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	24,358	-24,358		0

Note 10 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Use of the Capital Receipts Reserve to finance new capital expenditure		5,673		-5,673
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-600			600
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-92,531			92,531
Employer's pensions contributions and direct payments to pensioners payable in the year	69,409			-69,409
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-515			515
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3,849			-3,849
Total Adjustments	**-136,812**	**-18,685**	**-33,519**	**189,016**

* Amounts held on assets under construction or spend incurred in year which relate to assets that have been revalued in 2013-14 have been written off directly to the CIES.

Note 11. Other Operating Expenditure

	2013-14 £000's	2012-13 £000's
Levies	719	729
Gains/Losses on the disposal of non-current assets	107,728	98,468
Assets held for Sale - revaluation movements	204	
	108,651	99,197

Note 12. Financing and investment income and expenditure

	2013-14 £000's	Restated 2012-13 £000's
Interest payable and similar charges	76,487	78,262
Net interest on the net defined benefit liability	37,033	37,873
Interest receivable and similar income	-5,429	-6,632
Income and expenditure in relation to investment properties and changes in their fair value	-10,065	650
Other investment income	-4,089	-4,223
	93,937	105,930

Note 13. Taxation and non specific grant incomes

Collection Fund Accounting Policy

To reflect that billing authorities act as agents for major preceptors in collecting their share of Council Tax and Non-Domestic Rating income, transactions and balances will be allocated between billing authorities and major preceptors. Thus, the risks and rewards that the amount of Council Tax and Non-domestic Rates collected could vary from that predicted will be shared proportionately by the billing authorities and major preceptors.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

Revenue relating to such things as Council Tax and Non-Domestic Rates, are measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

A debtor/creditor position between billing authorities and major preceptors is required to be recognised for the cash collected by the billing Council from Council Tax and Non-domestic Rates debtors that belongs proportionately to the billing Council and the major preceptors. This is because the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Taxpayers and Non-domestic Ratepayers. The effect of any bad debts written off or movement in the impairment provision are also shared proportionately.

Part of the arrangement for the retention of business rates is that authorities will assume the liablity for refunding ratepayers that have successfully appealed against the ratable value of their property. At the end of 31 March 2014 the Council's estimated share of these liabilities is £2.6m.

	2013-14 £000's	2012-13 £000's
Income from Council Tax	-515,981	-579,639
Non-domestic rates income and expenditure	-44,507	
Non-ringfenced government grants	-496,656	-487,230
	-1,057,144	-1,066,869

Note 14. Grant Income

Accounting Policy

Government Grants and Contributions

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

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

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

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

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013-14:

	2013-14	2012-13
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Council Tax	-515,981	-579,639
Business Rates	-44,507	
Council Tax Freeze	-5,776	-14,448
Revenue Support Grant	-366,552	-303,447
Local Services Support Grant	-2,419	-3,436
Other Grants	-22,360	-90,713
New Homes Bonus	-5,865	-2,839
Business Rate Compensation Grant	-1,013	
Capital Government Grants and Contributions	-92,670	-72,347
Total	-1,057,143	-1,066,869
Credited to Services		
Dedicated Schools Grant	-728,221	-724,412
Education Funding Agency	-35,736	-44,116
Other DFES Grants	-118,353	-99,922
Department of Health Grants	-3,035	-1,970
Asylum	-12,927	-13,454
Other	-59,170	-44,103
Total	-957,442	-927,977

KCC's share of surplus on the Council Tax has increased by £4,106m (2012-13 surplus reduced by £0.515m). For 2013-14 there is a deficit on the Business Rate Collection Fund of £1,304m. See the Collection Fund Adjustment Account detailed in Note 21.

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2013-14	2012-13
	£'000	£'000
Capital Grants Receipts in Advance		
Department for Education	-5,345	-6,952
Other Grants	-4,368	-2,891
Other Contributions	-18,095	-14,044
Total	-27,808	-23,887

Note 15. Property, Plant and Equipment

Accounting Policy

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment above our de minimus of £10k (£2k in schools) is capitalised on an accruals basis. In this context, enhancement means work that has substantially increased the 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".

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

The Council 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, such as a significant downturn in economic conditions. Revaluation gains are written to the Revaluation Reserve and revaluation losses will be written off against any balance on the Revaluation Reserve for that asset or to the Comprehensive Income and Expenditure Statement where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Movement in Reserves Statement so that there is no impact on Council Tax.

Note 15 - Property, Plant and Equipment

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

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

- writing down the balance on the Revaluation Reserve for that asset up to the accumulated gains
- writing down the relevant service line in the Comprehensive Income and Expenditure Statement where there is no balance or insufficient balance on the Revaluation Reserve

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

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	- useful life as determined by the valuer
Vehicles, plant and equipment	- 3-25 years
Roads & other highways infrastructure	- 20 years
Community assets	- nil
Assets under construction	- nil
Investment properties, Assets Held for Sale	- nil
Heritage Assets	- nil

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Property will be split into five components:

Land

Structure

Mechanical and Electrical

Fixtures and Furnishings

Temporary Buildings

These components are a significant value of the asset as a whole and have significantly different useful lives.

In determining the extent to which we apply componentisation we have taken into consideration the material impact of not componentising assets within individual asset classes below a certain threshold. More detail on this can be found under the estimation techniques note on page 18.

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

Disposals and Non-current Assets Held for Sale

Assets are generally defined as 'held for sale' if their carrying amount is going to be recovered principally through a sale transaction rather than through continued use. This excludes from consideration any assets that are going to be abandoned or scrapped at the end of their useful lives. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Note 15 - Property, Plant and Equipment

Gains and Losses on Disposal of Non Current Assets

When an asset is disposed of or decommissioned, the difference between the capital receipt from the sale and the carrying amount of the asset in the Balance Sheet, after identified costs have been removed, is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Schools transferring to academy status within the financial year are derecognised. On transfer the full carrying value is derecognised as an asset disposal for nil consideration. The net loss on disposal of non-current assets of £107.7m includes £63.1m which relates to schools transferring to academy status and £35m which relates to schools transferring to foundation status.

Capital receipts

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. Conditional receipts are not included in these figures until it is prudent to do so.

Charges to Revenue for Non-Current Assets

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

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Note 15. Property, Plant & Equipment

Movement on balances - Movements in 2013-2014

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation at 1 April 2013	1,208,830	88,807	1,446,360	9,162	62,285	45,125	2,860,569	111,334
Additions	22,090	7,370	44,980	320	37,474	299	112,533	858
Donations								
Revaluation increases / (decreases) recognised in the Revaluation Reserve	61,613					-83	61,530	517
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-40,075					-111	-40,186	-2,054
Derecognition - Disposals	-105,841	-7,330			-5,755	-3,567	-122,493	-20,071

Property, Plant & Equipment - Movements in 2013-2014

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation								
Derecognition - Other						-3,938	-3,938	
Assets reclassified (to) / from Held for Sale							0	
Other Movements in cost or valuation*	-53,821	412	-1,675		-54,257	3,762	-105,579	-1,454
At 31 March 2014	**1,092,796**	**89,259**	**1,489,665**	**9,482**	**39,747**	**41,487**	**2,762,436**	**89,130**

* This line shows a movement of -£105,579k which includes the reversal of the write-out of depreciation upon revaluation (-£49,591k) so that the movements against the 'Revaluation increases/(decreases) recognised in the Revaluation Reserve' and 'Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services' reflect the actual revaluation movements to the Revaluation Reserve or Surplus/Deficit on the Provision of Services after depreciation has been written out. Also included within this line is -£54,257k which relates to amounts removed from the AUC balance following our annual review of AUC and completed capital works.

Note 15 - Property, Plant and Equipment

Property, Plant & Equipment - Movements in 2013-2014

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment at 1 April 2013	-84,167	-64,755	-692,100	0	0	-2,679	-843,701	-9,124
Depreciation Charge	-37,951	-9,192	-72,234			-1,325	-120,702	-2,506
Depreciation written out	49,553					38	49,591	1,454
Impairment (losses) / reversals recognised in the Revaluation Reserve							0	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	-6,209				-31,057		-37,266	

Property, Plant & Equipment - Movements in 2013-2014

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
Derecognition - Disposals	5,953	6,051				143	12,147	2,308
Derecognition - Other						441	441	
Other movements in Depreciation and Impairment	6,595	-182			31,057	-286	37,184	
At 31 March 2014	**-66,226**	**-68,078**	**-764,334**	**0**	**0**	**-3,668**	**-902,306**	**-7,868**
Net Book Value								
At 31 March 2014	**1,026,570**	**21,181**	**725,331**	**9,482**	**39,747**	**37,819**	**1,860,130**	**81,262**
At 31 March 2013	**1,124,663**	**24,052**	**754,260**	**9,162**	**62,285**	**42,446**	**2,016,868**	**102,210**

Note 15. Property, Plant & Equipment
Comparative Movements in 2012-13

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation at 1 April 2012	1,289,131	85,138	1,310,691	8,818	242,674	39,409	2,975,861	119,315
Additions	87,088	7,949	135,669	344	34,324	537	265,911	2,442
Donations								
Revaluation increases / (decreases) recognised in the Revaluation Reserve	4,378					182	4,560	
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-19,235					-818	-20,053	43
Derecognition - Disposals	-126,220	-4,280			-608	-1,105	-132,213	-10,466

Property, Plant & Equipment - Comparative Movements in 2012-13

	Land and Buildings £'000	Vehicles, Plant and Equipmen t £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation								
Derecognition - Other					-6,051		-6,051	
Assets reclassified (to) / from Held for Sale	-2,260					-548	-2,808	
Other Movements in cost or valuation	-24,052				-208,054	7,468	-224,638	
At 31 March 2013	**1,208,830**	**88,807**	**1,446,360**	**9,162**	**62,285**	**45,125**	**2,860,569**	**111,334**

Property, Plant & Equipment - Comparative Movements in 2012-13

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment at 1 April 2012	-77,923	-58,756	-626,566			-1,045	-764,290	-6,958
Depreciation Charge	-31,145	-10,053	-65,534			-1,530	-108,262	-2,682
Depreciation written out	16,169					438	16,607	
Impairment (losses) / reversals recognised in the Revaluation Reserve	-100						-100	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	-4,859				-26,624		-31,483	

Property, Plant & Equipment - Comparative Movements in 2012-13

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
Derecognition - Disposals	7,988	4,164				11	12,163	516
Derecognition - Other							0	
Other movements in Depreciation and Impairment	5,703	-110			26,624	-553	31,664	
At 31 March 2013	**-84,167**	**-64,755**	**-692,100**	**0**	**0**	**-2,679**	**-843,701**	**-9,124**
Net Book Value								
At 31 March 2013	**1,124,663**	**24,052**	**754,260**	**9,162**	**62,285**	**42,446**	**2,016,868**	**102,210**
At 31 March 2012	**1,211,208**	**26,382**	**684,125**	**8,818**	**242,674**	**38,364**	**2,211,571**	**112,357**

Note 15 - Property, Plant and Equipment

Valuations of Property, Plant and Equipment 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 as at 1 April 2013 were carried out by Oliver Chivers MRICS of Montagu Evans, overseen by Gary Howes MRICS and Rob Bower MRICS, both of Montagu Evans. The basis for valuation is set out in the statement of accounting policies, and further explained below.

		Land and buildings £'000
Valued at current value as at:		
	1 April 2009	777,493
	1 April 2010	223,774
	1 April 2011	424,096
	1 April 2012	350,976
	1 April 2013	687,985

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 2013-14 all land and buildings which have not had a valuation within the last five years have been valued, with the main class of asset in this year's tranche being primary schools.

The following methods/assumptions have been applied in estimating the fair values:
- Market Value for assets where a market exists and comparisons can be considered for example investment properties;
- Existing Use Value where the property is not specialised and is owner occupied for example county offices;
- Depreciated Replacement Cost where no market exists for a property, which may be rarely sold or it is a specialised asset for example schools.

We have considered and analysed the assets which are outside of the 2013-14 revaluation tranche and are confident that the carrying amount of these assets as at 31 March 2014 is not materially different to their fair value as at 31 March 2014.

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

Although the date of valuations on the valuation report is as at 1 April 2013, many of the valuations take place nearer the end of the financial year. We therefore assume that any spend incurred on these assets in prior years and held under assets under construction plus spend in the current year, has been included within the valuation figures. For completed projects it is therefore our policy to impair this spend and account for the valuation in accordance with IAS 16.

Contractual Liabilities

We are contractually committed to make the following payments over £10m in future years:

	2013-14 £000
Broadband	19,870
Dover Christ Church Academy	10,091

Note 16. Capital Expenditure and Financing

Accounting Policy

Government Grants and Contributions

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

Revenue expenditure funded from capital under statute

Revenue expenditure funded from capital under statute represents expenditure which may be properly capitalised, but does not result in the creation of a non-current asset. The expenditure has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Capital expenditure on assets that do not belong to the council such as Voluntary Aided schools and Academies are charged here and are written out in the year. These charges are reversed out to the Capital Adjustment Account through the Movement in Reserves Statement to mitigate any impact on council tax.

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2013-14 £000's	2012-13 £000's
Opening Capital financing requirement	1,464,961	1,495,873
Capital investment		
Property, Plant and Equipment	133,801	106,450
Intangible assets	1,373	826
Revenue expenditure funded from capital under statute	92,806	73,953
	1,692,941	1,677,102
Sources of finance		
Capital receipts	-7,005	-7,290
Government grants and other contributions	-166,483	-115,866
Direct revenue contributions	-19,953	-27,992
(MRP/loans fund principal)	-64,237	-60,993
Closing Capital Financing Requirement	1,435,263	1,464,961
Movement	**-29,698**	**-30,912**

	2013-14 £000's	2012-13 £000's
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	-405	
Increase in underlying need to borrow (unsupported by Government financial assistance)	-29,293	-30,912
Assets acquired under finance leases		
PFI/PPP contracts where no asset is acquired		
Increase/(decrease) in Capital Financing Requirement	**-29,698**	**-30,912**

Note 17. PFI and Similar Contracts

Accounting Policy

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets, written down by any capital contributions.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator

Note 17 - PFI and Similar Contracts

Value of PFI assets at each balance sheet date and analysis of movement in those values

Value of assets	6 schools	Swanscombe Schools	Westview/ Westbrook	Better Homes, Active Lives	TOTAL £'000
As at 31 March 2013	18,154	20,362	9,951	46,566	95,033
Additions	154	84	385	235	858
Revaluations	-1,538				-1,538
Transfer from/to WIP					
Impairment					
Depreciation	-563	-447	-242	-1,076	-2,328
Derecognition - disposal		-17,763			-17,763
Previous year adjustments					
As at 31 March 2014	16,207	2,236	10,094	45,725	74,262

Value of liabilities resulting from PFI at each balance sheet date and analysis of movement in those values

Finance Lease Liability	6 schools	Swanscombe Schools	Westview/ Westbrook	Better Homes, Active Lives	3 BSF Schools	TOTAL £'000
As at 31 March 2013	74,561	8,838	13,880	57,297	62,838	217,414
Fair value of assets coming into use in-year						0
Liability repaid	-1,415	-190	-254	-1,067	-1,288	-4,214
As at 31 March 2014	73,146	8,648	13,626	56,230	61,550	213,200

The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. For the 6 Schools PFI, the liability was written down by an initial capital contribution of £4.541m. For the Better Homes, Active Lives PFI the liability was written down by an initial capital contribution of £0.65m.

Details of payments to be made under PFI contracts

6 schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,559	6,391	3,087	805	11,842
Within 2-5 years	6,686	24,212	13,141	4,722	48,761
Within 6-10 years	11,199	26,646	18,360	7,851	64,056
Within 11-15 years	15,064	21,370	20,773	11,340	68,547
Within 16-20 years	24,383	13,389	23,503	10,076	71,351
Within 21-25 years	14,254	1,982	10,244	1,919	28,399

RPIx is used as the basis for indexation in the 6 schools PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

Note 17 - PFI and Similar Contracts

Swanscombe Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	303	1,325	677	261	2,566
Within 2-5 years	983	4,938	2,907	2,179	11,007
Within 6-10 years	3,154	4,905	4,111	1,544	13,714
Within 11-15 years	4,208	1,689	3,199	1,148	10,244

RPIx is used as the basis for indexation in the Swanscombe schools PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

Westview/Westbrook

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	271	1,053	1,484	399	3,207
Within 2-5 years	1,418	3,931	6,372	1,657	13,378
Within 6-10 years	2,024	4,358	9,050	2,845	18,277
Within 11-15 years	3,131	3,439	10,439	2,870	19,879
Within 16-20 years	6,783	1,805	9,506	884	18,978
Within 21-25 years	0	0	0	0	0

The RPIx and Average Weekly Earnings (AWE) indices are both used as bases for indexation in the Westview/ Westbrook PFI Contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract and AWE has been assumed to be 2% higher than this at 4.5% over the same period.

Better Homes, Active Lives

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,118	3,994	0	259	5,371
Within 2-5 years	4,292	15,190	0	2,002	21,484
Within 6-10 years	6,708	17,073	0	3,074	26,855
Within 11-15 years	10,337	14,269	0	2,249	26,855
Within 16-20 years	13,855	10,083	0	2,917	26,855
Within 21-25 years	19,920	4,245	0	899	25,064
Within 26-30 years	0	0	0	0	0

No indexation is applied to the Better Homes, Active Lives PFI contract.

Note 17 - PFI and Similar Contracts

3 BSF Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,415	5,719	1,960	11	9,105
Within 2-5 years	5,623	21,610	8,342	1,762	37,337
Within 6-10 years	9,681	23,625	11,656	3,556	48,518
Within 11-15 years	12,007	18,753	13,188	8,230	52,178
Within 16-20 years	19,731	12,108	14,921	7,168	53,928
Within 21-25 years	13,091	1,912	4,254	753	20,010

RPIx is used as the basis for indexation in the BSF Wave 3 PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

TOTAL for all PFI Contracts

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year - short term	4,666	18,482	7,208	1,735	32,091
Within 2-5 years	19,002	69,881	30,762	12,322	131,967
Within 6-10 years	32,766	76,607	43,177	18,870	171,420
Within 11-15 years	44,747	59,520	47,599	25,837	177,703
Within 16-20 years	64,754	37,385	47,930	21,045	171,114
Within 21-25 years	47,265	8,139	14,498	3,571	73,473
Within 26-30 years	0	0	0	0	0
Total	213,200	270,014	191,174	83,380	757,768

Swan Valley and Craylands, 6 Group Schools, and 3 BSF 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. In September 2013 Swan Valley Community School converted into Ebbsfleet Academy.

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 straddled 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 £373.9 million over the 28 year contract period.

Note 17 - PFI and Similar Contracts

On 24 October 2008, the Council contracted with Kent PFI Company1 Ltd to provide 3 new secondary schools in Gravesend (St John's Catholic School, Thamesview School and Northfleet Technology College) under a Private Finance Initiative (PFI) which formed part of the Building Schools for the Future programme. All three schools opened their new buildings during the 2010-11 financial year. The unitary charge commenced in July 2010 upon the opening of the three schools, PFI credits commenced in March 2011 and were backdated to July 2010. 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 £250.8 million over the 25 year contract period.

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, £80.75m for the 6 schools and £98.94m for the 3 schools. This approval triggers the payment of a Revenue Support Grant over the life of the schemes of 25 years (Swan Valley and Craylands), 28 years (6 schools) and 25 years (3 schools). This grant amounts to just under £23m (Swan Valley and Craylands), just over £177m (6 schools) and just over £193m (3 schools).

Westbrook and West View

In 2013-14 the Council made payments of £3.76m to Integrated Care Services (ICS) for the maintenance and operation of Westbrook and Westview recuperative care facilities. The Council is committed to making payments of £3.87m for 2014-15 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 2014-15 the Council is committed to making payments estimated at £2.68m 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 (£2.59m was paid in 2013-14). The contract will run until April 2036.

Better Homes Active Lives PFI

In October 2007 the Council signed a PFI contract with Kent Community Partnership (a wholly owned subsidiary of Housing 21) to provide 340 units of accommodation of which 275 units are Extra Care accommodation, 58 units for people with learning difficulties and 7 units for people with mental health problems. The contract for the provision of services will last until 2038-39. In 2013-14 the Council made payments of £5.4m to the contractor, and is committed to paying the same amount next year, although this will depend on the performance of Kent Community Partnership delivering the services under the contract.

Note 18. Heritage Assets

Accounting Policy

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

Heritage assets above our de minimus of £10k are recognised in the balance sheet wherever possible at valuation or cost. In most cases, insurance valuations are used. However, the unique nature of many heritage assets makes valuation complex and so where values cannot be obtained, either due to the nature of the assets or the prohibitive cost of obtaining a valuation, they are not recognised in the balance sheet but comprehensive descriptive disclosures are included in the statement of accounts.
An impairment review of heritage assets is carried out where there is physical deterioration of a heritage asset.

	Historic Buildings £000s	Artwork - Paintings & Sculptures £000s	Archives £000s	Historical & Archaeological Artefacts £000s	Civic Regalia £000s	Total Heritage Assets £000s
Cost or Valuation						
At 1 April 2012	**1,114**	**2,342**	**2,408**	**100**	**16**	**5,980**
Additions	99					**99**
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		508	50		-	**558**
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2013	**1,213**	**2,850**	**2,458**	**100**	**16**	**6,637**
Cost or Valuation						
At 1 April 2013	**1,213**	**2,850**	**2,458**	**100**	**16**	**6,637**
Additions						
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		68	57		-	**125**
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
Other movements in cost or valuation		372				**372**
At 31 March 2014	**1,213**	**3,290**	**2,515**	**100**	**16**	**7,134**

The other movements in valuation relate to the Glass Screen by Chris Ofilli and Kent History Tree and Leaves which were not previously recognised on the balance sheet - further details are provided on the following page.

Note 18 - Heritage Assets

Historic Environment & Monuments

Eight **windmills** are included in the balance sheet at a value of £1.102m, which represents spend on these assets. These are either Grade I or II listed buildings and are located across Kent. KCC first took windmills into our care in the 1950s when, with the millers gone, there was no one else to protect these landmark buildings. We now own eight, ranging from Post Mills of Chillenden and Stocks at Wittersham to the magnificent Smock Mill at Cranbrook – the tallest in England.

Kent County Council works with local groups to actively preserve the future of the windmills and to support their repair and, where records exist, restoration. We also encourage improvements to the buildings and sites, to encourage greater public access and greater use of the windmills as an educational resource.

Thurnham Castle, located within White Horse Wood Country Park is a late 11th/early 12th century motte and bailey castle with gatehouse and curtain walls in flint and traces of an oval or polygonal shell keep, built on a steep spur of the North Downs. Above ground remains consist of some surviving sections of walling and earthworks of the main castle mound. This is valued at £111k in the balance sheet which represents spend on the asset. Situated within Shorne Woods Country Park is the site of the medieval manor house **Randall Manor**. The site now consists of below ground archaeological remains, along with earthworks relating to associated fish ponds and field systems.

Hildenborough war memorial consists of a cross shaft with a carved relief of a crucifixion scene. It stands on a plinth on a stepped dais. The inscription to the dead of the First World War is on the front face of the plinth below the cross with names on the side faces and additional names of the fallen on the risers of the steps.

The former World War II Air Raid Wardens' post stands in a fenced and partly walled enclosure at the side of the steps down from Folkestone Road to the approach to Dover Priory railway station. It is a small flat-roofed concrete structure with all apertures boarded up.

Martello Tower No. 5 situated at Folkestone Grammar School is a Scheduled Monument, one of a chain of forts that protected the south coast from the threat of invasion in the Napoleonic period. It stands within the grounds of the school, immediately west of the buildings.

The church of St Martin-le-Grand and remains of the Dover Classis Britannica fort are incorporated and displayed at the Dover Discovery Centre, which houses Dover Library. It was formerly the White Cliffs Experience. The Roman remains relate to the 2nd century fort that occupied the site and the area to the southwest. The church of St Martin-le-Grand was an early foundation that developed through the medieval period. At the time of the Reformation it fell into disuse and buildings were constructed in and around the church. The remains of the church are exposed in the land between the centre and the museum to the northeast.

Artwork

Included in the balance sheet, at insurance valuations, are the following collections:

The Master collection of 16th-19th century prints and drawings, valued at £1,506k and currently held at the Kent History and Library Centre.

Kent Visual Arts Loan Service, a collection of c. 1500 pieces of original artwork, currently held in storage at Sessions House, Maidstone, valued at £580k.

The **Antony Gormley Boulders Sculpture**, the sculptors' first professional commission, valued at £500k. The sculpture is a single piece, in that the two parts are inextricably linked. The hollow bronze piece is a facsimile of the granite stone. The work represents the "old and the new" sitting side by side in harmony and is located at the Kent History and Library Centre.

Glass Screen by Chris Ofilli, valued at £292k. Translucent glazed screen lit from below, by Chris Ofili (2003), welcoming you to Folkestone Library.

Kent History Tree & Leaves, valued at £80k. The "History Tree" at the Kent History and Library Centre was installed in September 2013, created by Anne Schwegmann-Fielding in collaboration with Michael Condron. It is an 8 metre stainless steel tree, adorning the front of the building, with translucent mosaic at its base and 17 steel and mosaic leaves changing from green to red blowing along the pillars.

Note 18 - Heritage Assets

Contemporary collection of c. 200 paintings (6 out of 7 collections) in storage in Sessios House, valued at £266k.

KCC Sessions House collection, valued at £66k.

Archive Collections

Kent County Council looks after its own records and those of its predecessor authorities. In addition it collects and makes accessible other historic records under the terms of the 1962 Public Records Act and the 1972 Local Government Act. These records include those of public bodies such as courts, health trusts and coroners, of district councils and of individuals and organisation in the county. There are about 12kms of records, dating back to 699AD, and they are stored in BS5454 conditions at the Kent History Centre in Maidstone. Approximately 25% of the records are owned by KCC, the values of which are included in the balance sheet as follows (valuations are insurance valuations unless otherwise specified):

General archive collections - £686k

Knatchbull/Brabourne Manuscripts £1,329k. Family and estate papers relating to the Knatchbull/Brabourne family and comprising accounts, correspondence, legal papers and manorial records.

Rare Books collection £200k based on an informal estimate given by an antiquarian book dealer.

Amherst Family Papers £300k based on a valuation obtained before they were bought via a Heritage Lottery Fund bid.

The **Kent Historic Environment Record** is primarily a digital database (including GIS display) of Kent's archaeological sites, findspots, historic buildings and historic gardens. It also includes paper records of the County aerial photograph series and of archaeological, historic building and historic landscape reports.

Archaeological & historical artefacts

Kent County Council has accepted ownership of the majority of the **HS 1 archaeological archives** as owner of last resort to prevent the collections from being broken up or disposed of. The collections comprise approximately 70 cubic metres of boxes containing archaeological artefacts including pottery, bone, stone, metalwork and worked flint. They are generally of little financial value. The collections are currently housed at Kent Commercial Services, Larkfield and about half in a store at Dover Eastern Docks.

KCC owns approximately 2,800 objects of social history, archaeological and geological material, housed at **Sevenoaks Museum.** A marble **roman bust & portrait,** found at Lullingstone Villa, dating back to 2nd Century AD are valued in the balance sheet at £60k and £40k respectively. These are currently on long term loan from Sevenoaks Museum to the British Museum.

There is a collection of around 100 artefacts kept at **Ramsgate Museum** including prize cups, watches, signs & plaques, pots, printing plates, weights & measures.

Folkestone History Resource Centre, within Folkestone Library houses collections that cover the full range of human history, including archaeology, social, military and civil history, whilst various objects and documents record the maritime history and development of the town. There is also a range of pictorial items of local topographical and biographical interest.

KCC owns **Scientific Calibration Equipment** dating back to the 1800s in the display cases.

Civic Regalia

KCC’s silver collection is valued at £16k (insurance value). This includes The Chairman’s Plate, The Silver Salver, The Silver Gilt Cup and The 500 Squadron Silver collection.

Note 19. Leases

Accounting Policy

Leasing

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

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

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
- contingent rents, the difference between the rent paid in year and the original amount agreed in the contract (e.g. following a rent review) also debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense on the same basis as rental income.

Note 19 - Leases

The Council as Lessee

Operating Leases

Following a review on the materiality of lease values we found that only operating leases where the Council is the lessee were deemed to be material. The values are represented in the tables below.

The Council has acquired property, motor vehicles and office equipment by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 Mar 2014 £'000	31 Mar 2013 £'000
Not later than one year	10,291	14,740
Later than one year and not later than five years	15,008	20,321
Later than five years	16,717	4,410
	42,016	39,471

KCC sub-lets some properties held as operating leases. In most cases the amount charged to the tenants for sub-leases is nil. For those where we do charge, the future minimum sub-lease payments expected to be received by the Authority is £18.8m over the life of the 25 year lease.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to operating leases was:

	31 Mar 2014 £'000	31 Mar 2013 £'000
Minimum lease payments	11,256	17,976
Contingent rents	255	224
Sublease payments receivable	-162	0
	11,349	18,200

Note 20. Usable Reserves

Accounting Policy

The 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.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council.

Reserve	**Balance 1 April 2013 £'000**	**Net Movement in year £'000**	**Balance 31 March 2014 £'000**	**Purpose of Reserve**
Usable Capital Receipts	-33,582	-1,125	-34,707	Proceeds of fixed assets available to meet future Capital Expenditure
General Fund	-31,725	0	-31,725	Resources available to meet future unforeseen events
Capital Grants unapplied	-107,521	-11,446	-118,967	See note below
Earmarked Reserves*	-163,700	2,901	-160,799	See Note 22
Schools Reserve*	-48,124	2,394	-45,730	See over page
Surplus on Trading Accounts*	-1,004	-2,520	-3,524	Commercial Services and Oakwood House
Total	**-385,656**	**-9,796**	**-395,452**	

Capital grants unapplied of £119m as at 31 March 2014 include schools capital reserves of £414k. This has reduced from the £621k held by schools as at 31 March 2013. The remainder reflects Government grants and contributions received in year for projects in progress.

Note 20 - Usable Reserves and Note 21 - Unusable Reserves

School Reserves

At 31 March 2014 funds held in school revenue reserves stood at £45,730k. These reserves are detailed in the table below.

	Balance at 1 April 2013 £'000	Movement £'000	Balance at 31 Mar 2014 £'000
School delegated revenue budget reserves - committed	-9,181	986	-8,195
School delegated revenue budget reserves - uncommitted	-28,697	-2,589	-31,286
Unallocated Schools budget	-9,931	4,014	-5,917
Community Focused Extended School Reserves	-315	-17	-332
	-48,124	2,394	-45,730

Note 21. Unusable 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.

Reserve	Balance 1 April 2013 £'000	Net Movement in year £'000	Balance 31 March 2014 £'000	Purpose of Reserve
Revaluation Reserve	-284,373	-29,244	-313,617	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-314,753	125,359	-189,394	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	16,288	645	16,933	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-5,052	-2,802	-7,854	Movement between the I & E and amount required by regulation to be credited to the General Fund
Deferred capital receipts	0		0	
Pensions Reserves				Balancing account to allow inclusion of Pensions Liability in Balance Sheet
- KCC	892,068	135,123	1,027,191	
- DSO	2,012		2,012	
Available for Sale Financial Instruments	0	-26	-26	
Accumulated Absences Account	11,483	-958	10,525	This absorbs the differences on the General Fund from accruing for untaken annual leave

Note 21 - Unusable Reserves

Reserve	Balance 1 April 2013 £'000	Net Movement in year £'000	Balance 31 March 2014 £'000	Purpose of Reserve
Post Employment Account	10,981	-3,398	7,583	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future years
Total	**328,654**	**224,699**	**553,353**	

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment . The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2013-14		2012-13	
	£'000		£'000	
Balance as at 1st April		-284,373		-308,497
Upward revaluation of assets	-100,522		-40,333	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	38,866		35,315	
Correcting entries to previous year Revaluation Reserve			-225	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		-61,656		-5,243
Difference between fair value depreciation and historical cost depreciation	9,952		7,823	
Accumulated gains on assets sold or scrapped	22,460		36,138	
Amount written off to the Capital Adjustment Account		32,412		43,961
Amount relating to previous years written off to the Capital Adjustment Account				-14,594
Balance at 31 March		-313,617		-284,373

Note 21 - Unusable Reserves

Capital Adjustment Account

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

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 10 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2013-14 £'000		2012-13 £'000	
Balance at 1 April		-314,752		-445,049
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
- Charges for depreciation and impairment of noncurrent assets	157,968		139,713	
- Revaluation losses on Property, Plant and Equipment and Assets Held for Sale	40,390		20,095	
- Amortisation of intangible assets	1,415		863	
- Revenue expenditure funded from capital under statute	104,539		88,760	
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	115,389		122,826	
		419,701		372,257
Adjusting amounts written out of the Revaluation Reserve		-32,412		-29,367
Net written out amount of the cost of non-current assets consumed in the year		72,537		-102,159
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	-7,005		-14,638	

Note 21 - Unusable Reserves

- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-103,279		-67,016	
- Application of grants to capital financing from the Capital Grants Unapplied Account	-58,933		-42,863	
- Statutory provision for the financing of capital investment charged against the General Fund	-64,237		-60,993	
- Capital expenditure charged against the General Fund	-19,953		-27,992	
		-253,407		-213,502
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		-8,524		909
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		0		0
Balance at 31 March		-189,394		-314,752

Note 21 - Unusable Reserves

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2013-14		2012-13	
	£'000		£'000	
Balance at 1 April		16,288		16,321
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0		0	
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	-950		-950	
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		-950		-950
		1,595		917
Balance at 31 March		16,933		16,288

Note 21 - Unusable Reserves

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2013-14	2012-13 Restated
	£'000	£'000
Balance at 1 April	894,080	866,391
Remeasurement of the net defined liability/(asset)	120,217	4,567
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	84,764	92,531
Employer's pensions contributions and direct payments to pensioners payable in the year	-69,858	-69,409
Balance at 31 March	1,029,203	894,080

Collection Fund Adjustment Account

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

	2013-14	2012-13
	£'000	£'000
Balance at 1 April	-5,052	-5,567
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	-2,802	515
Balance at 31 March	-7,854	-5,052

Note 21 - Unusable Reserves

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2013-14		2012-13	
	£'000		£'000	
Balance at 1 April			-8,965	
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				
Transfer to the Capital Receipts Reserve upon receipt of cash			8,965	
Balance at 31 March		0		0

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2013-14		2012-13	
	£'000		£'000	
Balance at 1 April		11,483		13,521
Settlement or cancellation of accrual made at the end of the preceding year	-11,483		-13,521	
Amounts accrued at the end of the current year	10,525		11,483	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		-958		-2,038
Balance at 31 March		10,525		11,483

Note 21 - Unusable Reserves

Post Employment Account

The Post Employment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for early retirement and redundancy payments that are agreed in year but are due in future years. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2013-14		2012-13	
	£'000		£'000	
Balance at 1 April		10,981		12,792
Settlement or cancellation of accrual made at the end of the preceding year	-4,608		-4,245	
Amounts accrued at the end of the current year	1,210		2,434	
		-3,398		-1,811
Amount by which post employment costs are charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from costs chargeable in the year in accordance with statutory requirements				
Balance at 31 March		7,583		10,981

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised

	2013-14		2012-13	
	£'000		£'000	
Balance at 1 April		0		0
Upward revaluation of investments	-109			
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Service	83			
		-26		0
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income				
Balance at 31 March		-26		0

Note 22. Earmarked Reserves

A thorough review of our Reserves was carried out as part of the 2013-14 budget setting process. This resulted in a net draw-down of our reserves, but this will need re-instating over the medium term. A similar process was undertaken as part of the 2014-15 budget setting process and as a result a further draw down of reserves is planned for 2014-15. Our Corporate Director of Finance and Procurement, who is responsible for setting the level of Reserves, has deemed the level to be 'adequate' given the level of risk that we face.

The following describes each of the Earmarked Reserve accounts where the balance is in excess of £0.5m either on 31 March 2013 or 31 March 2014, the sum of which are shown in the tables on pages 72 and 73.

Vehicles, plant and equipment (VPE)

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 reserve is 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 UK Government.

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 UK Government.

Three Schools PFI Reserve

This has been established to equalise, over time, the budget impact of the unitary charge payments for the 3 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 UK Government.

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.

Better Homes Active Lives PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments, contract management costs and government grant funding for the Better Homes Active Lives scheme.

Note 22 - Earmarked Reserves

Reserve for projects previously classified as capital but now considered to be revenue
This has been established to cover the costs of projects which were included in the capital programme but further details are now available which have made it apparent that these costs are revenue. By switching around funding within the existing capital programme, so that revenue contributions to capital made in 2013-14 have been switched with other capital funding sources, we have been able to create this reserve to manage these revenue costs over the medium term.

Economic Downturn Reserve

This reserve is to cover the impact of the economic downturn which cannot be covered within normal revenue budget allocations.

Council Tax Equalisation Reserve

The reserve will be called upon each year to smooth the impact of the Council Tax freeze plus any amounts need to pay for agreements with individual district councils regarding the impact of Council Tax Support claimants.

Corporate Restructuring Reserve

Given the level of savings required in Local Government over the next few years, this reserve has been set up, largely from underspending in 2009-10, to fund invest-to-save projects which are essential to helping us re-engineer our business efficiently.

Supporting People Reserve
This is unspent grant from previous years which will be used to smooth out the loss of grant funding in future years.

NHS Support for Social Care Reserve

Kent PCT funding transferred to Kent County Council to aid the provision of Social Care Services which are to benefit health and to improve overall health gain. KCC and the Clinical Commissioning Groups continue to work together to agree jointly appropriate areas for investment which are funded from this reserve.

Drug & Alcohol Treatment Reserve

This reserve is funding from the National Treatment Agency which is to be spent on the provision of substance misuse treatment as qualifying expenditure is incurred.

Public Health reserve

As set out in the Local Authority Circular issued for the Public Health grant, any unused funds at the end of the financial year have been placed into a reserve and are to be used to meet eligible public health spend in future years.

Environmental Initiatives reserve
This reserve represents funds in hand relating to a variety of environmental initiatives involving other partners.

Rolling budget reserve
This reserve represents the roll forward of funds to cover re-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.

Flood reserve

After the severe weather in 2013-14 a sum of money has been set aside to meet these and future costs associated with flooding.

Note 22 - Earmarked Reserves

Safety Camera reserve

This reserve is funding from Kent Police and Medway Council for use by the Kent & Medway Safety Camera Partnership and is to fund the digitalisation of speed cameras.

Elections reserve

This reserve is to cover the costs of the County Council elections, which occur every 4 years, and by-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.

Libraries IT PFI final grant settlement reserve

During 2010-11 the UK Government changed the treatment of this grant and instead of paying this in quarterly instalments each year they have now provided a lump sum final payment to bring the total to that which would have been received if the grant had been calculated on an annuity basis from the start. This reserve will be used to replace the annual grant which we had budgeted to receive quarterly through to 2012-13.

Kent Public Services Network (KPSN) Re-procurement Reserve

This reserve represents a 2% surcharge on all services provided to partners under the KPSN contract, to be used to fund the re-procurement of the contract.

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.

Finance Business Solution reserve

This reserve will assist in the technology changes required to improve systems to meet the needs of self-sufficient budget managers.

Earmarked Reserve to support next year's budget

The approved medium term plan for 2014-15 includes support from 2013-14 underspending, which was transferred into this earmarked reserve during 2013-14 to be drawn down in 2014-15.

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. This will be used in the short to medium term to pay for PEF 2 borrowing costs.

Dedicated Schools Grant (Central Expenditure) Reserve

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

Turner Contemporary Investment Reserve

This reserve has been created from the settlement from the original Turner Contemporary gallery design and will be supplemented at the end of each year by the interest earned from its investment as part of KCC balances. It is used to part fund the annual contribution to the Turner Contemporary trust under the grant agreement dated 30th March 2010

Note 22 - Earmarked Reserves

Social Care - Supported Living Costs Reserve

This reserve is required to potentially fund backdated costs in relation to service users in supported living in Kent who are currently funded by other authorities. These costs may arise following legal negotiations.

Commuted Sums Reserve

This reserve has been created to hold the commuted sums which are provided under the Highways Act 1980. The commuted sums are received from developers and used to cover maintenance of the highway infrastructure that has a higher maintenance cost than conventional materials or items. The reserve will be drawn down upon annually to fund additional maintenance costs.

Public Inquiries Reserve

This reserve is required to smooth the fluctuations in costs incurred in major strategic developments and defence of the County Council's position at a public inquiry, either at an appeal against a County Council's enforcement decision or in response to a strategic decision determined by a Local Planning Authority.

Insurance Reserve

This is a reserve for the potential 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. These permits can either be used, banked for future use or traded 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.

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 2014-15 or future years as initiatives are completed. All balances on these reserves are below £0.5m.

Note 22 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2013	Movement	Balance at 31 Mar 2014
	£'000	£'000	£'000
VPE reserve	-5,417	-5,663	-11,080
Special funds	-3,486	940	-2,546
Kings Hill development smoothing reserve	904	-7,500	-6,596
Swanscombe School PFI equalisation reserve	-1,866	507	-1,359
Six schools PFI	-686	465	-221
Three schools PFI	-4,460	-1,387	-5,847
Westview/Westbrook PFI equalisation reserve	-2,405	-227	-2,632
Better Homes Active Lives PFI equalisation reserve	-2,889	-25	-2,914
Reserve for projects previously classified as capital - now revenue	-1,784	439	-1,345
Economic Downturn reserve	-21,149	2,063	-19,086
Council Tax Equalisation reserve	-7,500	-3,037	-10,537
Corporate Restructuring reserve	-6,145	-814	-6,959
Supporting People reserve	-2,087	144	-1,943
NHS Support for Social Care reserve	-11,383	6,329	-5,054
Drug & Alcohol Treatment reserve	-5,257	1,123	-4,134
Public Health reserve	0	-2,906	-2,906
Environmental initiatives reserve	-2,265	337	-1,928
Rolling budget reserve	-18,312	7,393	-10,919
Emergency Conditions reserve	-809	809	0
Flood Repairs reserve	0	-3,344	-3,344
Safety Camera Partnership reserve	0	-605	-605
Elections reserve	-1,412	1,412	0
Dilapidations reserve	-3,375	-811	-4,186
Workforce Reduction reserve	-7,043	-170	-7,213
KPSN Re-procurement reserve	-678	110	-568
IT Asset Maintenance reserve	-7,007	2,115	-4,892
Finance Business Solutions reserve	-179	-850	-1,029
Earmarked reserve to support next year's budget	0	-4,000	-4,000
Prudential Equalisation reserve	-11,794	2,801	-8,993
Dedicated Schools Grant - Central Expenditure	-10,274	348	-9,926
Turner Contemporary Investment reserve	-1,819	274	-1,545
Commuted Sums reserve	-4,558	4,128	-430
Public Inquiries reserve	-733	-125	-858
Other	-2,794	323	-2,471
Total	-148,662	596	-148,066
Insurance Reserve			
KCC	-5,624	0	-5,624
	-154,286	**596**	**-153,690**
Commercial Services Earmarked Reserves	-4,433	2,305	-2,128
EKO	-4,981		-4,981
Total Earmarked Reserves	**-163,700**	**2,901**	**-160,799**

Note 22 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2012	Movement	Balance at 31 Mar 2013
	£'000	£'000	£'000
VPE reserve	-5,535	118	-5,417
Special funds	-4,166	680	-3,486
School Maintenance Indemnity schemes	-795	795	0
Kings Hill development smoothing reserve	-1,096	2,000	904
Swanscombe School PFI equalisation reserve	-2,398	532	-1,866
Six schools PFI	-1,527	841	-686
Three schools PFI	-3,721	-739	-4,460
Westview/Westbrook PFI equalisation reserve	-2,153	-252	-2,405
Better Homes Active Lives PFI equalisation reserve	-2,855	-34	-2,889
Reserve for projects previously classified as capital - now revenue	-2,847	1,063	-1,784
Economic Downturn reserve	-16,621	-4,528	-21,149
Council Tax Equalisation reserve	0	-7,500	-7,500
Corporate Restructuring reserve	-1,938	-4,207	-6,145
Supporting People reserve	-2,133	46	-2,087
NHS Support for Social Care reserve	-12,900	1,517	-11,383
Drug & Alcohol Treatment reserve	0	-5,257	-5,257
Environmental initiatives reserve	-2,074	-191	-2,265
Rolling budget reserve	-20,242	1,930	-18,312
Emergency Conditions reserve	-809	0	-809
Elections reserve	-832	-580	-1,412
Dilapidations reserve	-2,520	-855	-3,375
Workforce Reduction reserve	-4,363	-2,680	-7,043
Libraries/IT PFI grant settlement reserve	-1,689	1,689	0
KPSN Re-procurement reserve	-528	-150	-678
IT Asset Maintenance reserve	-4,642	-2,365	-7,007
Earmarked Reserve to support next years budget	-3,512	3,512	0
Prudential Equalisation reserve	-9,707	-2,087	-11,794
Dedicated Schools Grant - Central Expenditure	-8,608	-1,666	-10,274
Turner Contemporary Investment reserve	-2,090	271	-1,819
Social Care Supported Living Costs reserve	-2,001	1,594	-407
Commuted Sums reserve	0	-4,558	-4,558
Public Inquiries reserve	-699	-34	-733
Other	-3,767	1,200	-2,567
Total	-128,768	-19,895	-148,663
Insurance Reserve			
KCC	-3,630	-1,994	-5,624
	-132,398	**-21,889**	**-154,287**
Commercial Services Earmarked Reserves	-3,936	-497	-4,433
EKO	-4,980	0	-4,980
Total Earmarked Reserves	**-141,314**	**-22,386**	**-163,700**

£9.8m of the increase in earmarked reserves for 2012-13 relates to the Drugs and Alcohol Reserve and Commuted Sums Reserve which had previously been treated as a receipt in advance.

Note 23. Provisions

Accounting Policy

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. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. The most significant provision made is for insurance claims. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

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.

The Post Employment Provision covers the costs of early retirements, redundancy costs and any other post employment costs for ex-employees/employees who have confirmed leaving dates.

The Accumulated Absences Provision is required to cover the costs of annual leave entitlements carried over to the following financial year. If an employee were to leave, they would be entitled to payment for this untaken leave.

	Insurance	Post Employment	Accumulated Absences	Other Provisions	Total
	£'000	£'000	£'000	£'000	£'000
Short Term					
Balance at 1 April 2013	-5,436	-5,020	-11,483	-2,756	-24,695
Additional Provisions made in 2013-14	-4,786	-4,821	-7,258	-1,300	-18,165
Amounts used in 2013-14	4,601	4,948	8,216	1,836	19,601
Unused amounts reversed in 2013-14		4		376	380
Balance at 31 March 2014	**-5,621**	**-4,889**	**-10,525**	**-1,844**	**-22,879**
Long Term					
Balance at 1 April 2013	-9,456	-6,464	0	-1,375	-17,295
Additional/Reduction in Provisions made in 2013-14	-1,400	-22		-1,115	-2,537
Amounts used in 2013-14				53	53
Unused amounts reversed in 2013-14		2,798		413	3,211
Balance at 31 March 2014	**-10,856**	**-3,688**	**0**	**-2,024**	**-16,568**
Total Provisions at 31 March 2014	**-16,477**	**-8,577**	**-10,525**	**-3,868**	**-39,447**

Insurance

Included within the insurance provision is £50k for the MMI provision.

Post Employment

The provision relates to early retirements and redundancies, and are individually insignificant.

Accumulated Absences

The provision relates to annual leave entitlement carried forward at 31 March 2014. It will not be discharged until a cash settlement is made or an employee takes their settlement, or the liability has ceased.

Other Provisions

There are provisions of £1,115k for Carbon Reduction Commitment and £1,300k for adoption underpayments which are included within Other provisions. All other provisions are individually insignificant.

Note 24 - Amounts owed to the Council by debtors

The fair value for long term investments at the Balance Sheet date is higher than the carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

	At 31 March 2014 £000's	At 31 March 2013 £000's
Long Term debtors:		
Medway Council (transferred debtor)	41,787	43,528
Public bodies	1,259	1,550
Other	30,263	14,681
	73,309	59,759
Other debtors:		
Government Departments	23,342	22,491
Other Local Authorities	3,525	8,348
NHS Bodies	1,098	1,058
General debtors	119,453	110,276
Payments in advance	17,291	21,362
EKO	316	213
	165,025	163,748

Capital debtors amounting to £2.9m are included in the Accounts at 31 March 2014 (£3.6m in 2012-13). Capital debtors relate to grants and external funding towards capital expenditure incurred in 2013-14 which had not been received by 31 March 2014.

Note 25 - Creditors and Note 26 - Cash and Cash Equivalents

Note 25. Amounts owed by the Council to creditors

	At 31 March 2014 £000's	At 31 March 2013 £000's
Central government bodies	12,461	11,412
Other local authorities	4,819	4,695
NHS bodies	2,146	330
General creditors	193,748	187,982
Receipts in advance	17,640	19,184
Deferred income	691	2,635
Kent and Essex Inshore Fisheries & Conservation Authority	1,729	1,268
EKO	57	75
	233,291	227,581
Creditors due after 1 year	14,152	27,970

Capital creditors amounting to £33m are included in the Accounts at 31 March 2014 (£27m in 2012-13).

Note 26. Cash and Cash Equivalents

Accounting Policy

Cash is represented by cash in hand/overdraft and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. They comprise call and business accounts.

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

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

	At 31 March 2014 £000's	At 31 March 2013 £000's
Bank current accounts	7,405	1,198
Call accounts (same day access funds)	100,000	213,860
Total Cash and Cash Equivalents	107,405	215,058

Notes 27 and 28 - Cash Flow - Non Cash Adjustments and Operating Activities

Note 27. Cash Flow - Non Cash Adjustments

	2013-14	Restated 2012-13
	£'000	£'000
Adjustment to net surplus or deficit on the provision of services for non cash movements		
Movement in pension liability	-14,906	-23,122
Carrying amount of non-current assets sold	-115,389	-124,436
Amortisation of fixed assets	-1,415	-863
Depreciation of fixed assets	-120,702	-108,230
Impairment & downward valuations	-77,656	-51,578
Increase/(decrease) debtors	1,990	766
(Increase)/decrease creditors	12,973	-5,805
Increase/(decrease) stock	-1,380	-538
Movement on investment properties	8,524	-909
REFCUS	-104,539	-88,760
Other non-cash items charged to the net surplus/deficit on the Provision of Services	8,390	8,721
	-404,110	-394,754
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of property plant and equipment, investment property and intangible assets	8,887	25,968
Capital grants applied	172,901	143,399
	181,788	169,367
	-222,322	-225,387

Note 28. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2013-14	2012-13
	£'000	£'000
Interest received	-5,976	-6,495
Interest paid	76,384	78,828
Employee Costs	-981,932	890,940
Income from Council Tax	-560,488	-579,639
Government Grants	-1,415,465	-1,415,206

Notes 29 and 30 - Cash Flow - Investing and Financing Activities

Note 29. Cash Flow Statement - Investing Activities

	2013-14	2012-13
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	217,859	196,221
Purchase of short-term and long-term investments	1,747,524	1,382,770
Other payments for investing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-8,887	-25,968
Proceeds from short-term and long-term investments	-1,603,568	-1,467,160
Other receipts from investing activities	-184,106	-161,512
Net cash flows	168,822	-75,649

Note 30. Cash Flow Statement - Financing Activities

	2013-14	2012-13
	£'000	£'000
Cash receipts of short- and long-term borrowing	0	0
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities	0	0
relating to finance leases and on-balance sheet PFI contracts	1,820	22,097
Repayments of short- and long-term borrowing	2,015	77,021
Other payments for financing activities	0	1,600
Net cash flows from financing activities	3,835	100,718

Note 31. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Council's principal directorates recorded in the budget reports for the year is as follows:

	Year ended 31 March 2014					
	Education, Learning & Skills	**Families & Social Care**	**Enterprise & Environ-ment**	**Customer & Commun-ities**	**Business Strategy & Support**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other income	-37,915	-115,453	-30,390	-41,193	-68,732	-293,683
Government Grants	-802,881	-30,862	-6,792	-17,754	-44,379	-902,668
Total Income	-840,796	-146,315	-37,182	-58,947	-113,111	-1,196,351
Employee expenses	566,714	155,787	23,511	56,224	74,186	876,422
Other operating expenses	293,972	464,118	166,269	67,107	253,130	1,244,596
Support Service recharges	16,640	11,983	1,982	5,552	5,193	41,350
Total operating expenses	877,326	631,888	191,762	128,883	332,509	2,162,368
Net Cost of Services	36,530	485,573	154,580	69,936	219,398	**966,017**

Reconciliation of Net Cost of Services in Comprehensive Income & Expenditure Statement

	£000's
Cost of Services in service analysis	966,017
Add services not included in main analysis	
Add amounts not reported to management	256,124
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-203,513
Net Cost of Services in Comprehensive Income & Expenditure Statement	**1,018,628**

Note 31 - Amounts Reported for Resource Allocation Decisions

Reconciliation to Subjective Analysis	Year ended 31 March 2014				
	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Allocation of Recharges
	£000's	£000's	£000's	£000's	£000's
Fees, charges & other service income	-293,683		154	26,338	-113,185
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-902,668		12,439	20,490	
Total Income	**-1,196,351**	**0**	**12,593**	**46,828**	**-113,185**
Employee expenses	876,422		-22,127		
Other service expenses	1,244,596		196,954	-250,341	113,185
Support Service recharges	41,350				
Depreciation, amortisation and impairment			198,764		
IAS 19 Adjustments			-22,127		
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets			-107,933		
Total operating expenses	**2,162,368**	**0**	**243,531**	**-250,341**	**113,185**
Surplus or deficit on the provision of services	**966,017**	**0**	**256,124**	**-203,513**	**0**

Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total
	£000's	£000's	£000's
Fees, charges & other service income	-380,376		**-380,376**
Surplus or deficit on associates and joint ventures			**0**
			0
Interest and Investment Income		-26,337	**-26,337**
Income from council tax		-560,488	**-560,488**
Government grants and contributions	-869,739	-496,657	**-1,366,396**
Total Income	**-1,250,115**	**-1,083,482**	**-2,333,597**
Employee expenses	854,295		**854,295**
Other service expenses	1,304,394		**1,304,394**
Support Service recharges	41,350		**41,350**
Depreciation, amortisation and impairment	198,764		**198,764**
IAS 19 Adjustments	-22,127	37,033	**14,906**
Interest payments		76,487	**76,487**
Precepts & Levies		719	**719**
Gain or Loss on Disposal of Fixed Assets	-107,933	107,933	**0**
Total operating expenses	**2,268,743**	**222,172**	**2,490,915**
Surplus or deficit on the provision of services	**1,018,628**	**-861,310**	**157,318**

Note 31 - Amounts Reported for Resource Allocation Decisions

	Restated Year ended 31 March 2013					
	Education, Learning & Skills	**Families & Social Care**	**Enterprise & Environ-ment**	**Customer & Commun-ities**	**Business Strategy & Support**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other income	-89,277	-113,484	-30,055	-55,079	-56,291	-344,186
Government Grants	-752,727	-25,003	-2,045	-1,133	-99,367	-880,275
Total Income	-842,004	-138,487	-32,100	-56,212	-155,658	-1,224,461
Employee expenses	588,025	153,549	22,465	57,113	72,135	893,287
Other operating expenses	279,489	459,195	161,502	70,976	225,143	1,196,305
Support Service recharges	17,100	11,287	1,830	5,474	4,662	40,353
Total operating expenses	884,614	624,031	185,797	133,563	301,940	2,129,945
Net Cost of Services	42,610	485,544	153,697	77,351	146,282	**905,484**

Reconciliation of Net Cost of Services in Comprehensive Income & Expenditure Statement

	£000's
Cost of Services in service analysis	905,484
Add services not included in main analysis	
Add amounts not reported to management	230,310
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-143,786
Net Cost of Services in Comprehensive Income & Expenditure Statement	**992,008**

	Year ended 31 March 2013				
Reconciliation to Subjective Analysis	**Service Analysis**	**Services not in Analysis**	**Not reported to mgmt**	**Not included in I&E**	**Allocation of Recharges**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other service income	-344,186		-2,025	15,791	-150,633
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-880,275		1,296	90,713	
Total Income	**-1,224,461**	**0**	**-729**	**106,504**	**-150,633**

Note 31 - Amounts Reported for Resource Allocation Decisions

Employee expenses	893,287		-14,751		
Other service expenses	1,196,305		85,118	-250,290	150,633
Support Service recharges	40,353				
Depreciation, amortisation and impairment			160,672		
IAS 19 Adjustments					
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets					
Total operating expenses	**2,129,945**	**0**	**231,039**	**-250,290**	**150,633**
Surplus or deficit on the provision of services	**905,484**	**0**	**230,310**	**-143,786**	**0**

Reconciliation to Subjective Analysis	**Net Cost of Services**	**Corporate Amounts**	**Total**
	£000's	**£000's**	**£000's**
Fees, charges & other service income	-481,053		**-481,053**
Surplus or deficit on associates and joint ventures			**0** **0**
Interest and Investment Income		22,083	**22,083**
Income from council tax		-579,639	**-579,639**
Government grants and contributions	-788,266	-487,230	**-1,275,496**
Total Income	**-1,269,319**	**-1,044,786**	**-2,314,105**
Employee expenses	878,536		**878,536**
Other service expenses	1,181,766		**1,181,766**
Support Service recharges	40,353		**40,353**
Depreciation, amortisation and impairment	160,672		**160,672**
Interest payments		78,262	**78,262**
Precepts & Levies		729	**729**
Gain or Loss on Disposal of Fixed Assets		98,468	**98,468**
Total operating expenses	**2,261,327**	**177,459**	**2,438,786**
Surplus or deficit on the provision of services	**992,008**	**-867,327**	**124,681**

Note 32. Trading Operations

The results of the various trading operations for 2013-14 are shown below prior to transfers to and from reserves.

Business unit/activity	**Turnover £'000**	**Expenditure £'000**	**Surplus/ Deficit(-) 2013-14 £'000**	**Surplus/ Deficit(-) 2012-13 £'000**
Kent County Supplies and Furniture Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	53,963	51,067	2,896	2,289
Facilities & Technical Services Provision of a wide range of Facilities & Staff Care Management, and Maintenance of buildings and equipment including IT	2,141	1,941	200	512
Brokerage Services Procurement and distribution of Services, including Laser energy buying group, community equipment service, and the specification and control of transport for ELS, E&E & FSC	272,259	269,126	3,133	2,481
County Print Graphic design and general printing	106	5	101	-30
Transport Services Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport	1,068	644	424	127
Landscape Services Grounds maintenance including constructing and safety Inspection Services for electrical and fire fighting equipment	17	16	1	206
Oakwood House Conference centre	2,095	2,095	0	0
Total surplus	331,649	324,894	6,755	5,585

The trading surplus excludes the wholly owned subsidiaries. Information on these can be found in Note 40 on page 101.

Note 33. Audit Costs

In 2013-14 the following fees were paid relating to external audit and inspection :

	2013-14 £'000	2012-13 £'000
Fees payable to the Audit Commission / Grant Thornton for external audit services carried out by the appointed auditor	209	208
Fees payable to the Audit Commission / Grant Thornton in respect of statutory inspection	0	
Fees payable to the Audit Commission / Grant Thornton for the certification of grant claims and returns	0	6
Fees payable in respect of other services provided by the appointed auditor	10	6
	219	220

Note 34. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2013-14 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2013-14 before Academy recoupment			1,012,884
Academy figure recouped for 2013-14			284,663
Total DSG after Academy recoupment for 2013-14			728,221
Brought forward from 2012-13			16,488
Carry Forward to 2014-15 agreed in advance			0
Agreed initial budget distribution in 2013-14	110,560	634,149	744,709
In year adjustments	-9,733	9,733	0
Final budgeted distribution in 2013-14	100,827	643,882	744,709
Less actual central expenditure	88,359		
Less Actual ISB deployed to schools		643,882	
Plus Local Council contribution for 2013-14	0	0	0
Carry Forward to 2014-15	12,468	0	12,468 *

Notes *
The total carry forward to 2014-15 of £12,468k represents a carry forward of £9,927k on the centrally retained DSG budget and £2,541k on the schools' unallocated budget. The schools unallocated reserve now stands at over £5.9m, and its use is determined by the Schools' Funding Forum. It should be noted that the Schools' Forum have now committed the majority of the unallocated reserve and it is estimated that the majority will be spent in 2014-15.

Note 35. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 31 on reporting for resources allocation decisions.

Other Public Bodies (subject to common control by central government)

The Council has pooled budget arrangements for the provision of a range of services including drug and alcohol related services, registered nursing care contribution in care homes and integrated care centres providing nursing, respite and recuperative care to Older People.

Payments of Employers' Pension Contributions were made to the Pension Fund in respect of members of the Local Government Pension Scheme and to the Teachers Pension Agency in respect of teachers. The amounts of these payments are detailed in notes to the Consolidated Income and Expenditure Statement, Note 36 on pages 86 to 92 of these Accounts.

As administrator of the Kent Pension Fund, KCC has direct control of the Fund. Transactions between KCC Pension Fund and the Council in respect of income for pensions admin, investment monitoring and other services amounted to £2.910m and cash held by the KCC on behalf of the Pension fund is £1.736m.

Payments to other local authorities and health bodies, excluding precepts, totalled £43.6m.

Receipts from other local authorities and health bodies totalled £65.5m.

Entities Controlled or Significantly Influenced by the Council:

Details of Kent County Council's subsidiary companies are provided in Note 40.

Payments made to Kent Top Temps Ltd (KTT) amounted to £2.2m. The loan of £0.2m was repaid in December 2013. KCC received £0.008m of interest. KTT made £0.3m of purchases from KCC.

Kent County Trading Ltd is the holding company of Commercial Services Trading Ltd (CST) and Commercial Services Kent Ltd (CSK). KCC holds £4m shares in the company.

CST sales amounted to £4.5m. CST made purchases from KCC amounting to £1.0m.

CSK sales to KCC amounted to £35.4m. CSK made purchases from KCC amounting to £1.0m.

A loan of £0.429m was made to East Kent Opportunities LLP in 2010-11, and this, with existing loans and recharges of internal services provided, leaves a balance of £0.071m in 2013-14.

Kent County Council also has an interest in the following companies:

Active companies with less than 50% control	Payments made in 13-14
Association of Tourist Attractions in Kent	-
Groundwork Kent and Medway	2,800
The Individual Learning Co Ltd	-
The North Kent Architecture Centre Ltd	-
Kent Tourism Alliance Ltd became Visit Kent Ltd from 21.3.08	393,542
Locate in Kent Ltd (as amended on 5/5/2000)	1,102,034
Trading Stds South East Ltd	120,586
Business Support Kent Community Interest	85,832
East Kent Spatial Development Company	-
Goetec Ltd	106,506
Kent PFI Holdings Company 1 Ltd	
TRN	
Shearwater Systems	
Active companies with greater than 50% control	
Produced in Kent (PINK) Ltd	80,390
Dormant	
Kentish Fare Ltd - Transferred to Produced in Kent (PINK) Ltd	-
Dissolved	
Invicta Services Ltd	-
Kent Cultural Trading Ltd	-

Note 36. Pension Costs

Note 36a - Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013-14 Kent County Council paid £38.5m (£40.8m in 2012-13), 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 2013-14 these amounted to £4.6m (£4.5m in 2012-13), representing 1.7% (1.6% in 2012-13) of pensionable pay.

Public Health staff employed by the Authority are members of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers and is a multi-employer defined benefit scheme. The Authority is not able to identify the underlying scheme assets and liablities for the staff transferred. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2013-14 Kent County Council paid £0.2m, to the NHS Pension Scheme in respect of public health pension costs, which represented 14% of employees pensionable pay.

Note 36 - Pensions Costs

Note 36b. Defined Benefit Pension Scheme

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

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

- Arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

- The Kent County Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Kent County Council Superannuation Fund Committee, a committee of Kent County Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Director of Dinance and Procurement of Kent County Council and external Investment Fund managers (for details of investment fund managers see note 15 of the Pension Fund Accounts).

- The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

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 through the Movement in Reserves Statement.

Under the requirements of IAS19, 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 2013-14	Local Government Pension Scheme Restated 2012-13
Comprehensive Income and Expenditure Statement	£000's	£000's
Cost of Services:		
• Current service cost	-68,603	-61,912
• Past service costs	-1,728	-5,083
• (Gain)/loss from settlements	24,030	13,650
• Administration expenses	-1,430	-1,313
Financing and Investment Income and Expenditure		
• Net interest expenses	-37,033	-37,873
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	-84,764	-92,531

Note 36 - Pensions Costs

	2013-14	Restated 2012-13
	£000's	£000's
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement		
• Return on plan assets (excluding the amount included in the net interest expenses)	66,597	147,797
• Actuarial gains and losses arising on changes in demographic assumptions	-61,311	
• Actuarial gains and losses arising on changes in financial assumptions	-86,524	-156,618
• Other	-38,980	4,254
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**-120,218**	**-4,567**
Movement in Reserves statement		
• Reversal of net charges made for retirements benefits in accordance with IAS19	84,764	92,531
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	-69,858	-69,409

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 2013-14 Kent County Council paid an employer's contribution of £69.9m (£69.4m in 2012-13) into the Pension Fund, representing 20% (24% in 2012-13) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2013-14 was based on the review carried out as at 31 March 2013. 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. There is zero capital value of discretionary increases in pension payments (i.e. discretionary added years) agreed by the Council in 2013-14 (£130k in 2012-13). The capital value of payments agreed in earlier years is £124m (£121m in 2012-13).

Pension Assets and Liabilities in the Balance Sheet

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

	Local Government Pension Scheme £'000 2013-14	Local Government Pension Scheme £'000 Restated 2012-13
Present value of the defined benefit obligation	2,773,605	2,537,711
Fair value of plan assets	-1,808,316	-1,706,017
Sub-total	965,289	831,694
Other movements in the liability/(asset)	63,914	62,386
Net liability arising from defined benefit obligation	**1,029,203**	**894,080**

Note 36 - Pensions Costs

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

	Local Government Pension Scheme £'000 2013-14	Local Government Pension Scheme £'000 Restated 2012-13
Opening fair value of scheme assets	1,706,017	1,498,893
Interest income	73,728	68,696
Remeasurement gains/(losses)		
• Return on plan assets (excluding the amount included in the net interest expenses)	62,624	147,797
• Other	3,973	
Contributions from employer	74,536	74,080
Contributions from employees into the scheme	19,635	19,691
Benefits paid	-98,194	-95,726
Other	-34,003	-7,414
Closing fair value of scheme assets	**1,808,316**	**1,706,017**

The actual return on scheme assets in the year was £136,352k (2012-13 : £216,493k)

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

	Liabilities: Local Government Pension Scheme £'000 2013-14	Liabilities: Local Government Pension Scheme £'000 Restated 2012-13
Opening balance at 1 April	2,600,097	2,363,075
Current service cost	68,603	61,912
Interest cost	110,761	106,569
Contribution from scheme participants	19,635	19,691
Remeasurement gains/(losses):		
• Actuarial gains and losses arising on changes in demographic assumptions	61,311	
• Actuarial gains and losses arising on changes in financial assumptions	86,524	156,618
• Other	38,979	-2,045
Past service costs	1,728	5,083
Benefits paid	-93,516	-91,055
Liabilities extinguished on settlements	-56,603	-19,751
Closing balance at 31 March	**2,837,519**	**2,600,097**

Note 36 - Pensions Costs

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets
	2013-14
	£'000
Cash and cash equivalents	54,249
Equity instruments:	
By industry type	
• Consumer	131,876
• Manufacturing	89,652
• Energy and utilities	122,860
• Financial institutions	165,753
• Health and care	68,707
• Information technology	88,453
Sub-total equity	667,301
Bonds:	
By sector	
• Corporate	74,472
• Government	18,083
• Collateralised	29,514
• Corporate Fixed Interest Pooled Funds	94,929
Sub-total bonds	216,998
Property:	
By type	
• Retail	73,045
• Offices	26,235
• Industrial	29,200
Sub-total property	128,480
Private equity:	
• UK	10,894
• Overseas	
Sub-total private equity	10,894
Other investment funds:	
• Infrastructure	21,094
• Property	52,352
• Equity Pooled Funds	584,615
Sub-total other investment funds	658,061
Target Return Portfolio	72,333
Total assets	**1,808,316**

All scheme assets have quoted prices in active markets

Note 36 - Pensions Costs

The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. International Accounting standard IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. The yield in excess of expected inflation (which in turn is based on gilt yields) from corporate bonds decreased from 1.0% to 0.8% during the year in part due to the impact of quantitative easing and other technical factors on bond and gilt markets. Had these markets remained at their 2013 levels then the pensions deficit would have been £191,493,000 less at £837,710,000.

IAS19 does not have any impact on the actual level of employer contributions paid to the Kent County Council Fund. Employers' levels of contribution are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2015 is £64,786k, this is in line with the revised IAS19 Standard

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The County Council Fund liability has been assessed by Barnett Waddingham.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2013-14	**2012-13**
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.7	20.1 years
Women	25.1	24.1 years
Longevity at 65 for future pensioners:		
Men	24.9	22.1 years
Women	27.4	26.0 years
Rate of inflation	3.6%	3.4%
Rate of increase in Consumer Price Index	2.8%	2.6%
Rate of increase in salaries	4.1%	3.9%
Rate of increase in pensions	2.8%	2.6%
Rate for discounting scheme liabilities	4.4%	4.4%
Take-up option to convert annual pension into retirement lump sum	50%	50%

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

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £'000	Decrease in Assumption £'000
Adjustment to discount rate (increase or decrease by 0.1%)	2,788,433	2,887,517
Adjustment to long term salary increase (increase or decrease by 0.1%)	2,843,958	2,831,119
Adjustment to pension increase and deferred revaluation (increase or decrease by 0.1%)	2,881,813	2,794,029
Adjustment to mortality age rate assumption (increase or decrease in 1 year)	2,738,016	2,937,921

Highways ex Direct Works DLO Pension Fund

The Balance Sheet includes £2m to reflect the unfunded liability of the Highways (ex Direct Works DLO) Pensions Fund as calculated by the actuary in March 2014 in accordance with IAS19.

Note 37. Financial Instruments

Accounting Policy

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Note 37 - Financial Instruments

Financial assets

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

However, the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

The Council's financial liabilities held during the year are measured at amortised cost and comprised of:

- long-term loans from the Public Works Loan Board and commercial lenders
- overdraft with NatWest Bank
- finance leases on land and buildings
- Private Finance Initiative contracts detailed in Note 17
- trade payables for goods and services received

Financial Assets

The financial assets held by the Council during the year are held under the following three classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising of:

- cash
- bank accounts
- fixed term deposits with the DMO
- fixed term deposits with banks and building societies
- impaired investments in Icelandic banks
- trade receivables for goods and services delivered

Note 37 - Financial Instruments

Available for sale financial assets (those that are quoted in an active market) comprising of:
- certificates of deposit issued by banks and building societies
- treasury bills and gilts issued by the UK Government
- covered bonds issued by financial institutions and backed by a pool of assets
- pooled property and equity investment funds

Unquoted equity investments held at cost because it is impracticable to determine fair value, comprising:
- equity investments in Kent Commercial Services, Kent PFI Limited and companies supported by the Kent Regional Growth Fund

Financial Instrument Balances

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		Current	
	31 Mar 2014	**31 Mar 2013**	**31 Mar 2014**	**31 Mar 2013**
	£000's	**£000's**	**£000's**	**£000's**
Investments				
Loans and receivables			169,414	64,961
Available-for-sale financial assets	15,340		18,011	
Unquoted equity investment at cost	6,854			
Total investments	**22,194**	**0**	**187,425**	**64,961**
Debtors				
Loans and receivables	73,309	59,759		
Financial assets carried at contract amounts			143,352	137,429
Total included in Debtors	**73,309**	**59,759**	**143,352**	**137,429**
Cash and Cash Equivalents				
Cash equivalents at amortised cost			100,000	213,860
Cash and Bank Accounts			40,335	1,198
Total Cash and Cash Equivalents	**0**	**0**	**140,335**	**215,058**
Borrowings				
Financial liabilities at amortised cost	997,168	1,023,575	26,826	2,327
Total Borrowing	**997,168**	**1,023,575**	**26,826**	**2,327**
Other Liabilities				
PFI and Finance Lease Liabilities	212,163	217,333	4,799	4,462
Total other long-term liabilities	**212,163**	**217,333**	**4,799**	**4,462**
Creditors				
Financial liabilities carried at contract amounts	14,152	27,970	214,960	205,761
Total Creditors	**14,152**	**27,970**	**214,960**	**205,761**

Note 37 - Financial Instruments

Financial Instruments Gains / Losses

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

	2013-14		
	Financial Liabilities	**Financial Assets**	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	**£000's**	**£000's**
Interest expense - Debt	-55,907		-55,907
Losses on derecognition	-950		-950
Impairment losses			0
	-56,857	**0**	**-56,857**
Interest expense - Finance leases	-20,434		-20,434
Interest expense - PFI	-198		-198
Interest payable and similar charges	**-77,489**	**0**	**-77,489**

	2013-14		
	Financial Liabilities	**Financial Assets**	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	**£000's**	**£000's**
Interest income		2,914	2,914
Reduction in Impairment losses		1,002	1,002
Interest and investment income	**0**	**3,916**	**3,916**
Available-for-sale investments - Losses on revaluation		-26	-26
Amounts recycled to I&E Account after impairment			
Loss arising on revaluation of financial assets	**0**	**-26**	**-26**
Net gain/(loss) for the year	**-77,489**	**3,890**	**-73,599**

Financial Instruments - Fair Values

The Council's financial liabilities and financial assets classified as loans and receivables are carried in the Balance Sheet at amortised cost. The portion of borrowings and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under short term borrowings or short term investments. This also includes accrued interest for borrowings, investments, cash and cash equivalents.

Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2014, using the following assumptions:

- PWLB loans have been discounted at the published interest rates for new certainty rate loans arranged on 31 March
- other long-term loans and investments have been discounted at the market rates for similar instruments on 31 March
- no early repayments or impairment is recognized
- the fair value of short-term instruments, including trade payables and receivables is assumed to approximate to the carrying amount

The fair values calculated are as follows:

	31 March 2014		31 March 2013	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	£000's	**£000's**	**£000's**	**£000's**
PWLB debt	577,544	712,368	579,347	773,970
Non-PWLB debt	446,140	555,651	446,246	630,288
EKO temporary loan	309	309	309	309
Total Borrowings	1,023,993	1,268,328	1,025,902	1,404,567
PFI and Finance Lease Liabilities	216,962	276,857	221,795	283,041
Creditors	229,112	229,112	233,731	233,731
Total Financial Liabilities	**1,470,067**	**1,774,297**	**1,481,428**	**1,921,339**
Long Term Investments	15,340	15,365		
Unquoted Equity	6,854	6,854		
Short Term Investments	187,425	187,425	64,961	64,961
Cash equivalents at amortised cost	100,000	100,000	213,860	213,860
Cash	40,335	40,335	1,198	1,198
Total Investments and Cash	349,954	349,979	280,019	280,019
Debtors	174,454	174,454	197,188	197,188
Total Financial Assets	**524,408**	**524,433**	**477,207**	**477,207**

The fair value of financial liabilities is higher 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 at the Balance Sheet date.

Note 38. Nature and Extent of Risks Arising from Financial Instruments

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with The Revised Prudential Code of Capital Finance for Local Authorities (both updated in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

Note 38 - Nature and Extent of Risks Arising from Financial Instruments

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Council's activities expose it to a variety of financial risks:

- 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;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in market variables such as interest rates and equity prices.

Credit Risk: Investments

The Council manages credit risk by ensuring that investments are placed with the organisations of high quality as set out in the Treasury Management Strategy.

The criteria for the selection of counterparties are:

- A strong likelihood of Government intervention in the event of liquidity issues based on the systemic importance to the UK economy.
- Publicised credit ratings for institutions (excluding the DMO).
- Other financial information e.g. Credit Default Swaps, share price, corporate developments, news, articles, market sentiment, momentum.
- Country exposure e.g. Sovereign support mechanisms, GDP, net debt as a percentage of GDP.
- Exposure to other parts of the same banking group.
- Reputational issues.
- Minimum long-term credit rating of A-.

Limits are placed on the amount of money that can be invested with a single counterparty. For 2013-14 these limits were: DMO £450m, UK banks and building societies £50m with a group limit of £75m, Australian and Canadian banks £25m with a country limit of £50m. The maximum duration for any new deposit is twelve months.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £400m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise.

The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating:

Credit Rating	**31 Mar 2014**	**31 Mar 2013**
	£000's	**£000's**
AAA	5,328	0
AA+	700	0
AA-	120,000	0
A	155,000	244,400
A-	5,000	0
Unrated Pooled Funds	10,000	0
Total Investments	296,028	244,400

All deposits outstanding as at 31 March 2014 met the Council's credit rating criteria on 31 March 2014.

The above analysis excludes the estimated carrying value after impairment of the Council's Icelandic Bank investment of £12.4m.

Note 38 - Nature and Extent of Risks Arising from Financial Instruments

Credit Risk: Receivables

The Council does not generally allow credit for its debtors, as such £676m of the £201,445m balance is one month past its due date for payment. The past due amount can be analysed by age as follows:

	31 Mar 2014	31 Mar 2013
	£000's	£000's
One to three months	334	374
Three to six months	172	204
Six months to one year	101	385
More than one year	69	93
	676	**1,056**

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2014 was £54m.

Liquidity risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and at higher rates from banks. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities

The maturity analysis of the principal sums borrowed is as follows:

Time to maturity	31 Mar 2014	31 Mar 2013
Years	£000's	£000's
Not over 1	26,190	2,015
Over 1 but not over 2	31,000	26,193
Over 2 but not over 5	84,000	95,002
Over 5 but not over 10	92,000	92,003
Over 10 but not over 20	86,010	106,005
Over 20 but not over 30	189,470	148,470
Over 30 but not over 40	59,800	130,800
Over 40	241,100	216,100
Uncertain date *	200,700	195,700
Total	**1,010,270**	**1,012,288**

* The Council has £200.7m of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely repay these loans. The maturity date is therefore uncertain.

Market risk

Interest Rate Risk: The Council is exposed to risks arising from movements in interest rates. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income credited will rise
- investments at fixed rates – the fair value of the assets will fall.

Note 38 - Nature and Extent of Risks Arising from Financial Instruments

Investments classed as “loans and receivables” and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as “available for sale” will be reflected in Other Comprehensive Income and Expenditure. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 30% on external debt that can be subject to variable interest rates. At 31 March 2014, 80.1% of the debt portfolio was held in fixed rate instruments, and 19.9% in variable rate instruments (LOBO loans within option periods).

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000's
Increase in interest payable on variable rate borrowings	2,007
Increase in interest receivable on variable rate investments	(1,000)
Increase in government grant receivable for financing costs	
Impact on Provision of Services (surplus)	**1,007**
Decrease in fair value of fixed rate investment assets	500
Impact on Other Comprehensive Income and Expenditure	**500**
Decrease in fair value of fixed rate borrowings / liabilities*	**(44,317)**

*No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Investments are also subject to movements in interest rates. The Council's policy of holding variable rate and short term fixed rate investments increases the exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

Price Risk: The market prices of the Council’s bond investments are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The Council’s investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council’s maximum exposure to property investments of £5m. A 5% fall in commercial property prices would result in a £0.245m charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

The Council’s investment in a pooled equities fund is also governed by the risk of falling share prices. This risk is limited by the Council’s maximum exposure to such funds of £5m. A 5% fall in share prices would result in a £0.254m charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

Foreign Exchange Risk: the Council currently has approximately £3m in Icelandic Krona held in escrow pending the relaxation of capital controls by the Icelandic Government, and is therefore exposed to the risk of adverse movements in the exchange rate.

Note 39. Contingent Liabilities

Accounting Policy

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

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

Employment

There are 7 claims relating to discrimination and breach of contract in employment. Of these, three are limited to unfair dismissal, two are discrimination cases and two cases relating to a combination of unfair dismissal and discrimination. In addition to the 7 claims there are a potential number which have not yet officially pleaded. Although the governing bodies of schools are the legal employer of teaching staff, by operation of the Education (Modification of Enactments Relating to Employment) (England) Order 2003, where an award of damages is made by an Employment Tribunal, in most cases Kent County Council will be liable to pay the award. Employment tribunals can in discrimination cases award unlimited damages to a successful claimant. Based on available information on these cases, the total amount in damages being sought by the claimants exceeds £70k and an additional amount of approximately £200k for those not officially pleaded. However, on a number of these claims the prospects of success are assessed to be good. It is extremely rare for employment tribunals to award all of the damages that are claimed.

Education

There are no education cases.

Childcare

All care proceedings are subject to the Public Law Outline (PLO) regime and all are subject to a court fee structure. KCC Legal services are currently advising on 145 live cases where proceedings have actually been issued. The costs to KCC of taking these proceedings are in excess of £10k each.

Litigation

There are 11 such cases of which legal costs for eight of these are expected to exceed £130k in total. Of the three remaining cases, one is in relation to disputes over rental agreements, the claims are significant and range from £25k to £350k. The second relates to a dispute over a contract price and a successful claim could be several millions. The third relates to a group of claims in respect of gastroschisis and the level of claims is several millions.

Asylum, Ordinary Residence & Judicial review cases

There are five judicial review cases of age assessment for which the cost is likely to exceed £10k. There are four further cases, one of which, if successful, would exceed £10k. The remaining three cases are likely to be settled and costs will exceed £10k. There is one appeal against a judicial review, costs are currently below £10k. There are nine Ordinary Residence claims which if successful can be sizeable.

Court of Protection

There are matters of Court of Protection which has jurisdiction over cases involving the interests of vulnerable people under the Mental Health Act 2005. There is a wide discretion for the Court in such litigation and individual costs may exceed £10k. These cases are not likely to attract cost orders that place KCC potentially liable or exposed to risk.

Note 40. Subsidiary Undertakings

Accounting Policy

Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries and jointly controlled entities. However, as the majority of the transactions (largely with Kent Top Temps) are between the Council and the subsidiary we are not preparing group accounts.

Subsidiary Undertakings

Kent Top Temps Ltd (KTT) is a subsidiary of Kent County Trading Ltd, wholly owned by Kent County Council. It commenced trading on the 4 April 2005. KTT was a recruitment business that focused on the supply of both temporary and permanent placements to KCC, other public sector bodies and the private sector. KTT had specialist desks for the supply of temporary labour to the following sectors; administration, care, supply teachers, nursery staff, drivers and industrial, catering, interpreters and translation, and professionals. The permanent appointment desk operated via the name of Connect2Staff. On 1st April 2013, the recruitment business ceased trading in Kent Top Temps Ltd and transferred its operations to two other associated subsidiaries within the group. Kent Top Temps Ltd also operated buses for contract and private hire trading as Kent Top Travel. This operation was closed in October 2013 and the company has susequently ceased trading.

KTT had a turnover in 2013-14 of £1.0m with a net loss of £0.2m after tax (estimated). In 2012-13 its net assets were £1.4m and in 2013-14 they are £1.2m. The loan of £200,000, provided in earlier years was repaid in full during the financial year 2013-14, and as a result, the net indebtedness of the Council to KTT at the end of the financial year was nil (2012-13 £200,000).

Commercial Services Trading Ltd (CS Trading), (formerly Kent County Facilities (KCF) Ltd) is a subsidiary of Kent County Trading Ltd, wholly owned by Kent County Council. CS Trading commenced trading in September 2007 as InsideOut, undertaking building repair and maintenance contracts within both the public and private sectors. In April 2013 this business was re-branded, and now operates business units primarily trading with the private sector. The additional business includes business operations previously carried out by Kent County Council Commercial Services. Activities include a recruitment business focused on the supply of both temporary and permanent placements operating under the name of Connect2Staff; Landscape services providing a full range of grounds and sports field management, maintenance and hard landscaping, tree works and pest control; Fleet services offering fleet management services, self drive hire, vehicle inspections and vehicle sourcing; Engineering services including a comprehensive range of vehicle services covering MOTs, servicing, accident repair, body shop work and vehicle restoration and the Lumina brand, which offers a brokerage service to small private businesses. Up to December 2013, the business also operated Simplicare, a care service based on care in the home and two retail outlets that have subsequently ceased trading.

CS Trading had a turnover in 2013-14 of £22.5m with a net gain of £0.2m after tax (estimated). In 2012-13 its net assets were £1.8m and in 2013-14 they are £2.0m. A loan of £0.2m has been provided by KCC Commercial Services to Commercial Services Trading Ltd during the year.

Commercial Services Kent Ltd (CS Kent), (formerly Kent County Supplies Ltd) is a subsidiary of Kent County Trading Ltd, wholly owned by Kent County Council. It commenced trading on the 7 April 2010. From 1st April 2013, the Company resumed trading as a Teckal company providing services to KCC. Business operations previously carried out by Kent Top Temps Ltd, Commercial Services Trading Ltd and Kent County Council Commercial Services, were transferred into the business. This included a recruitment business that focused on the supply of both temporary and permanent placements to KCC operating under the new brand name of Connect2Kent. This covers specialist desks for the supply of temporary labour to the following sectors; administration, care, supply teachers, nursery staff, drivers and industrial, catering, interpreters and translation and professionals. Commercial Services Kent Ltd also provides waste management services to KCC across a number of municipal waste collection and transfer centres in Kent; office facilities services for KCC across a number of KCC office sites and print and design services for both KCC and some other public sectors bodies.

Note 40 - Subsidiary Note, Note 41 - Events after the Balance Sheet and Note 41 - Other Notes

In the previous financial year 2012-13, the company was dormant. Commercial Services Kent Ltd had a turnover in 2013-14 of £45.4m with a net gain of £0.1m before tax. At the end of 2012-13 its net current liabilities were £0.1m. A loan of £5.4m has been provided by KCC Commercial Services to Commercial Services Kent Ltd during the year.

Kent County Council (KCC) and Thanet District Council (TDC) wished to bring forward the economic development and regeneration of the sites known as Eurokent and Manston Park. A Member Agreement was signed on the 22 August 2008 and a joint arrangement vehicle was set up, the East Kent Opportunities LLP (EKOLLP), which was incorporated on 4 March 2008. KCC and TDC have 50:50 ownership, control and economic participation in the joint arrangement. KCC and TDC contributed 38 acres of land each to EKOLLP. The land was valued for stamp duty land tax (SDLT) at £5.5m (KCC contribution) and £4.5m (TDC contribution).

The powers used are the 'well-being powers' provided to local authorities in Part 1 of the Local Government Act 2000. In 2013-14, in the draft, unaudited EKOLLP accounts, the net assets of the joint arrangement are £10m with an operating loss before members remuneration and profit shares available for discretionary division among members of £0.34m.

Collectively the subsidiaries do not have a material impact on the Kent County Council's accounts and therefore it is not necessary to produce group accounts in 2013-14. This situation is reviewed on an annual basis.

Copies of these accounts can be acquired through Companies House with none being qualified.

Note 41. Events after the Balance Sheet Date

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

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

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

There have been no events since 31 March 2014, up to the date when these accounts were authorised, that require any adjustment to these accounts.

Note 42. Other Notes

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 Council. 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 103 - 129.

Pension Fund Accounts

The following financial statements are taken from the Kent County Council Pension Fund's Annual Report and Accounts 2014 which are also available from the Fund's website at **www.kentpensionfund.co.uk**. Alternatively a copy can be obtained from the Treasury and Investments team, email: investments.team@kent.gov.uk, telephone: 01622 694625.

Description of the Fund

General

In accordance with Government legislation, 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, the district councils in Kent and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Pension Fund is a contributory defined benefit pension scheme and is contracted out of the State Second Pension.

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009
- the Local Government Pension Scheme (Miscellaneous Amendments) Regulations 2014

The Fund is overseen by the Kent County Council Superannuation Fund Committee which is a committee of Kent County Council.

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join or remain in the scheme or to make personal arrangements outside the scheme. Employing Bodies 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 include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following a specific business transfer to the private sector.

There are 412 employing bodies participating in the Fund and the profile of members is as detailed below:

	Contributors		Pensioners		Deferred pensioners	
	31Mar 2014	31Mar 2013	31Mar 2014	31Mar 2013	31Mar 2014	31Mar 2013
Kent County Council	21,033	21,384	18,342	17,993	21,225	20,887
Other Employers	23,884	21,170	16,499	15,738	18,552	16,948
Total	44,917	42,554	34,841	33,731	39,777	37,835

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Employee contributions are matched by employers' contributions which are determined by the Fund's actuary based on triennial actuarial funding valuations 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 up to a maximum of 20 years. The valuation applicable to these accounts was at 31 March 2010. The last triennial valuation was at 31st March 2013 and the employer contribution rate then certified will be payable from 1st April 2014.

The 2010 valuation certified a common contribution rate of 20.8% of pensionable pay to be paid by each employing body participating in the Kent County Council Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer’s contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	1/80 x final pensionable salary	1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3/80 x final pensionable salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, ill health pensions and death benefits. For more details, please refer to the Kent Pension Fund website: **www.kentpensionfund.co.uk**

Benefits are index linked to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

LGPS 2014

The LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 come into effect from 1 April 2014 and replace existing legislation. The LGPS 2013 Regulations set out details of the new 2014 Scheme which will apply to all membership that builds up on and after 1 April 2014. The LGPS (Transitional Provisions and Savings) Regulations 2014 serve the dual purpose of retaining the previous benefit structure for service up to 31 March 2014, and introducing new protections for members close to retirement to ensure that they are not disadvantaged by the benefit changes.

The table below shows the main provisions of the LPGS 2014 Scheme for membership compared with those of the LPGS 2008 Scheme.

	LGPS 2014	LGPS 2008
Basis of Pension	Career Average Revalued Earnings (CARE)	Final Salary
Accrual Rate	1/49th	1/60th
Revaluation Rate	Consumer Prices Index (CPI)	Based on Final Salary
Pensionable Pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
Employee Contribution Rates	See LGPS 2014 Employee Contribution Rate below	See LGPS 2008 Employee Contribution Rate below
Contribution Flexibility	Yes, members can pay 50% contributions for 50% of the pension benefit	No
Normal Pension Age	Equal to the individual member's State Pension Age	65
Lump Sum Trade Off	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
Death in Service Lump Sum	3 x Pensionable Pay	3 x Pensionable Pay
Death in Service Survivor Benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement

	LGPS 2014	LGPS 2008
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age (65) Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age (65) Tier 3 - Temporary payment of pension for up to 3 years
Indexation of Pension in Payment	CPI	CPI (RPI for pre-2011 increases)
Vesting Period	2 years	3 months

Future Scheme Cost Management

If the costs of the LGPS change beyond certain limits still to be agreed, there will be negotiations between unions, employers and government about how to meet those cost changes.

Pension Protection on Transfer

LGPS members who are compulsorily transferred will be able to retain membership of the Scheme.

Employee Contribution Rates

LGPS 2014 Rates payable 2014-15			**LGPS 2008** Rates payable 2013-14		
From	**To**	**Gross Rate %**	**From**	**To**	**Gross Rate %**
Up to £13,500		5.5	Up to £13,700		5.5
£13,501	£21,000	5.8	£13,701	£16,100	5.8
£21,001	£34,000	6.5	£16,101	£20,800	5.9
£34,001	£43,000	6.8	£20,801	£34,700	6.5
£43,001	£60,000	8.5	£34,701	£46,500	6.8
£60,001	£85,000	9.9	£46,501	£87,100	7.2
£85,001	£100,000	10.5	More than £87,100		7.5
£100,001	£150,000	11.4			
More than £150,000		12.5			
Average		**8.6**	**Average**		**6.5**

Pension Fund Accounts

Fund Account for the year ended 31 March

	Notes	2013-14 £000's	2012-13 £000's
Dealings with members, employers and others directly involved in the Fund			
Contributions	5	209,749	213,713
Transfers In from other pension funds	6	6,888	8,840
		216,637	222,553
Benefits	7	-195,374	-192,463
Payments to and on account of leavers	8	-8,121	-7,591
Administrative, governance and oversight expenses	9	-3,168	-2,922
		-206,663	-202,976
Net additions from dealings with Members		**9,974**	**19,577**
Returns on Investments			
Investment Income	10	95,214	72,971
Taxes on Income		-3,629	-2,686
Profits and losses on disposal of investments and changes in the market value of investments	13a	238,566	424,192
Investment Management Expenses	12	-15,564	-11,944
Net Return on Investments		**314,587**	**482,533**
Net increase in the Net Assets Available for benefits during the year		**324,561**	**502,110**

Net Assets Statement as at 31 March

	Notes	2014 £000's	2013 £000's
Investment Assets		4,027,898	3,680,068
Cash Deposits		85,470	108,532
Total Investments		**4,113,368**	**3,788,600**
Investment Liabilities	13	-694	-1,610
Current Assets	21	37,016	38,402
Current Liabilities	22	-12,431	-12,694
Net Assets available to fund benefits at the period end		**4,137,259**	**3,812,698**

The financial statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) are disclosed in note 20 to the accounts.

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2013-14 financial year and its position at 31 March 2014.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 which is based upon International Financial Reporting Standards, as amended for the UK public sector. The accounts are prepared on a going concern basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard 19 basis is disclosed at note 20 of these accounts.

2. Summary of Significant Accounting Policies

Fund Account - revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.
Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

Dividends, interest, and stock lending income on securities and rental income on property have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. A large number of the Fund's investments are held in income accumulating funds that do not distribute income. The accumulated income on such investments is reflected in the unit market price at the end of the year and is included in the realised and unrealised gains and losses during the year.

Fund Account - expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the year end. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund has been accepted by the HM Revenue and Customs 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 interest received and from capital gains tax on proceeds of investments sold. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin. Investment income is shown net of non-recoverable tax, and any recoverable tax at the end of the year is included in accrued investment income.
By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

f) Investment management, administrative, governance and oversight expenses

All expenses are accounted for on an accruals basis. Costs relating to Kent County Council staff involved in the administration, governance and oversight of the Fund are incurred by the County Council and recharged to the Fund at the end of the year. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Net Assets Statement

g) Financial assets

Financial assets other than debtors are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. Any purchase or sale of securities is recognised upon trade and any unsettled transactions at the year-end are recorded as amounts receivable for sales and amounts payable for purchases. From the trade date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on the final day of the accounting period.

- Fixed interest securities are recorded at net market value based on their current yields

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager

- Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued based on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for cash movements to the year end.
- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund.

- The Freehold and Leasehold properties were valued at open market prices in accordance with the valuation standards laid down by the Royal Institution of Chartered Surveyors. The last valuation was undertaken by Colliers International, as at 31 December 2013. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms. The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2014.

- Debtors / receivables are measured at amortised cost using the effective interest rate method, as required by IAS 39.

h) Derivatives

The Fund uses derivative instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. At the reporting date the Fund only held forward currency contracts. The future value of the forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

i) Foreign currency transactions

Assets and liabilities in foreign currency are translated into sterling at spot market exchange rates ruling at the year-end. All foreign currency transactions including income are translated into sterling at spot market exchange rates ruling at the transaction date. All realised currency exchange gains or losses are included in investment income.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Cash held as demand deposits and all cash equivalents whether managed by Kent County Council or other fund managers are included in investments. All other cash is included in Current Assets.

k) Financial Liabilities

The Fund recognises financial liabilities other than creditors at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund. Creditors are measured at amortised cost using the effective interest rate method, as required by IAS 39.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed every three years by the scheme actuary and the methodology used is in line with accepted guidelines and in accordance with IAS 19. To assess the value of the Fund's liabilities as at 31 March 2014 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20)

3. Judgements and Assumptions made in applying accounting policies

Item	**Uncertainties**	**Effect if actual results differ from assumption**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £0.54m. A 0.5% increase in assumed earning inflation would increase the value of liabilities by approx. £0.09m, and a one year adjustment to the mortality age rating assumptions would reduce the liability by approx. £0.22m.
Private Equity	Valuation of unquoted private equity including infrastructure investments is highly subjective and inherently based on forward looking estimates and judgements involving many factors. They are valued by the investment managers using guidelines set out in the British Venture Capital Association.	The total private equity including infrastructure investments on the financial statements are £73m. There is a risk that this investment may be under-or-over stated in the accounts.

4. Events after the Balance Sheet date

There have been no events since 31 March 2014, up to the date when these accounts were authorised, that require any adjustment to these accounts.

5. Contributions Receivable

		2013-14 £000's	2012-13 £000's
Employers		163,003	168,282
Members		46,746	45,431
		209,749	**213,713**
Analysis by Employer	Kent County Council	85,872	85,295
	Scheduled Bodies	112,015	115,984
	Admitted Bodies	11,862	12,434
		209,749	**213,713**

6. Transfers in from other pension funds

	2013-14 £000's	2012-13 £000's
Individual	6,888	8,840
Group	0	0
	6,888	8,840

7. Benefits Payable

		2013-14 £000's	2012-13 £000's
Pensions		159,925	150,713
Retirement Commutation and lump sum benefits		32,501	38,553
Death benefits		2,948	3,197
		195,374	**192,463**
Analysis by Employer	Kent County Council	91,938	89,473
	Scheduled Bodies	93,325	94,606
	Admitted Bodies	10,111	8,384
		195,374	**192,463**

8. Payments to and on account of leavers

	2013-14 £000's	2012-13 £000's
Individual transfers	8,089	7,590
Refunds of contributions	32	1
	8,121	**7,591**

9. Administrative, governance and oversight expenses

	2013-14	2012-13
	£000's	£000's
Administration staff costs	1,673	1,695
Governance and oversight staff costs	253	487
ICT	422	227
Printing and postage costs	215	113
Actuarial Fees	230	169
Audit Fee	30	28
Legal and Other Professional Fees	137	150
Other miscellaneous expenses	208	53
	3,168	2,922

10. Summary of Income from Investments

		2013-14		2012-13	
	Notes	£000's	%	£000's	%
Fixed Interest Securities		13,707	14.4	2,135	3.0
Equities		47,089	49.4	35,411	48.5
Pooled Investments		13,676	14.4	15,343	21.0
Private Equity / Infrastructure		4,431	4.6	3,153	4.3
Property	11	14,997	15.8	12,366	16.9
Pooled Property Investments		3,845	4.0	3,934	5.4
Cash and cash equivalents		-2,752	-2.8	374	0.5
Stock Lending		221	0.2	255	0.4
Total		**95,214**	**100.0**	**72,971**	**100.0**

11. Property Income and Expenditure

	2013-14	2012-13
	£000's	£000's
Rental Income from Investment Properties	14,997	12,366
Management Fees	-704	-743
Direct Operating Expenses	-2390	-640
Net operating income from Property	**11,903**	**10,983**

12. Investment Expenses

	2013-14	2012-13
	£000's	£000's
Investment Managers Fees	12,858	11,041
Custody fees	149	128
Investment Consultancy Fees	108	79
Performance Measurement Fees	59	56
Property operating expenses	2,390	640
Total	**15,564**	**11,944**

The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments.

13. Investments

	Market Value as at 31 March 14 £000's	Market Value as at 31 March 13 £000's
Investment Assets		
Fixed Interest Securities	291,458	280,104
Equities	1,518,121	1,264,169
Pooled Investments	1,734,423	1,764,778
Private Equity/Infrastructure	73,486	58,952
Property	282,117	222,027
Pooled Property Investments	111,803	78,000
Derivative contracts		
- Forward Currency contracts	0	2,666
Cash Equivalents	85,470	108,532
Investment Income due	10,637	8,505
Amounts receivable for sales	5,853	867
Total Investment Assets	**4,113,368**	**3,788,600**
Investment Liabilities		
Amounts payable for purchases	0	-1,610
Derivative contracts		
- Forward Currency contracts	-694	0
Total Investment Liabilities	**-694**	**-1,610**
Net Investment Assets	**4,112,674**	**3,786,990**

13a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 13 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 14 £000's
Fixed Interest Securities	280,104	62,772	-26,265	-25,153	291,458
Equities	1,264,169		-761,892	90,485	592,762
Pooled Investments	1,764,778	1,181,315	-1,336,834	125,164	1,734,423
Private Equity/Infrastructure	58,952	16,341	-1,830	23	73,486
Property	222,027	46,119	-10,886	24,857	282,117
Pooled Property Investments	78,000	52,006	-20,826	2,623	111,803
	3,668,030	1,358,553	-2,158,533	217,999	3,086,049
Derivative contracts					
- Forward Currency contracts	2,666	5,724,998	-5,748,925	20,567	-694
	3,670,696	**7,083,551**	**-7,907,458**	**238,566**	**3,085,355**
Other Investment balances					
- Cash and cash equivalents	108,532				85,470
- Amounts receivable for sales	867				5,853
- Amounts payable for purchases	-1,610				0
- Investment Income due	8,505				10,637
Net Investment Assets	**3,786,990**			**238,566**	**3,187,315**

	Market Value as at 31 March 12 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 13 £000's
Fixed Interest Securities	34,990	360,360	-127,074	11,828	280,104
Equities	1,057,570	293,407	-256,143	169,335	1,264,169
Pooled Investments	1,720,756	188,937	-389,109	244,194	1,764,778
Private Equity/Infrastructure	45,360	13,602	0	-10	58,952
Property	222,576	18,108	-24,250	5,593	222,027
Pooled Property Investments	88,074	0	-7,360	-2,714	78,000
	3,169,326	874,414	-803,936	428,226	3,668,030
Derivative contracts					
- Forward Currency contracts	0	752,599	-745,899	-4,034	2,666
	3,169,326	**1,627,013**	**-1,549,835**	**424,192**	**3,670,696**
Other Investment balances					
- Cash Deposits	98,850				108,532
- Debtors - Outstanding Sales	40				867
- Creditors - Outstanding Purchases	-173				-1,610
- Investment Income due	6,654				8,505
Net Investment Assets	**3,274,697**			**424,192**	**3,786,990**

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Pension Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £980,582 (2012-13 £965,610). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Pension Fund.

14. Analysis of Investments (excluding cash and derivative contracts)

	Market Value as at 31 March 14 £'000's	Market Value as at 31 March 13 £'000's
FIXED INTEREST SECURITIES		
UK		
Corporate Quoted	27,777	20,205
OVERSEAS		
Public Sector Quoted	46,715	50,524
Corporate Quoted	216,966	209,375
	291,458	**280,104**
EQUITIES		
UK		
Quoted	729,769	656,558
OVERSEAS		
Quoted	788,352	607,611
	1,518,121	**1,264,169**
POOLED FUNDS		
UK		
Fixed Income Unit Trusts	220,607	215,772
Unit Trusts	740,666	689,334
OVERSEAS		
Unit Trusts	773,150	859,672
	1,734,423	**1,764,778**
PROPERTY		
UK	282,117	222,027
Property Unit Trusts		
UK	101,918	63,001
Overseas	9,885	14,999
	393,920	**300,027**
Private Equity Funds		
UK	3,764	3,912
Overseas	21,197	14,465
Infrastructure		
UK	9,984	8,209
Overseas	38,541	32,366
	73,486	**58,952**
TOTAL	**4,011,408**	**3,668,030**

14a. Analysis of Derivative Contracts

Objectives and policy for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the investment manager.

Open forward currency contracts

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant portion of the Fund's fixed income portfolio managed by Goldman Sachs Asset Management is invested in overseas securities. To reduce the volatility associated with fluctuating currency rates, the investment manager fully hedges the overseas, excluding emerging markets, exposure of the portfolio. This is approximately 75% of the portfolio managed by Goldman Sachs.

Settlement	Currency bought	Local value £000's	Currency sold	Local value £000's	Asset value £000's	Liability value £000's
Up to one month	USD	662	GBP	-399		-2
Up to one month	USD	536	GBP	-325		-3
Up to one month	USD	2,506	GBP	-1,515		-12
Up to one month	GBP	47	USD	-78	1	
One to six months	GBP	25,183	EUR	-30,585		-103
One to six months	GBP	1,583	CHF	-2,332		0
One to six months	GBP	104,558	USD	-174,888		-347
One to six months	GBP	104,677	USD	-174,888		-228
					1	-695
Net forward currency contracts at 31 March 2014						**-694**

Prior year comparative

	Asset value £000's	Liability value £000's
Open forward currency contracts at 31 March 2013	2666	0
Net forward currency contracts at 31 March 2013		**2666**

14b. Property Holdings

	Year ending 31 March 14 £000's	Year ending 31 March 13 £000's
Opening Balance	222,027	222,576
Additions	46,119	18,108
Disposals	-10,886	-24,250
Net increase in market value	24,857	5,593
Closing Balance	**282,117**	**222,027**

15. Investments analysed by Fund Manager

	Market Value as at 31 March 2014		Market Value as at 31 Mar 2013	
	£000's	%	£000's	%
Baillie Gifford	751,405	18.4	699,449	18.5
DTZ	368,975	9.0	300,027	7.9
Fidelity	25,733	0.6	0	0.0
GMO	0	0.0	220,778	5.8
Goldman Sachs	310,429	7.5	296,954	7.9
HarbourVest	21,197	0.5	14,465	0.4
Henderson	9,984	0.2	8,209	0.2
Impax	30,196	0.7	26,251	0.7
Invesco	0	0.0	479,239	12.7
M&G	200,749	4.9	0	0.0
Partners Group	38,541	0.9	32,366	0.9
Pyrford	183,481	4.5	153,450	4.1
Sarasin	149,775	3.6	0	0.0
Schroders	1,110,996	27.1	1,005,812	26.6
State Street Global Advisors	884,265	21.5	474,052	12.5
YFM	3,764	0.1	3,912	0.1
Kent County Council Investment Team	23,184	0.5	64,262	1.7
	4,112,674	**100**	3,779,226	100

All the external fund managers above are registered in the United Kingdom.

15a. Single investments 5% or more by value of their asset class

Asset Class / Investments	31 March 2014 £000's	% (of asset class)
Pooled Funds		
UK Fixed Income Unit Trusts		
Schroder Institutional Stlg Broadmarket 'X' Acc	111,108	7
SISF Strategic Bond GBP Hedged	109,499	6
UK Unit Trusts		
MPF UK Equity Index Sub-Fund	710,903	42
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	183,481	11
M&G Global Dividend Fund	200,749	12
MPF International Equity Index Sub-Fund	173,361	10
Schroder GAV Unit Trust	185,363	11
Property Unit Trusts		
Blackrock	21,044	19
L & G Leisure	8,185	7
Fidelity	25,733	23
Hercules	9,544	9
IPIF	7,365	7
Airport Fund	10,403	9
Lothbury	8,498	8
Aurora	9,885	9

Asset Class / Investments		31 March 2014 £000's	% (of asset class)
Private Equity and infrastructure funds			
Private Equity			
UK			
Chandos Fund (YFM)		3,764	5
Overseas			
HIPEP VI- Cayman		12,254	17
HarbourVest Partners IX		8,943	12
Infrastructure			
UK			
Henderson Secondary PFI Fund I		6,206	8
Henderson Secondary PFI Fund II		3,958	5
Overseas			
Partners Group Global Infrastructure 2009		31,889	43
Partners Group Direct Infrastructure 2011		6,652	9
Property			
Location	**Type of Property**		
3-5 Charing Cross Road, London	Office	22,396	8
102 - 114 Wardour Street, London	Mixed Use	15,626	6
Drury House, London	Office	27,105	10
49/59 Battersea Park Road, London	Industrial	18,060	7
Hertsmere Industrial Estate, Borehamwood	Industrial	14,345	5
Walkergate, Durham	Mixed Use	14,856	5
Lakeside Village, Doncaster	Mixed Use	27,547	10

16. Stock Lending

The Custodians undertake a conservative programme of stock lending to approved UK counterparties against non cash collateral mainly comprising of Sovereigns and Treasury Bonds.

The amount of securities on loan at year end, analysed by asset class and a description of the collateral is set out in the table below.

Loan Type	Market Value £000's	Collateral Value £000's	Collateral type
Equities	109,962	117,797	Sovereigns and Treasury Bonds and Notes
Bonds	10,463	11,089	Sovereigns and Treasury Bonds and Notes
	120,425	**128,886**	

17. Financial Instruments

17a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading.

	31 March 14			31 March 13		
	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000's	£000's	£000's	£000's	£000's	£000's
Financial Assets						
Fixed Interest Securities	291,458			280,104		
Equities	1,518,121			1,264,169		
Pooled Investments	1,734,423			1,764,778		
Property Pooled Investments	111,803			78,000		
Private Equity/Infrastructure	73,486			58,952		
Derivative contracts	0			2,666		
Cash & Cash Deposits		89,836			109,214	
Other Investment Balances	16,490			9,372		
Debtors/ Receivables		32,649			37,720	
	3,745,781	**122,485**	**0**	**3,458,041**	**146,934**	**0**
Financial Liabilities						
Other Investment balances	-694			-1,610		
Creditors			-12,431			-12,694
	-694	**0**	**-12,431**	**-1,610**	**0**	**-12,694**
Total	**3,745,087**	**122,485**	**-12,431**	**3,456,431**	**146,934**	**-12,694**

17b. Net Gains and Losses on Financial Instruments

	31 March 14	31 March 13
	£000's	£000's
Financial assets		
Fair value through profit and loss	213,709	418,599
Loans and receivables	0	0
Financial assets measured at amortised cost	0	0
Financial Liabilities		
Fair value through profit and loss	0	0
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Total	**213,709**	**418,599**

17c. Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

	31 March 14		31 March 13	
	Carrying value	Fair Value	Carrying value	Fair Value
	£000's	£000's	£000's	£000's
Financial assets				
Fair value through profit and loss	3,745,781	3,745,781	3,458,041	3,458,041
Loans and receivables	122,485	122,485	146,934	146,934
Total financial assets	**3,868,266**	**3,868,266**	**3,604,975**	**3,604,975**
Financial liabilities				
Fair value through profit and loss	-694	-694	-1,610	-1,610
Financial liabilities at amortised cost	-12,431	-12,431	-12,694	-12,694
Total financial liabilities	**-13,125**	**-13,125**	**-14,304**	**-14,304**

17d. Valuation of Financial Instruments carried at Fair Value

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Investments include quoted equities, quoted fixed interest securities, quoted index linked securities and quoted unit trusts.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available or where valuation techniques are used to determine fair value. These techniques use inputs that are based significantly on observable market data. Investments include unquoted Unit Trusts and Property Unit Trusts.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. They include private equity and infrastructure investments the values of which are based on valuations provided by the General Partners to the funds in which the Pension Fund has invested.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2014	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
Financial Assets				
Financial assets at fair value through profit and loss	3,560,492	111,803	73,486	3,745,781
Loans and Receivables	122,485	0	0	122,485
Total Financial Assets	**3,682,977**	**111,803**	**73,486**	**3,868,266**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-694	0	0	-694
Financial liabilities at amortised costs	-12,431	0	0	-12,431
Total Financial Liabilities	**-13,125**	**0**	**0**	**-13,125**
Net financial assets	**3,669,852**	**111,803**	**73,486**	**3,855,141**

Values at 31 March 2013	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
Financial Assets				
Financial assets at fair value through profit and loss	3,321,089	78,000	58,952	3,458,041
Loans and Receivables	146,934	0	0	146,934
Total Financial Assets	3,468,023	78,000	58,952	3,604,975
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-1,610	0	0	-1,610
Financial liabilities at amortised costs	-12,694	0	0	-12,694
Total Financial Liabilities	**-14,304**	**0**	**0**	**-14,304**
Net financial assets	**3,453,719**	**78,000**	**58,952**	**3,590,671**

18. Nature and extent of Risks Arising From Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Superannuation Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risks, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund has a strategic allocation to Equities at 64% and this is typical of local authority funds. It does mean that returns are highly correlated with equity markets.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to security and derivative price risks. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2014-15 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Equities	9.40%
Overseas Equities	11.50%
Global Pooled inc UK	10.50%
Bonds	4.50%
Alternatives	0.50%

The potential price changes disclosed above are based on predicted volatilities calculated based on our experience of returns of our investments over a period of 3 years. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 14 £000's	Percentage change %	Value in increase £000's	Value on decrease £000's
Cash and cash equivalents	85,470	0.00	85,470	85,470
Investment portfolio assets:				
UK Equities	729,769	9.40	798,367	661,171
Overseas Equities	788,352	11.50	879,012	697,692
Global Pooled inc UK	1,846,226	10.50	2,040,079	1,652,372
Bonds	291,458	4.50	304,573	278,342
Private Equity	24,961	0.50	25,086	24,836
Infrastructure Funds	48,525	0.50	48,768	48,282
Net derivative assets	-694	0.00	-694	-694
Investment income due	10,637	0.00	10,637	10,637
Amounts receivable for sales	5,853	0.00	5,853	5,853
Amounts payable for purchases	0	0.00	0	0
Total	**3,830,557**		**4,197,151**	**3,463,961**

Asset Type	Value as at 31 March 13 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	108,532	0.00	108,532	108,532
Investment portfolio assets:				
UK Equities	656,558	9.40	731,603	581,513
Overseas Equities	607,611	11.50	682,044	533,179
Global Pooled inc UK	1,842,778	10.50	2,071,466	1,614,089
Bonds/Index Linked Securities	280,104	4.50	289,235	270,972
Private Equity	18,377	0.50	19,320	17,434
Infrastructure Funds	40,575	0.50	42,657	38,494
Net derivative assets	2,666	0.00	2,666	2,666
Investment income due	8,505	0.00	8,505	8,505
Amounts receivable for sales	867	0.00	867	867
Amounts payable for purchases	-1,610	0.00	-1,610	-1,610
Total	**3,564,963**		**3,955,285**	**3,174,641**

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 14 £000	31 March 13 £000
Cash and cash equivalents	85,470	108,532
Cash Balances	4,366	682
Fixed Interest Securities		
- Directly held securities	291,458	280,104
- Pooled Funds	220,607	215,772
Total	**601,901**	**605,090**

Interest rate risk - sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type	Carrying amount as at 31 March 14	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000's	£000's	£000's
Cash and cash equivalents	85,470	855	-855
Cash Balances	4,366	43	-43
Fixed Interest Securities			
- Directly held securities	291,458	2,915	-2,915
- Pooled Funds	220,607	2,206	-2,206
Total change in assets available	**601,901**	**6,019**	**-6,019**

Asset Type	Carrying amount as at 31 March 13	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000's	£000's	£000's
Cash and cash equivalents	108,532	1,085	-1,085
Cash Balances	682	7	-7
Fixed Interest Securities			
- Directly held securities	280,104	2,801	-2,801
- Pooled Funds	215,772	2,158	-2,158
Total change in assets available	**605,090**	**6,051**	**-6,051**

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Through their investment managers, the Fund holds both monetary and non-monetary assets denominated in currencies other than £UK, the functional currency of the Fund. Most of these assets are not hedged for currency risk. The Fund is exposed to currency risk on these financial instruments. However, a large part (£233m) of the assets managed by Goldman Sachs Asset Management held in non £UK currencies is hedged for currency risk through forward currency contracts. The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to current fluctuations. The following table summarises the Fund's currency exposure excluding the hedged investments as at 31 March 2014 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 14	Asset value as at 31 March 13
	£000's	£000's
Overseas Equities	788,352	607,611
Overseas Pooled Funds	783,035	874,671
Overseas Bonds	46,715	50,524
Overseas Private Equity and Infrastructure	59,738	46,831
Non GBP Cash	11,959	47,374
Total overseas assets	**1,689,799**	**1,627,011**

Currency risk - sensitivity analysis

Following analysis of historical data and expected currency movement during the financial year, in consultation with the fund's investment advisors, the Council has determined that the following movements in the values of financial assets denominated in foreign currency are reasonably possible for the 2014-15 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. A relevant strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 14	Change to net assets available to pay benefits	Change to net assets available to pay benefits
		+4.7%	-4.7%
	£000's	£000's	£000's
Overseas Equities	788,352	825,404	751,299
Overseas Pooled Funds	783,035	819,837	746,232
Overseas Bonds	46,715	48,911	44,519
Overseas Private Equity and Infrastructure	59,738	62,545	56,930
Non GBP Cash	11,959	12,521	11,397
Total change in assets available	**1,689,799**	**1,769,218**	**1,610,377**

Currency exposure - asset type	Asset value as at 31 March 13	Change to net assets available to pay benefits	Change to net assets available to pay benefits
		+4.7%	-4.7%
	£000's	£000's	£000's
Overseas Equities	607,611	636,169	579,053
Overseas Pooled Funds	874,671	915,781	833,561
Overseas Bonds	50,524	52,899	48,149
Overseas Private Equity and Infrastructure	46,831	49,032	44,630
Non GBP Cash	47,374	49,601	45,147
Total change in assets available	**1,627,011**	**1,703,482**	**1,550,540**

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.
In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.
Contractual credit risk is represented by the net payment of a receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum amount that may be placed with any one financial institution. The Fund's cash was held with the following institutions:

	Rating	Balance as at 31 March 14 £000's	Balance as at 31 March 13 £000's
Money Market Funds			
JP Morgan Sterling Liquidity Fund	**AAAm**	38,188	9,060
Blackrock Sterling Government Liquidity Fund	**AAAm**	0	63
Blackrock USD Fund	**AAAm**	0	16,205
Goldman Sachs Sterling Government Fund	**AAAm**	15,614	14,010
SWIP Global GBP Liquidity Fund	**AAAm**	933	6,337
Insight Sterling Liquidity Fund	**AAAm**	20,004	19,911
		74,739	**65,586**
Bank Deposit Accounts			
HSBC BIBCA	**AA-**	2001	0
NatWest SIBA	**A**	112	19,835
		2,113	**19,835**
Bank Current Accounts			
Natwest Current Account	**A**	103	50
Natwest Current Account - Euro	**A**	3,310	29
Natwest Current Account - USD	**A**	2	0
JP Morgan Chase - Current Account	**A+**	8,618	23,111
Barclays - DTZ client monies account	**A**	950	603
		12,983	**23,793**
Total		**89,835**	**109,214**

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. The Council has immediate access to its Pension Fund cash holdings.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.
All financial liabilities at 31 March 2014 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

19. Funding Arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013.

The key elements of the funding policy are:

- To ensure the long-term solvency of the Fund and ensure that sufficient funds are available to meet all the benefits as they fall due for payment
- To ensure employer contribution rates are as stable as possible
- To minimise the long term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so

At the 2013 valuation a maximum deficit recovery period of 20 years is used for all employers. Shorter recovery periods have been used where affordable. This will provide a buffer for future adverse experience and reduce the interest cost paid by employers. For Transferee Admission Bodies the deficit recovery period is set equal to the future working life of current employees or the remaining contract period, whichever is the shorter.

The market value of the Fund's assets at the valuation date was £3,813m and the liabilities were £4,570m. The assets therefore, represent 83% (2010 - 77%) of the Fund's accrued liabilities, allowing for future pay increases.

The contribution rate for the average employer, including payments to target full funding has decreased from 20.8% to 20.0% of pensionable salaries. This is partly due to an anticipated reduction in the cost of future benefit accrual as well as the improvement in funding position. Where the implied rate was judged to be significantly higher than the current rate, if appropriate, rates will be increased gradually to come into line with the full recalculated rate within 3 years.

The actuarial valuation has been undertaken on the projected unit method. At individual employer level the projected unit method has been used where there is an expectation that new employees will be admitted to the Fund. The attained age method has been used for employers who do not allow new entrants. These methods assess the costs of benefits accruing to existing members during the year following valuation and the remaining working lifetime respectively, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any differences in the value of accrued liabilities and the market value of assets.

The main actuarial assumptions were as follows:

Valuation of Assets:	assets have been valued at a 6 month smoothed market rate	
	Expected	Actual
Rate of return on investments	6.6% p.a.	8.5% pa
Rate of general pay increases	3.5% p.a.	2.5% pa
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):	3.0% p.a.	3.5% pa

20. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the fund's liabilities on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

The actuarial present value of promised retirement benefits as at 31 March 2014 was £6,323.3m (31 March 2013: £6,044.4m). The Fair Value of the Scheme assets at Bid Value being £4,137.26 the Fund has a net liability of £2,186.04m as at 31 March 2014. The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. Based on the latest valuation, the fair value of net assets of the Fund represents 65% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above is calculated on an IAS 19 basis and therefore differs from the results of the 2010 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects a market rate.

Assumptions used:	**% p.a.**
Salary increase rate	4.6%
Pensions increase rate	2.8%
Discount rate	4.5%

21. Current Assets

		31 March 2014 £000's		31 March 2013 £000's
Debtors				
- Contributions due - Employees	3,560		3,611	
- Contributions due - Employers	22,012		26,976	
- Sundry debtors	1,401		1,944	
Total External Debtors		26,973		32,531
Amounts due from Kent County Council		5,677		5,189
Cash		4,366		682
		37,016		38,402
Analysis of External Debtors				
Other Local Authorities		22,709		27,491
Other Entities and individuals		4,264		5,040
		26,973		32,531

22. Current Liabilities

	31 March 2014		31 March 2013	
		£000's		£000's
- Benefits Payable	5,250		3,688	
- Sundry Creditors	4,417		6,957	
- Prepaid income	0		1,881	
Total External Creditors		9,667		12,526
Owing to Kent County Council		2,764		168
Total		12,431		12,694
Analysis of External Creditors				
Central Government Bodies		179		40
Other Local Authorities		5,158		3,301
Other Entities and individuals		4,330		9,185
Total		9,667		12,526

23. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009, these AVC contributions are not included within the Pension Fund Accounts. These contributions are paid to the AVC provider directly by the employer and are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company. These amounts are included within the disclosure note figures below. Prior year figures for Prudential have been updated to reflect the final position.

	Prudential		Standard Life		Equitable Life	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
	£000's	£000's	£000's	£000's	£000's	£000's
Value at 1 April	5,440	5,096	2,045	2,035	936	975
Value at 31 March	6,016	5,440	1,967	2,045	862	936
Contributions paid	1,162	1,215	137	132	3	4

24. Related Party Transactions

The Kent Pension Fund is administered by Kent County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

	2013-14 £000's	2012-13 £000's
The Council is the largest single employer of members of the Pension Fund and during the year contributed:	65,061	66,300
A list of all contributing employers and amount of contributions received is included in the Fund's annual report available on the pension fund website at:www.kentpensionfund.co.uk		
Transactions between the Kent County Council Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring, legal and other services.	2,910	2,673
Year end balance due (to)/from Kent County Council arising out of transactions between Kent County Council and the Pension Fund	1,736	-168

Key management personnel

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Kent County Council under the information for officers' remuneration and members' allowances.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2014 totalled £112m (31 March 2013: £97m)

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the life of each fund.

26. Contingent Assets

33 admitted body employers in the Kent Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

Independent Auditor's Report to the Members of Kent County Council

Opinion on the Authority Financial statements

We have audited the financial statements of Kent County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement's Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Kent County Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Kent County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Independent Auditor's Report to the Members of Kent County Council

Delay in certification of completion of the audit

We are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Kent Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2014. As the authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Also, we cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Darren Wells
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton
Fleming Way
Manor Royal
Crawley
RH10 9GT

24 July 2014

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Kent County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013-14.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Independent Auditor's Report to the Members of Kent County Council

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement's Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on other matters

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013-14 and applicable law.

Opinion on financial statements

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Darren Wells
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton
Fleming Way
Manor Royal
Crawley
RH10 9GT

24 July 2014

Annual Governance Statement

Scope of Responsibility

Kent County Council is responsible for ensuring that its business is conducted in accordance with the law and recognised standards of good practice, and that public money is safeguarded and properly accounted for. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to economy, efficiency and effectiveness.

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

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework guidance: Delivering Good Governance in Local Government. The Annual Governance Statement (AGS) explains how the Council has complied with the Code and during the past year and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement of internal control.

Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, cultures and values by which the Council is directed and controlled. The Council has responsibility for conducting an annual review of the effectiveness of its governance framework, including the system of internal control.

All Corporate Directors have a range of duties to ensure that their directorates are run efficiently, effectively and with proper risk management and governance arrangements, including a sound system of control. As part of the AGS process, each Corporate Director is specifically required to confirm that this system is in place. They are also required to review internal controls to ensure they are adequate and effective taking into account the following:

(i) Outcomes from risk assessment and evaluation
(ii) Self-assessment of key service areas within the directorate
(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

Separate submissions are provided by the Statutory Officers (the Head of Paid Service, the Monitoring Officer and the Section 151 Officer, Director of Adult Social Services and Director of Children's Services) in respect of issues that they are aware of for the Council as a whole. Corporate Directors put in place an action plan for each issue detailed in their AGS submission as soon as that issue is identified. Their action plans must include:

(i) an accountable officer
(ii) a specific timescale
(iii) the detailed action to be taken
(iv) updates on progress throughout the year

In addition, the Director of Governance & Law completed the annual review of the Code of Corporate Governance during 2013-14. The Code of Corporate Governance is included at Appendix 10 of the Constitution.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control 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 achievement of Kent County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place within Kent County Council for the year ended 31 March 2014 and up to the date of approval of the annual report and accounts.

The Governance Framework

The Council sets out clearly its vision and purpose, with clarity on outcomes for residents. It engages with stakeholders to ensure robust public accountability through the following actions:

(i) Members and Officers working for a common purpose with clearly defined functions and roles
(ii) Promoting values for the whole organisation and demonstrating good governance through behaviours
(iii) Taking informed transparent decisions subject to scrutiny and managing risk
(iv) Developing the capacity and capability of the Members and officers to be effective

The Council's governance environment is consistent with the six core principles of the CIPFA/SOLACE framework. For each principle we have described the Councils relevant governance mechanism and associated sources of assurance:

Principle	Description of Governance Mechanism	Assurances Received
1. Identifying and communicating the Council's vision and purpose	Good governance means focusing on the organisation's purpose and outcomes from residents and service users: • Members, working with officers, have developed a clear vision of their purpose and intended outcomes for citizens and service users. • The Vision for Kent Sustainable Community Strategy sets out the 10 year vision for the county. • Kent Forum (comprising the democratic leaders of all Kent's districts and county councils) works to the shared vision and oversees the delivery boards that are tasked with leading on specific themes within the strategy. • The Corporate Plan – Bold Steps for Kent – sets out the Council's ambitions and priorities, its determination to transform how the council works and engages with the communities it serves and its partners in the public, private and voluntary sectors. • Delivering Bold Steps for Kent is the overarching delivery framework and sets out 16 priorities central to achieving the Council's vision and priorities. • Delivery Boards: Safer Communities Board, Children's Trust Board and Health and Wellbeing Board meet and lead on the development of integrated services around specific themes. • Service plans set out the consultation, communication and marketing activity to be done in order that the service can be better planned to meet the needs of the customer or user in future.	Performance Management Framework – information is published quarterly against corporate priorities and targets and reported to the Cabinet Committees and Cabinet. Externally reported data; Government Single Data list; and CIPFA benchmarking. Strategic and service data published online to enable residents to hold the Council to account. Internal Audit Plan linked to the overall objectives of the Council and the risks to their achievement. Employment appraisals linked to the Council's strategic objectives.

Principle	Description of Governance Mechanism	Assurances Received
	• The communication and engagement plan for KCC staff and managers ensures they are aware of the Authority's vision and purpose and understand service priorities.	Results of consultations e.g. Kent Joint Health and Wellbeing Strategy, various school expansions, Kent Lane Rental Scheme, Making Kent Quicker (broadband) and many others are set out on a dedicated web page. Attendance of staff and managers at engagement sessions. Staff and managers accessing information on KNet.
2. Members and Officers working for a common purpose with clearly defined functions and roles	Elected members are collectively responsible for the governance of the Council. Decision making and scrutiny of decisions is separated through the executive arrangements introduced by the Local Government Act 2000. • The Constitution includes a statement on the roles of the Executive and clarifies the Scheme of Delegation in place. • The roles and duties of the Statutory Officers are documented within the Constitution. The Head of Paid Service works with Members and Corporate Directors to deliver the council's objectives. • The Chief Finance Officer (s.151 Officer) has responsibility for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts and maintaining an effective system of internal financial control. • The Monitoring Officer is responsible for ensuring agreed procedures are followed and that all applicable statutes and regulations are complied with. • The Director of Children's Services is responsible for education and children's social care in accordance with statutory guidance and the County Council's Accountability Protocol for the Director of Children's Services and Lead Member for Children's Services. • The Director of Public Health is responsible for ensuring that the County Council exercises its statutory public health functions. • The governance structure was last reviewed by Council in March 2012 and is monitored constantly for effectiveness. • Formal procedures and rules govern the Council's business: Constitution, Schemes of Delegation, Financial Regulations and Contract Procedure Rules.	The Head of Internal Audit has given adequate assurance for risk management and internal control and substantial assurance for the Governance Framework. Performance reporting to Cabinet Committees on a regular basis provides an overview for Members of Council performance against target levels. The Performance and Evaluation Board provides assurance to Corporate Board that where agreed performance levels are not being met, appropriate action is put in place to address the shortfall. Regular reviews of the Constitution (including the Code of Corporate Governance) by the Monitoring Officer and Selection & Member Services Committee/full Council.

Principle	Description of Governance Mechanism	Assurances Received
	• The Selection & Member Services Committee monitors and recommends changes to the Constitution to Council. • A pay policy is published annually in accordance with section 38(1) of the Localism Act and the Personnel Committee reviews pay, policy conditions of service and appointments. • The Performance and Evaluation Board reviews and agrees key target performance levels across the Authority and holds Services to account for meeting those performance targets. • Job descriptions for all the posts in the new top tier structure were agreed by the County Council in December 2013 together with a generic statement of senior managers' corporate responsibilities.	
3. Promoting values for the whole organisation and demonstrating good governance through behaviours	Good governance means performing effectively in clearly defined functions and roles. It means promoting appropriate values for the Council and demonstrating the values of good governance by upholding high standards of conduct and behaviour. • The Council takes the lead in establishing and promoting values for the organisation and its staff. These values are to be: open; invite contribution and challenge; and to be accountable. They are intended to shape the culture and define the character of the organisation now and in the future. • The Kent Code of Member Conduct sets out the members' obligations, how Disclosable Pecuniary Interests and Other Significant Interests are managed and the Seven Principles of Public Life. All Members receive training on the Code as part of their induction process, which is monitored by the Standards Committee. • Although the Localism Act 2011 allowed for the removal of local standards committees, the Council decided to retain this mechanism to ensure high standards of Member conduct are promoted and maintained. • The Kent Code (Code of Conduct for Employees) is published on the Council's intranet and is in the Constitution. Staff are made aware of the Code through the corporate induction process. • The Council has a Whistleblowing Policy (updated in 2013-14) and an Anti Fraud and Corruption Policy in place. • The Director of Governance and Law is the Monitoring Officer and is responsible for ensuring that the Council acts in accordance with the Constitution and supports the Standards Committee. • Corporate Directors have primary responsibility for ensuring that decisions are properly made under the terms of the Constitution and the Schemes of Delegation.	Monitoring Officer reports to the Corporate Management Team and Corporate Board. Standards Committee minutes and decisions. Minutes and decisions of all committees are observed by the Monitoring and/or Head of Democratic Services. Annual Performance Review for staff explicitly links to achievement of objectives, and demonstration of relevant values and behaviours. Equalities Impact Assessments carried out for the 2011-12 and 2012-13 budget proposals were undertaken without legal challenge. Member training and development programme provides focus on, and assurance of, appropriate skills and capability. The numbers of staff grievances and appeals is low given the level of change and the authority has not lost any Employment Tribunal cases.

Principle	Description of Governance Mechanism	Assurances Received
	• The Council developed new equality objectives last year in relation to how and where it plans, procures, commissions and delivers services. • The Council takes a whole organisation approach to addressing issues of equality in relation to providing services and the way it manages and develops its workforce. These two areas are not only interlinked, but also ultimately impact the Council's ability to deliver public sector equality duties.	
4. Taking informed transparent decisions subject to scrutiny and managing risk	Good governance means taking informed, transparent decisions and managing risk. • The Council has formally stated the types of decisions that are the responsibility of the Executive, those reserved to full Council and those delegated to committees and officers. • There are processes in place to demonstrate that decision makers followed due process, the decisions were properly documented and taken having regard to all relevant considerations. • Decision making is supported by substantial risk management arrangements, with the Risk Management Policy & Strategy approved annually by the Governance & Audit Committee. • Key and other significant decisions to be taken are published in the Council's Forthcoming Executive Decision (FED) list which covers a six-month period (two months more than required by statute). • In March 2012, the Council established six Cabinet Committees whose remit includes pre-consideration of decisions to be taken by Cabinet/Cabinet Members. • The Council has a Scrutiny Committee and a Health Overview and Scrutiny Committee with membership drawn from non-executive members. • Governance & Audit Committee provides effective, independent assurance of the adequacy of the internal control environment and oversee the financial reporting process. • The Head of Internal Audit supports the Governance & Audit Committee and reviews its effectiveness on an annual basis. • Corporate risks are considered quarterly by Corporate Board and the Corporate Risk Register is presented to the Governance & Audit Committee on a six monthly basis for assurance. Operational day to day risk management exists at an officer level with Member involvement at key trigger points. • Internal Audit operates in line with the Public Sector Internal Audit Standards. The Head of Internal Audit reports to the Corporate Director – Finance & Procurement and has direct access to both the Corporate Management Team, the Head of Paid Service, Members and the Chairman of Governance & Audit Committee.	Delegations set out in the Council's Constitution. Governance & Audit Committee work plan and terms of reference stipulate the way in which responsibility is discharged. Internal Audit review on risk management arrangements 2012-13. Annual review of Anti-Fraud and Corruption strategy. External audit VFM opinion, which considers governance, risk and performance management. Internal Audit Annual Report 2012-13. Complaints Annual Report. RIPA – Commissioner Office Surveillance control. Ofsted reports. Forthcoming Executive Decision (FED) list published on website. Medium Term Financial Strategy and signed Statement of Accounts. Zero tolerance approach to irregularities. All irregularities reported are investigated. Regular reports about complaints to Governance & Audit Committee.

Principle	Description of Governance Mechanism	Assurances Received
	• The Constitution makes it clear that managers have responsibility for operating a sound system of internal control. Internal Audit works collaboratively with services to recommend improvements to the control environment. • There are designated Whistleblowing officers in each Directorate and a whistleblowing hotline (maintained by Internal Audit). Officers are required to report all Whistleblowing instances to Internal Audit for monitoring and reporting purposes. • There is an Anti-Fraud and Corruption Strategy in place to prevent and detect fraud. There continues to be increased levels of reporting in 2013-14, indicating increased awareness of the potential for fraud, rather than actual levels of fraud. • The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures and a structure of delegation and accountability. The Medium Term Financial Strategy is updated and agreed by full Council each year and includes a risk assessment of budget options. • The Council has an open data and transparency programme which meets and often exceeds the expectations of central government. • Open data available includes: corporate directors' and Directors' salaries and expenses; register of gifts and hospitality; Council spending; Member's allowances and expenses; invoices over £500 and Kent area profiles.	
5. Developing the capacity and capability of the Members and officers to be effective	Good governance means developing the capacity and capability of the governing body to be effective. • Member development is delivered under the Member Development Charter (awarded in 2010) and the Member Development Charter Plus (achieved in 2011). • All Members receive training on the Code of Member Conduct. • There was a comprehensive Induction and Development Programme for both new and returning Members following the County Council Elections in May 2013. • Other tailored training is provided to support Members work on specific committees (e.g. Planning Applications, Personnel, etc) as well as generic leadership and personal development programmes. • All officers are subjected to a consistent Total Contribution appraisal and personal development process, which provides a tailored action and development plan that meets the needs of the individual and delivery of corporate and directorate objectives.	Attendance at Member development sessions and regular reports to the cross party Member Development Group and the Selection & Member Services Committee. Individual performance review ratings give assurances that staff are carrying out their work in accordance with Council priorities and objectives. Updates to Governance & Audit Committee regarding the Change to keep Succeeding programme. 39% of eligible staff have started the Kent Manager programme and regular reports are provided to Personnel Committee.

Principle	Description of Governance Mechanism	Assurances Received
	• The Facing the Challenge programme reinforces the expectation that all staff have an appreciation of the Council's values and expected behaviours. • The Organisation and People Plan includes a training strategy covering the development of professional and generic skills for all employees. • The Kent Manager Standard accredited by Edexcel is mandatory for all staff who manage resources at KR9 or above.	
6. Engaging with local people and stakeholders	Good governance means engaging stakeholders and making accountability real. It is important for the Council to consult, involve and listen to its citizens to improve services and plan for the future. The Council is committed to publishing the results of consultations and explain how the results will be used. • Service plans set out what consultation, communication and marketing activity is to be undertaken and the Council has a webpage bringing all public consultations together. • Services engage with their users using various methods, e.g. service user groups, mystery shopping and peer to peer engagement. • The Council has a dedicated Community Engagement Officer (CEO) for each district in Kent. They provide a link between local people, local organisations and decision-makers in Kent. Each CEO works with the local Member to arrange regular local community meetings in each district. • Kent residents have the right to vote and sign a petition to request a referendum for an alternative form of constitution and to submit or sign a petition on any issue of concern . • A Complaints Procedure is in place with regular reports going to the Governance & Audit Committee. • The Kent Compact, bringing together representatives from the public, private and community sectors to encourage closer working is in place and is underpinned by four protocols. • Kent Volunteering Charter is in place to promote and support volunteering across the county.	Results of consultations (e.g. Kent Joint Health and Wellbeing Strategy, various school expansions, Kent Lane Rental Scheme and Making Kent Quicker (broadband)) are set out on a dedicated web page on the Council's website. Regular reports of complaints and compliments are made to Governance & Audit Committee.

Review of Effectiveness

Every year, a return is submitted for each part of each Directorate (as well as by Statutory Officers) reviewing the effectiveness of its governance framework, including the system of internal control. Attached to each return is the appropriate evidence to support the statements in that return. The returns and their supporting evidence are the background information, in light of which the Corporate Director/Statutory Officer completes their Statement of Assurance.

The Returns cover each directorate's progress on implementing the actions/areas of improvement identified in the 2012-13 AGS. They also detail any new issues that have arisen since 1 April 2013, which have a significant impact on risk management or governance, including details of the sources used to identify such issues. Finally, they provide assurance that Corporate Directors have ensured compliance with the Constitution and Financial Regulations and whether any further actions/areas of improvement are required.

It is for each Corporate Director to decide the level of evidence that provides sufficient assurance that actions/improvements identified in the 2011-12 AGS have been implemented. In respect of all outstanding matters there is confirmation that a detailed action plan is in place, and the name of the responsible officer.

Elected Members have a role in maintaining and reviewing the effectiveness of the governance arrangements. They do this via the Governance and Audit Committee which has within its remit the role of ensuring the adequacy of the risk management and governance framework, and ensuring that these are embedded across the whole Council, that they are adequate for purpose and effectively and efficiently operated without any significant lapses. As part of the remit of the Scrutiny Committee, elected Members are able to review decisions made or action taken in relation to all Council function's, or consider matters which affect the area of its residents. As part of this review they can look at governance and risk management aspects and make recommendations or report to the Executive or County Council. During the year Cabinet and the various Cabinet Committees receive and review regular reports relating to the performance of the Council's system of internal control, including the Strategic Risk Register, Revenue and Capital Budget Monitoring, Treasury Management and Core Monitoring (Performance and business plans).

Internal Audit has concluded overall, based on the findings of work that it has performed and taking into account the individual strengths and weaknesses identified, that substantial assurance can be given in relation to corporate governance and risk management arrangements. This independent opinion is also in accordance with the Local Government Association peer review published in May 2014 which describes the governance arrangements as robust. Internal Audit's review of risk management arrangements noted some significant improvements since 2012-2013 and in particular in relation to the level of engagement and dialogue with staff and senior managers about risk management during a period of significant change.

In relation to internal controls, Internal Audit has concluded an overall substantial assurance over the control environment within the Council and its Directorate functions. This reflects a marked improvement in core controls at the centre and within Directorates, but some areas where further improvement is required e.g. aspects of the payments process. This year Internal Audit has raised particular concern over emerging risks in relation to the controls over and within operations remote from the Council e.g. companies in which the Council has an interest and other remote sites. This is of particular relevance as the Council continues through its transformation programme and recommends more alternative service delivery models. If this risk is not adequately managed, the Internal Audit opinion in future years could be impacted. The Council has been receptive to Internal Audit's recommendations in relation to governance and monitoring controls and this is an area which Internal Audit will be monitoring closely in 2014-15 due to its relevance to the overall assurance opinion going forward.

The Council confirms that its financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010), as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

Significant Governance Issues

A number of areas where key internal controls still need to be enhanced have been identified, the following is an update on actions taken during the past year:

Procurement

Potential for legal challenge of contract awards due to increased demand for Procurement advice – PWC were commissioned to review resource levels.

The key recommendation of the PWC report was to review roles across Procurement and Commissioning ensuring clear definition, assign staff into correct areas, carry out a skills gap assessment and train as necessary to correct.

A clear definition of roles and responsibilities has been completed, but other recommendations have not yet been implemented as they have been overtaken by 'Facing the Challenge' (and the Corporate Directors Group did not approve the action for the "Realignment of Resources to Deliver Improved Performance")

(Notwithstanding the above,) we have been addressing this risk in several ways: Firstly training - over 150 internal clients have undertaken the Procurement Overview Training which reduces the likelihood of services carrying out procurements without the Strategic Sourcing and Procurement (SSP) team's knowledge. The SSP team are all either fully qualified (the majority) or undertaking training to achieve full Chartered Institute of Purchasing and Supply membership, additional training and experience sharing happens at SSP team meetings and joint meetings with our Legal Team.

Governance has been strengthened, and will be further improved, when the new version of 'Spending the Councils Money' goes to Governance and Audit Committee on the 30th April 2014.

Facing the Challenge:

Our corporate transformation programme, Facing the Challenge, was launched in September 2013, with Phase 1 running until April 2014, and Phase 2 until April 2015. Facing the Challenge is KCC's response to meeting the unprecedented financial challenge of continued reductions in central government grant combined with significant spending pressures from demographic and legislative change. Through Facing the Challenge, KCC will become a strategic commissioning authority, increasingly commissioning services focussed on early help, prevention and demand management from the best provider in the market, whether they are internal or external to KCC, or from the public, private or voluntary sector.

The Facing the Challenge transformation plan, and the governance and reporting arrangements were agreed by County Council in September 2013. These clearly state that any necessary formal decisions (Key or Significant) relating to transformation of services will be undertaken in the usual way through the existing decision-making procedure as set out in the Constitution. Reporting of progress and update papers on Facing the Challenge are regularly provided to County Council and Cabinet Committees as necessary, in support of our open, honest and transparent approach to transformation in KCC.

Internal governance arrangements for Facing the Challenge are clear and robust and have been endorsed by the Peer Review. There is a Director of Transformation with overall lead responsibility for delivery of the programme, including engagement and co-ordination with Corporate Directors, and a Corporate Portfolio Office (CPO) which provides independent assurance on progress and delivery. A weekly Transformation Advisory Group (TAG) meeting of senior Officers (including the Director of Transformation and the Head of the CPO) and Cabinet Members is chaired by the Leader of the Council to provide oversight and steer the corporate transformation programme. An advisory Transformation Board has been established, comprising the Leaders of all political groups on KCC to ensure robust cross-party engagement on key issues and progress.

The reporting, decision-making and internal governance arrangements for Facing the Challenge have worked well through Phase 1 and will continue into Phase 2. The Local Government Association (LGA) Corporate Peer Challenge of KCC (4-7 March 2014) examined our transformation programme in depth and found no governance issues, but strong and appropriate leadership and a clear understanding of the risks associated with transformation. We are confident that our arrangements are appropriate and will support robust remedial action necessary should any governance issues arise through Facing the Challenge. We will also periodically review the arrangements to ensure they remain fit for purpose.

Risk management arrangements for transformation have been established as part of the 'managing change better' work strand, which align with existing corporate arrangements. This includes reporting to Corporate Directors' meetings, as this forum acts as the senior management focus for the delivery of transformation work, and the Transformation Advisory Group.

Risks relating to achievement of overall transformation objectives have been gathered from 1:1 meetings with Cabinet Members, Corporate Directors and the wider management population, and are reviewed regularly with a particular focus on mitigating actions.

The level of restructure and transformation projects occurring across the Authority continues to represent a potential risk to the quality of service delivery.

The provision of HR support and advice to managers undertaking restructures in their business units has been kept under review. Levels of satisfaction with the advice in this area are consistently high and there has been investment of time and money to ensure the right level of training and competency for people in the HR Advisory team.

The impact of restructures and redundancies on the effectiveness and morale of staff continues to be monitored through employee engagement measures, other HR measures such as absence and turnover rates and customer feedback on quality of service delivery.

There is an ongoing programme in service directorates to review the integration of service provision, both within the KCC and with partners, to ensure staff and financial resources are not wasted in duplication of effort.

Furthermore, a number of particular areas where key internal controls still need to be enhanced have been identified as follows :

Adult Social Care Transformation - This is redesigning how adult social care is delivered to improve outcomes for people while building a sustainable social care market. The programme has identified its key steps and is delivering these and the associated savings although full implementation of this 3 year programme is still not yet assured. However, given the scale of the programme, in terms of size, scale and capacity, and recognising the assurance provided by the Corporate Director of Social Care, Health and Wellbeing, we will be regularly monitoring this programme.

Facing the Challenge Phase 2 – The council wide transformation will affect both the council's social care functions and the support services those functions relay on. Work is being undertaken with the Corporate Portfolio Office to manage the interdependencies between change programmes, to maintain sufficient focus on delivering the council's day to day statutory responsibilities and to provide assurance to .Senior Management.

The need to have the right governance and controls in place in relation to alternative service delivery models. This is being reviewed regularly through the Facing the Challenge Programme.

We will over the coming year take appropriate steps to address all of these matters and to further enhance 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.

Paul Carter
Leader
On behalf of Kent County Council

David Cockburn
Head of Paid Service

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.

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 Service Reporting 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.

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.

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.

Glossary of terms

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.

Revenue expenditure funded from capital under statute (Refcus)
Refcus includes expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset.

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.

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By:	John Simmonds, Deputy Leader and Cabinet Member for Finance & Business Support Andy Wood, Corporate Director of Finance & Procurement
To:	Governance and Audit Committee – 24 July 2014
Subject:	**TREASURY MANAGEMENT ANNUAL REVIEW 2013-14**
Classification:	Unrestricted

Summary: To report a summary of Treasury Management activities in 2013-14

FOR DECISION

INTRODUCTION

1. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.

2. Treasury Management is defined as: "the management of the local Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

3. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

4. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Investment Guidance.

   a. Reports on the implications of treasury decisions and transactions;

   b. Gives details of the outturn position on treasury management transactions in 2013-14;

   c. Confirms compliance with its Treasury Management Strategy Statement, Treasury Management Practices and Prudential Indicators.

5. When this report is agreed by this Committee it will go forward to full Council.

DEBT MANAGEMENT

	Balance on 01/04/2013 £m	Debt Maturing £m	New Borrowing £m	Balance on 31/3/2014 £m	Average Rate % and Average Life (yrs)
Capital Financing Requirement (CFR)	1,465			1,435	
Long Term Borrowing	1,012	2		1,010	5.516% / 29.10
Other Long Term Liabilities					
TOTAL EXTERNAL DEBT	1,012			1,010	
Decrease in Borrowing				2	

6. The Council did not undertake any borrowing this year. With short-term interest rates having remained much lower than long-term rates, it was more cost effective in the short-term to use internal resources rather than take external borrowing. By doing so, the Council was able to reduce net borrowing costs despite foregone investment income and reduced overall treasury risk. It does not intend to borrow for the foreseeable future but the sustainability of this approach will be kept under review.

7. Changes in the debt portfolio over the year have achieved a reduction in the overall debt cost by £1.96m whilst reducing the average life from 29.86 years to 29.10 years.

8. No debt rescheduling was undertaken in the year.

INVESTMENT ACTIVITY

9. Both the CIPFA and the CLG's Investment Guidance require the Council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield.

10. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2013-14 which defined "high credit quality" organisations as those having a long-term credit rating of A- or higher.

11. The Council assessed and monitored counterparty credit quality with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP and share price.

12. The Financial Services (Banking Reform) Act 2013 gained Royal Assent in December, legislating for the separation of retail and investment banks and for the introduction of mandatory bail-in in the UK to wind up or restructure failing financial institutions. EU finance ministers agreed further steps towards banking union, and the Single Resolution Mechanism (SRM) for resolving problems with troubled large banks which will shift the burden of future restructurings/rescues to the institution's shareholders, bondholders and unsecured investors.

13. The material changes to UK banks' creditworthiness were:

    (1) The strong progress made by the Lloyds Banking Group in strengthening its balance sheet, profitability and funding positions and the government reducing its shareholding in the Group to under 25%,

    (2) The announcement by Royal Bank of Scotland of the creation of an internal bad bank to house its riskiest assets (this amounted to a material extension of RBS' long-running restructuring, further delaying the bank's return to profitability),

    (3) Substantial losses at Co-op Bank which forced the bank to undertake a liability management exercise to raise further capital and a debt restructure which entailed junior bondholders being bailed-in as part of the restructuring.

COUNTERPARTY UPDATE

14. In March Moody's downgraded the long-term ratings of both RBS and NatWest banks to Baa1. As this rating is below the Council's minimum credit criterion of A-, the banks were withdrawn from the counterparty list for further investment. NatWest is the Council's banker and will continue to be used for operational and liquidity purposes.

15. In September 2013 Cabinet approved the establishment of an investment portfolio to be managed externally. Since then £5million has been invested in the Pyrford absolute return fund, £5million in the CCLA Local Authorities Property Fund and £2.7m in Kent PFI (Holdings) Ltd shares.

16. During 2013-14 the Council's internally managed cash was primarily invested with banks and building societies in call accounts, fixed-rate term deposits and certificates of deposit. In addition the Council invested in T-Bills and deposits with the DMADF (Debt Management Office). In March the Council also made purchases of Covered Bonds - corporate bonds which have recourse to a pool of assets which secures or covers the bond if the issuer fails.

17. The maximum duration limit for bank deposits was 12 months.

18. **Internally Managed Funds - Investment Activity in 2013-14**

Investment Counterparty	Balance on 01/04/2013 £m	Net Investments Made £m	Balance on 31/03/2014 £m	Avg Rate % and Avg Life (yrs)
UK Central Government		0.7	0.7	0.25% / 0.04
Banks and building societies	261.0	31.4	292.4	0.52% / 0.14
Marketable instruments (Covered Bonds)		5.3	5.3	1.31% / 2.64
Total Internally Managed Investments	261.0		298.4	
Increase in Investments £m			37.4	

19. Investments as at 31 March 2014 are shown in Appendix 2.

20. In keeping with CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of overnight deposits and call accounts.

21. The UK Bank Rate was maintained at 0.5% through the year. During the year short term money market rates fell to very low levels which had a significant impact on investment income. The average 7 day LIBID rate during 2013-14 was 0.3542%, the average 3-month LIBID rate was 0.45%, the 6-month LIBID rate averaged 0.53% and the 1-year LIBID rate averaged 0.78%. The low rates of return on the Council's short-dated money market investments reflect prevailing market conditions and the Council's objective of optimising returns commensurate with the principles of security and liquidity.

22. The Council's investment income for the year was £2.9m, an average rate of 0.6% which was slightly higher than 6-month LIBID. The portfolio return particularly reflects higher interest rates paid on bank deposits and call accounts in June – September 2013, and the recent diversification of investments.

23. The Council held average cash balances of £359m during the year. These represented the Council's reserves, working cash balances, capital receipts and schools' balances etc.

24. The Treasury team seeks to maximise the investment return within the parameters of the investment strategy by fully utilising the range of assets available through:

(1) The initial allocation to the investment portfolio,

(2) Using new asset classes such as Covered Bonds with a maximum duration of 5 years, which typically yield in excess of 1%,

(3) Maximising investment with bank counterparties paying the better rates, for example a call account with the Swedish bank Handelsbanken paying 0.6%

COMPLIANCE WITH PRUDENTIAL INDICATORS

25. The Council confirms that it has complied with its Prudential Indicators for 2013-14, which were set as part of the Council's Treasury Management Strategy Statement. Details can be found in Appendix 1.

26. The Treasury Management activities were once again subject to review by Internal Audit whose assessment of the controls in place and the level of compliance with these controls was High assurance.

TREASURY ADVISER

27. KCC currently contracts with Arlingclose as Treasury Advisers.

RECOMMENDATION

28. Members are asked to agree the report and recommend that it is submitted to County Council.

Alison Mings
Treasury and Investments Manager
Ext: 7000 6294

Appendix 1

2013-14 Final Monitoring of Prudential Indicators

1. Estimate of Capital Expenditure (excluding PFI and Schools)

	£m	
Actuals 2013-14	203.244	
Original estimate 2013-14	286.571	
Revised estimate 2013-14	253.429	(this includes the rolled forward re-phasing from 2012-13)

2. Estimate of capital financing requirement (underlying need to borrow for a capital purpose)

	2012-13 Actual £m	2013-14 Original Estimate £m	2013-14 Actual as at 31 March £m
CFR	1,464.961	1,483.590	1,435.263
Annual increase/(decrease) in underlying need to borrow	(30.912)	(2.825)	(29.698)

In the light of current commitments and planned expenditure, forecast net borrowing by the Council will not exceed the Capital Financing Requirement.

3. Estimate of ratio of financing costs to net revenue stream

Actual 2012-13	14.55%
Original estimate 2013-14	13.42%
Actual 2013-14	13.62%

4. Operational Boundary for External Debt

The operational boundary for debt is determined having regard to actual levels of debt, borrowing anticipated in the capital plan, the requirements of treasury strategy and prudent requirements in relation to day to day cash flow management.

Operational boundary for debt relating to KCC assets and activities

	Prudential Indicator £m	Position as at 31 March 2014 Actual £m
Borrowing	993	969
Other Long Term Liabilities	1,134	1,155
Total	**2,127**	**2,124**

Operational boundary for total debt managed by KCC including that relating to Medway Council etc (pre Local Government Reorganisation)

	Prudential Indicator £m	Position as at 31 March 2014 £m
Borrowing	1,040	1,010
Other Long Term Liabilities	1,134	1,155
Total	**2,174**	**2,165**

5. Authorised Limit for external debt

The authorised limit includes additional allowance, over and above the operational boundary to provide for unusual cash movements. It is a statutory limit set and revised by the County Council.

Authorised limit for debt relating to KCC assets and activities

	Prudential Indicator £m	Position as at 31 March 2014 £m
Borrowing	1,033	969
Other long term liabilities	1,134	1,155
Total	**2,167**	**2,124**

Authorised limit for total debt managed by KCC including that relating to Medway Council etc (pre Local Government Reorganisation)

	Prudential Indicator £m	Position as at 31 March 2014 £m
Borrowing	1,080	1,010
Other long term liabilities	1,134	1,155
Total	**2,214**	**2,165**

The additional allowance over and above the operational boundary has not needed to be utilised and external debt, has and will be maintained well within the authorised limit.

6. Compliance with CIPFA Code of Practice for Treasury Management in the Public Services

The Council has adopted the Code of Practice on Treasury Management and has adopted a Treasury Management Policy Statement. Compliance has been tested and validated by our independent professional treasury advisers

7. Upper limits of fixed interest rate and variable rate exposures

The Council has determined the following upper limits for 2013-14

Fixed interest rate exposure	100%
Variable rate exposure	30%

These limits have been complied with in 2013-14.

8. Upper limits for maturity structure of borrowings

	Upper limit	Lower limit	As at 31 March 2014
	%	%	%
Under 12 months	10	0	0.00
12 months and within 24 months	10	0	2.59
24 months and within 5 years	15	0	9.40
5 years and within 10 years	15	0	9.11
10 years and within 20 years	15	5	10.50
20 years and within 30 years	20	5	14.70
30 years and within 40 years	20	10	12.95
40 years and within 50 years	25	10	17.88
50 years and within 60 years	30	10	22.88

9. Upper limit for principal sums invested for periods longer than 364 days

Prudential Indicator	Actual
£m	**£m**
30.0	22.2

Appendix 2

Investments as at 31 March 2014

1) Internally Managed Investments

Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate
Fixed Deposit	Bank of Scotland	£5,000,000	08/05/2014	0.75
Fixed Deposit	Bank of Scotland	£5,000,000	22/07/2014	0.75
Call Account	Barclays Bank	£10,000,000	n/a	0.3
Call Account	Barclays FIBCA	£30,000,000	n/a	0.6
Fixed Deposit	HSBC	£5,000,000	03/04/2014	0.3
Fixed Deposit	HSBC	£6,000,000	04/04/2014	0.3
Fixed Deposit	HSBC	£19,400,000	25/04/2014	0.35
Fixed Deposit	HSBC	£4,000,000	07/04/2014	0.3
Fixed Deposit	HSBC	£5,600,000	08/04/2014	0.3
Fixed Deposit	Lloyds Bank	£5,000,000	06/05/2014	0.75
Fixed Deposit	Lloyds Bank	£5,000,000	19/05/2014	0.75
Fixed Deposit	Lloyds Bank	£5,000,000	19/08/2014	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	21/08/2014	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	22/04/2014	0.75
Call Account	Santander UK	£40,000,000	n/a	0.4
Certificate of Deposit	Standard Chartered	£10,000,000	07/07/2014	0.55
Certificate of Deposit	Standard Chartered	£10,000,000	05/08/2014	0.49
Certificate of Deposit	Standard Chartered	£10,000,000	02/04/2014	0.54
Certificate of Deposit	Standard Chartered	£2,000,000	22/07/2014	0.52
Certificate of Deposit	Standard Chartered	£8,000,000	08/09/2014	0.59
Total UK Bank Deposits		**£195,000,000**		
Fixed Deposit	Nationwide Building Society	£35,300,000	25/04/2014	0.38
Fixed Deposit	Nationwide Building Society	£800,000	07/04/2014	0.35
Fixed Deposit	Nationwide Building Society	£3,900,000	07/04/2014	0.4
Fixed Deposit	Leeds Building Society	£5,000,000	30/06/2014	0.42
Total UK Building Society Deposits		**£45,000,000**		
Fixed Deposit	Debt Management Account Deposit Facility	£700,000	16/04/2014	0.25
Total UK Government Deposits		**£700,000**		
Fixed Deposit	Commonwealth Bank of Australia	£7,000,000	28/04/2014	0.47
Fixed Deposit	Commonwealth Bank of Australia	£6,000,000	30/04/2014	0.43

Fixed Deposit	Commonwealth Bank of Australia	£7,000,000	30/05/2014	0.44
Total Australian Bank Deposits		**£20,000,000**		
Instrument Type	**Counterparty**	**Principal Amount**	**End Date**	**Interest Rate**
Call Account	Handelsbanken	£20,000,000	n/a	0.6
Total Swedish Bank Deposits		**£20,000,000**		
Total Icelandic Deposits Outstanding		**£12,416,710**		
Fixed Rate Covered Bond	Bank of Scotland	£2,184,840	08/11/2016	1.293%
Fixed Rate Covered Bond	Bank of Scotland	£3,142,737	08/11/2016	1.309%
Total Covered Bonds		**£5,327,577**		
Total Internally Managed Investments		**£298,444,286**		

Icelandic Deposits held in ESCROW (est GBP)	*-£3,146,603*
Net Icelandic Deposits outstanding	***£9,270,107***

2) Externally Managed Investments

Investment Fund	**Book cost**	**Market Value at 31 March 2014**	**Gross return for 3 months to 31 March 2014**
CCLA	£5,000,000	£5,083,000	4.65%
Pyrford	£5,000,000	£4,916,000	0.37%
Total Investment Funds		**£9,999,000**	
Equity	**Book cost**	**Market Value at 31 March 2014**	**Projected annual return**
Kent PFI (Holdings) Ltd	£2,681,260	£2,681,260	7.6%
Total Externally Managed Investments		**£12,680,260**	

Total Investments	**£311,124,546**

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By:	Deputy Leader and Cabinet Member for Finance & Procurement Corporate Director of Finance & Procurement
To:	Governance & Audit Committee – 24 July 2014.
Subject:	**DEBT MANAGEMENT**
Classification:	Unrestricted

Summary: To report on the Council's debt position

FOR ASSURANCE

INTRODUCTION

1. The purpose of this report is to provide the Governance and Audit Committee with assurance on the Council's outstanding debt position.

2. This report concentrates mainly on debt over 6 months old.

MANAGEMENT SUMMARY

3. The overall outstanding debt as at 31st May 2014, as shown on Oracle Accounts Receivable Business Intelligence Suite, is £45.7m. This represents social care debt from SWIFT of £19.5m (30,409 invoices) and sundry debt of £26.2m (3,502 invoices). Any debts paid by instalments but originating from a single invoice are counted only once for sundry debtors. The sundry debt figures include Health debt of £5.2m, although please see Paragraph 16 for further details of this.

4. The total debt reported has increased by £6.7m from the £39.0m reported in the last Governance and Audit report. However, the value of total debt at any given date can vary considerably, particularly when large one-off invoices are raised, or depending on when the last batch of four-weekly social care invoices were issued. A better measure of comparative performance can be seen by movements in the value of sundry debt over six months' old as a percentage of total debt over the course of the last seven years, as the table below illustrates.

30-Apr-14	30-Apr-13	30-Apr-12	30-Apr-11	30-Apr-10	30-Apr-09	30-Apr-08
7%	8%	12%	8%	6%	11%	12%

5. The detail around the Social Care element of debt, as well as the movement in value since the last report, can be found in sections 20-29, with earlier sections referring to AR sundry debt only. The Social Care debt analysed from this point on reflects the four weekly client billing process run on Tuesday 27th May 2014.

6. Please note that changes in the most recent directorate structure are reflected in this report. This also means that debt incurred prior to the latest restructure is reported separately where appropriate. We are unable to retrospectively amend Oracle to reflect the current directorate structure. The debt reporting is calculated from the invoice due date and not the invoice date for Sundry Debt, but is based on invoice date for Social Care debt owing to the ongoing nature of the billing through which invoices are issued every four weeks.

7. The table below is an analysis of the summary position for Sundry debt as at 31st May 2014

FTC	Directorate	Not Yet Due	AR Overdue 0-60 Amount	AR Overdue 61-181 Amount	AR Overdue 182+ Amount	Total AR Outstanding Amount	Total Overdue AR Outstanding Amount
NEW DIR	EY	£691,631.53	£7,072.17	£0.00	£0.00	£698,703.70	£7,072.17
	GT	£1,566,280.76	£701,409.66	£0.00	£0.00	£2,267,690.42	£701,409.66
	SC	£771,253.98	£2,139,532.78	£0.00	£0.00	£2,910,786.76	£2,139,532.78
	ST	£678,240.23	£122,952.73	£0.00	£0.00	£801,192.96	£122,952.73
OLD DIR	BSS	£88,042.66	£1,510,945.59	£1,017,834.17	£207,255.92	£2,824,078.34	£2,736,035.68
	C&C	£63,369.86	£661,661.79	£38,623.51	£38,872.61	£802,527.77	£739,157.91
	E&E	£9,206.24	£399,799.59	£128,298.11	£82,511.42	£619,815.36	£610,609.12
	ELS	£71,576.12	£695,977.19	£120,576.10	£126,042.37	£1,014,171.78	£942,595.66
	FSC	£40,331.03	£1,585,453.55	£795,129.81	£4,378,685.71	£6,799,600.10	£6,759,269.07
OTHER	EDUKENT	£183,128.87	£185,265.77	£27,163.19	£20,518.32	£416,076.15	£232,947.28
	Penalty Notices	£40,320.00	£12,720.00	£0.00	£0.00	£53,040.00	£12,720.00
	Property Rents	£170,624.68	£170,454.97	£0.00	£0.00	£341,079.65	£170,454.97
	SCHOOL PAYROLL	£6,624,166.65	£0.00	£0.00	£0.00	£6,624,166.65	£0.00
Grand Total		**£10,998,172.61**	**£8,193,245.79**	**£2,127,624.89**	**£4,853,886.35**	**£26,172,929.64**	**£15,174,757.03**

PERFORMANCE

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

- Total outstanding sundry debt under 60 days old – greater than 75%
- Total outstanding sundry debt over 6 months old – less than 20%

As at 31 May 2014, 73.33% of the total sundry outstanding debt was under 60 days old whilst 18.55% was over 6 months old.

There are nine exceptional invoices totalling £4.1m that have been raised to the Home Office for un-met asylum costs which are adversely affecting the KPI percentages. If these invoices were excluded from the calculation the total sundry outstanding debt would be as follows:

- Total sundry outstanding debt under 60 days is 86.87%
- Total sundry debt over 6 months old is 5.34%

DEBT LEVELS OVER SIX MONTHS OF AGE

9. Below is an analysis of the categories of debt over 6 months old by Directorate, followed by more detailed analysis. Some invoices are currently marked as "Other" – this is usually due to the fact that some invoices are chased directly by the Directorate responsible for them – and they are thus responsible for changing the tag status.

10. BSS – Business Strategy and Support

DEBT CATEGORY	BSS
AR SECURED DEBT	£4,027.75
EDUKENT	£30,000.00
EXC ONGOING ACTION	£25,252.35
INSTALMENTS	£710.00
INTERNAL	£1,740.00
OTHER	£224.00
ACTION SUSPENDED	£210.00
PAYMENT PLAN	£17,711.25
REFERRED FOR WO	£7,745.85
REFERRED TO DIRECTORATE	£107,986.32
REFERRED TO LEGAL	£10,011.70
SMALL CLAIMS COURT	£1,636.70
GRAND TOTAL	£207,255.92

- The £107,986.32 tagged as "Referred to Directorate" consists of 15 invoices. Of these, the largest one refers to the repayment of an empty property loan of £50,000. This sum has reduced from £100,000, is secured and payment of the remaining amount is expected by the end of July.
- The second largest invoice tagged as "Referred to Directorate" relates to a duplicate payment of £23,750.00 made to a company that has since claimed it is on the verge of winding up. This matter is with Legal Services who are actively pursuing the matter.
- The debt tagged Edukent relates to once invoice of £30,000.00. Edukent advise that a dispute is close to resolution and payment is expected shortly.

11. <u>ELS - Education, Library and Skills</u>

DEBT CATEGORY	ELS
EXC ONGOING ACTION	£9,064.83
INSTALMENTS	£603.87
OTHER	£360.00
PAID TO CS IN ERROR	£276.00
PAYMENT PLAN	£7,012.01
REFERRED FOR WO	£4,973.60
REFERRED TO DIRECTORATE	£62,778.32
REFERRED TO LEGAL	£38,966.27
SMALL CLAIMS COURT	£2,007.47
GRAND TOTAL	£126,042.37

- The £62,778.32 tagged as "Referred to Directorate" includes an invoice for £60,000.00 owed by Canterbury City Council for works relating to the Arena at Herne Bay High School. This has not been paid owing to an ongoing dispute about a small proportion of the work. It has been agreed therefore that the directorate will cancel the invoice and raise a new one for the element of the work that has been completed to the debtor's satisfaction, with a future invoice to be raised once the remaining issued are resolved.

12. <u>E&E - Environment &Enterprise</u>

DEBT CATEGORY	E&E
EXC ONGOING ACTION	£15,919.09
INSURANCE	£50,787.37
LIQ'S/INSOLV'S/RECV	£361.00
OTHER	£10,678.77
PAYMENT PLAN	£153.33
REFERRED FOR WO	£1,812.62
REFERRED TO DIRECTORATE	£2,629.24
REFERRED TO LEGAL	£170.00
GRAND TOTAL	£82,511.42

- The £2,629.24 tagged as "Referred to Directorate" includes an invoice of £1,779.95 owed by Thanet District Council.
- The £10,678.77 of debt without a Tag Status, referred to as "Other" purely relates to Permits' debts, which are chased directly by the directorate. An update has been sought from the responsible staff member.

13. <u>FSC - Families and Social Care</u>

DEBT CATEGORY	FSC

EXC ONGOING ACTION	£83,430.04
HEALTH DEBT - SECURED - HQ	£16,186.18
HEALTH DEBT - WK	£355,308.74
INSTALMENT - SMALL CLAIMS	£8,417.38
LIQ'S/INSOLV'S/RECV	£1,082.34
OTHER	£2,279.75
SUSPENDED ACTION	£4,735.85
PAYMENT PLAN	£81,289.72
REFERRED FOR WO	£48,197.27
REFERRED TO DIRECTORATE	£3,755,711.59
REFERRED TO LEGAL	£17,606.37
SMALL CLAIMS COURT	£4,440.48
GRAND TOTAL	£4,378,685.71

- The £3,755,711.59 tagged as “Referred to Directorate” includes £3,674,961.90 that relates to the Home Office invoices as described in Paragraph 8.

14. <u>C&C - Customers & Community</u>

DEBT CATEGORY	**C&C**
AR SECURED DEBT	£4,111.25
AUTOMATIC WRITEBACK	£1,239.25
EXC ONGOING ACTION	£8,147.40
HEALTH DEBT - SECURED - HQ	£16,860.61
LIQ'S/INSOLV'S/RECV	£1,592.38
OTHER	£206.40
PAID TO CS IN ERROR	£50.00
PAYMENT PLAN	£732.04
REFERRED FOR WO	£469.20
REFERRED TO DIRECTORATE	£4,292.08
SMALL CLAIMS COURT	£1,172.00
GRAND TOTAL	£38,872.61

- The £4,292.08 marked as “Referred to Directorate” refers to five invoices, the largest of which is a Salary Overpayment debt of £2151.71.

15. <u>EduKent</u>

DEBT CATEGORY	**EDUKENT**
OTHER	£20,518.32
GRAND TOTAL	£20,518.32

- As at the date of this report, the sum of £20,518.32 is categorised as EduKent Debt over six months' old. This represents 1 invoice, which is owed by The Canterbury Academy. Payment is expected by the end of the week, as at the time of writing.

INSTALMENT PAYMENTS

16. The tables following represent the amount and value of debt being paid by instalments. Please note that, due to a review of instalment debts, a new debt tag of "payment plan" has been introduced in order to distinguish formal instalment plans paid via a Direct Debit arrangement from those debtors who have arranged a payment plan that will be made by another payment method. Tables analysing both types of debtors are included.

Sundry debt instalments as at 31 May 2014			Previous Report	
Directorate	Number of cases	Total Value	Number of cases	Total Value
FSC	21	£14,525	24	£48,386
ELS	10	£1,986	13	£19,727
BSS	13	£15,723	12	£31,152
C&C	0	£0	6	£5,474
E&E	5	£1,257	1	£1,322
Penalty Notices	1	£120	0	£0
Total	50	£33,611	56	£106,061

Sundry debt Pay Plan as at 31 May 2014			Previous Report	
Directorate	Number of cases	Total Value	Number of cases	Total Value
FSC	40	£83,631	0	£0
ELS	8	£12,841	0	£0
BSS	7	£17,711	0	£0
C&C	1	£732	0	£0
E&E	1	£153	0	£0
Penalty Notices	0	£0	0	£0
Total	57	£115,069	0	£0

SUNDRY HEALTH DEBT

17. The Sundry Health Debt as at 31st May 2014 was identified as being £5,172,716.39 comprising of 182 invoices. This is an increase of £1.9 million when compared to the position reported in October 2013. However it should be noted that the sundry health debt aged over six months has decreased in the same period by £117k. The Sundry Health debt as at 31st May 2014 includes all current debt identified as being owed by a debtor classed as "Health", even if new debts had not yet been tagged as such. Analysis by debtor is as follows:

Customer Name	Sum of Not Yet Due	Sum of AR Overdue 0-60 Amount	Sum of AR Overdue 61-181 Amount	Sum of AR Overdue 182+ Amount	Sum of Total AR Outstanding Amount
BIRCHINGTON MEDICAL CENTRE	900.00	0.00	0.00	0.00	900.00
EAST KENT HOSPITALS UNIVERSITY NHS FOUNDATION TRUST	405.00	684.00	0.00	0.00	1,089.00
KENT & MEDWAY NHS SOCIAL CARE PARTNERSHIP TRUST	6,914.25	92,756.34	0.00	0.00	99,670.59
KENT AND MEDWAY COMMISSIONING SUPPORT	0.00	2,583.84	0.00	0.00	2,583.84
KENT COMMUNITY HEALTH NHS TRUST	5,358.41	271,917.39	0.00	0.00	277,275.80
LAMBETH PRIMARY CARE TRUST	0.00	0.00	0.00	266,309.06	266,309.06
LONDON PORT HEALTH AUTHORITY	6,957.60	0.00	0.00	0.00	6,957.60
MARDEN MEDICAL CENTRE	64.00	0.00	0.00	0.00	64.00
NHS ASHFORD CCG	25,560.58	459,924.92	99,293.52	0.00	584,779.02
NHS CANTERBURY & COASTAL CCG	60,083.40	47,905.95	135,520.00	0.00	243,509.35
NHS DARTFORD, GRAVESHAM, AND SWANLEY CCG	11,847.60	94,180.16	77,545.64	33,046.79	216,620.19
NHS EASTERN & COASTAL CCG	0.00	133,084.22	0.00	0.00	133,084.22
NHS ENGLAND RE PCT/SHA CLOSURE	3,765.34	27,234.34	42,745.04	0.00	73,744.72
NHS KENT & MEDWAY CSU	118,135.28	1,320.00	0.00	0.00	119,455.28
NHS LAMBETH	0.00	0.00	0.00	88,999.68	88,999.68
NHS MEDWAY CCG	0.00	40,804.00	0.00	0.00	40,804.00
NHS MEDWAY CLINICAL COMMISSIONING GROUP	90,374.00	0.00	0.00	0.00	90,374.00
NHS PROPERTY SERVICES LTD	0.00	445.80	24,104.94	0.00	24,550.74
NHS SOUTH KENT COASTAL CCG	82,654.69	1,018,527.26	0.00	0.00	1,101,181.95

NHS SWALE CCG	37,763.41	109,889.98	776.75	0.00	148,430.14
NHS THANET CCG	95,254.66	304,739.21	145,729.23	0.00	545,723.10
NHS WEST KENT CCG	46,203.48	1,054,117.63	0.00	0.00	1,100,321.11
SUFFOLK COMMUNITY HEALTHCARE	160.00	0.00	0.00	0.00	160.00
THE TAVISTOCK AND PORTMAN NHS FOUNDATION TRUST	0.00	6,129.00	0.00	0.00	6,129.00
Grand Total	**592,401.70**	**3,666,244.04**	**525,715.12**	**388,355.53**	**5,172,716.39**

TRENDS

18. The numbers and values of invoices raised for the last 6 years are:

	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Number of invoices raised	30,290	28,353	32,029	29,336	30,369	34,097
Value of invoices raised	£246,893,065	£237,392,631	£160,139,056	£176,597,554	£183,961,032	£183,804,045

WRITE OFFS

19. The table below shows the sum written off for 2013/14 in relation to Sundry debts. The data is based on write offs input to the Receivables system in 2013/14 rather than the year they have been allocated to GL. As of 12th June 2014, £4,845.62 has been entered to ORACLE as a write off for the current financial year.

DIRECTORATE	SUNDRY
BSS REVENUE DEBT WO	£11,699.06
C&C REVENUE DEBT WO	£188,673.11
E&E BAD DEBT WO	£645.00
E&E REVENUE DEBT WO	£16,493.86
ELS BAD DEBT WO	£53.62
ELS REVENUE DEBT WO	£17,427.00
FSC REVENUE DEBT WO	£69,038.18
WO/WRITE BACK REVERSAL	(£1,100.86)
Grand Total	**£302,928.97**

SOCIAL CARE DEBT

20. **Client Charging**

(i) Clients are financially assessed to determine their contribution towards either their residential or non residential care costs.

(ii) Residential Charging - This charging is distinct from non-residential charging in that councils have a duty to charge for services under Section 22 of the National Assistance Act 1948. Councils have no discretion in how they charge individuals, and all councils are required to do so.

(iii) Non-Residential Charging - Section 17 of the Health and Social Security and Social Services Adjudication Act 1983 gives councils the power to charge a person for non-residential services no more than it appears reasonable for them to pay.

(iv) This means that each council has discretion in how they charge individuals for certain services and how much an individual has to contribute to the costs.

(v) In 2013/2014 the total amount of income charged to clients through the client billing system was £67,091,677.04. This is an increase of nearly £6 million compared to the previous financial year. This is principally due to the fact that there were 14 billing runs in 2013/14 as opposed to the usual 13 billing runs. However, the average amount billed on each invoice run has increased from £4,699,500.48 in 2012/13 to £4,792,262.65 in 2014/15.

ANALYSIS OF CLIENT RELATED DEBT

21. As at the billing run on 27 May 214 the overall client related social care debt stood at £19,574k. This debt can be broken down as follows:

Debt Type	£'000
Residential	16,944
Non-Residential	2,630
Total	**19,574**

22. Of the £19,574k, £4,818k relates to the latest billing run and is therefore not yet due. This leaves £14,755k regarded as due debt, compared to £14,491k as at the previous billing run on 29th April 2014, an increase of £265k. A contributing factor for the rise is the fact that the invoices were issued five days later than usual.

23. The £19,574k can be broken down between secured and unsecured debt as follows:

Credit Status	£'000

Health	9
Secured	8,695
Unsecured	10,869
Total	**19,574**

AGED ANALYSIS OF CLIENT RELATED DEBT

24. The table below shows an analysis of unsecured debt that is due for payment:

Unsecured Debt	**Under Six Months**	**Six Months to a Year**	**Over One Year**	**Total Overdue**
	£'000	£'000	£'000	£'000
Total Unsecured	2,730	1,020	2,654	6,404

NUMBERS OF UNSECURED DEBTORS

25. There are currently 12,276 debtors with an unsecured debt or credit on their account. This figure includes both due and not yet due debts – which total £10,869k.

SOCIAL CARE DEBT MOVEMENTS

26. With effect from April 2014, social care debt is reported in terms of the new localities. It is therefore not possible to show the locality movements. For this reason, four tables are included below, with the first two tables showing the historic debt in terms of the old localities, and the second two tables showing the current debt in terms of the new localities.

27. The two sets of tables below show firstly the total debt (due and not yet due, including secured and unsecured) and secondly the unsecured overdue debt, which is the “highest” risk debt.

Total Debt	**15thOct 2013**	**30th April 2013**
Locality	**Total Debt**	**Total Debt**
	£’000	**£’000**
Dartford, Gravesham Swanley	£3,549	£3,375
Maidstone/Malling	£3,180	£3,034
SW Kent	£3,243	£3,146
Ashford/Shepway	£3,095	£2,806
Canterbury/Swale	£2,843	£2,816
Thanet/Dover	£3,059	£3,318
Total	**£18,969**	**£18,495**

Unsecured Overdue Debt Locality	15thOct 2013 Total Debt £'000	April 2013 £'000	April 2012 £'000	April 2011 £'000	April 2010 £'000
Dartford, Gravesham Swanley	£1,096	£1,013	£1,067	£1,141	£1,052
Maidstone/Malling	£786	£808	£796	£787	£697
SW Kent	£1,102	£1,094	£1,205	£941	£875
Ashford/Shepway	£1,175	£1,084	£880	£1,029	£1,136
Canterbury/Swale	£928	£965	£783	£1,051	£1,099
Thanet/Dover	£1,160	£1,112	£1,113	£1,316	£1,409
Total	**£6,246**	**£6,076**	**£5,845**	**£6,264**	**£6,267**

Total Debt	**27-May-14**
Locality	**Total Debt**
	£'000
Dartford Gravesham Swanley and Swale	4,663
West Kent	5,603
Ashford and Canterbury	3,495
Thanet and South Kent Coastal	4,612
East Kent LD	717
West Kent LD	320
Mental Health	159
Corporate	5
Total	**19,574**

Unsecured Overdue Debt - All Localities	**27-May-14**
Locality	**Total Debt**
	£'000
Dartford Gravesham Swanley and Swale	1,513
West Kent	1,707
Ashford and Canterbury	1,115
Thanet and South Kent Coastal	1,658
East Kent LD	216
West Kent LD	83
Mental Health	110
Corporate	3
Total	**6,404**

Many of the debts currently marked as unsecured will move to the secured tag once the Legal Charge, that has already been requested, is registered. Future reports will compare data across the localities using the new boundary realignment split.

WRITE OFFS

28. As at 31 May 2014, £94,572.82 in Social Care write offs had been processed in ORACLE since 1 April 2014. This figure includes any write back reversals that have been input this year. Write offs processed in previous years are as follows:

Social Care Write Offs	
Year	**Amount**
2013 - 2014	£400,685.90
2012 - 2013	£188,124.22
2011 - 2012	£468,094.95
2010 - 2011	£254,829.22
2009 - 2010	£433,369.86

CONCLUSION

29. Total Sundry Debt has increased from £21.1 million to £26.2 million since the last Governance and Audit report. This is largely due to the overdue Home Office invoices referred to in paragraph 8. The overdue element of the debt has actually reduced from £16.4 million to £15.2 million, since the date of the last Governance and Audit report, although the over six month element of the debt has increased considerably; however, again this is due to the Home Office invoices.

30. Total Social Care debt has increased from £19.0 million to £19.6 million since the last Governance and Audit report; however the majority of the increase is in secured debt which has increased from £8.2 million to £8.7 million. Unsecured debt has increased from £10.7 million to £10.9 million; however it should be noted that the invoices prior to the billing run date analysed were despatched five days later than usual this time. The overdue element of the Social Care debt has increased from £6.25 million to £6.4 million.

31. The most recent Debt Recovery Internal Audit report dated 7th February 2014 gave a “Substantial” opinion, stating that “the system of control is adequate and controls are generally operating effectively”.

RECOMMENDATION

32. Members are asked to note the content of this report.

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By:	Cabinet Member for Finance Corporate Director of Finance & Procurement
To:	Governance and Audit Committee 23 July 2014
Subject:	**KCC INSURANCE OVERVIEW**
Classification:	Unrestricted

Summary: This paper provides a summary of insurance activity between April 2013 to March 2014 and points of interest.

FOR ASSURANCE

INTRODUCTION

1. The Council's insurance programme is extensive and designed to provide increased financial control of the risks flowing from the diverse nature of activities undertaken to meet statutory duties, support general business functions as well as income generating operations.

2. This report provides a review of activity within the programme and points of interest up to March 2014.

INSURANCE PROGRAMME

3. The insurance programme, which covers all directorate operations and schools, is made up of a number of policies. The total cost of all policies for 2013 was £3.237m and for 2014 is £3.342m inclusive of 6% Insurance Premium Tax. The main policies purchased are Employers Liability, Public Liability, Property and Motor which together make up approximately 84% of the annual expenditure on premiums.

4. The bulk of the programme continues to be insured with Zurich Municipal Insurance. In 2009 the Council entered into a five year contract with the insurer. A subsequent two year extension up to December 2015 was agreed in 2013.

5. Due to the increasing cost of claims insurers are going through a period of reassessing the reserves held to meet current and future claims made against their Public and Employers Liability policies. As a result insurers are correcting premiums to ensure that sufficient funds are set aside and profit ratios maintained. In recent months many councils have seen their long term agreements broken as insurers impose significant premium rate increases. Aware of the way the market was moving KCC secured early terms from Zurich Municipal to extend its insurance programme for a further two years up to December 2015. As a result the premium for

the Public and Employers Liability policies were only increased by 8% for 2014 and the insurer has agreed to apply this same level of increase for the 2015 insurance year provided the claims experience remains within tolerable limits. It should however be noted that the Council's current claims experience has unfortunately deteriorated in recent months due to the notification of a number of high value losses. This experience tends to support what insurers are generally reporting is happening across their liability policies.

6. The cost of individual premiums is controlled by self-insuring the first part of every claim. The self-insured or excess levels are typically between £50k and £250k per event dependent upon the policy under which a claim is recorded. These excess levels are relatively low for a large local authority and are kept under review. Triangulations completed by the Council's insurance broker prior to the agreement of the two year extension with Zurich Municipal confirmed that these excess levels provided the most efficient financial model in terms of premium verses self-insurance. Due to higher premiums being sought by insurers it may be necessary to significantly increase the current excess levels to control premium rate rises when the contract is retendered.

7. Premium and excess payments are met through the corporate Kent Insurance Fund to which all directorates and LEA schools contribute in accordance with their risk profile and claims experience. As at March 2014 the Fund was estimated to be in deficit with a balance of -£1,098,928.

8. The balance of the Fund can fluctuate from year to year due to the unpredictable rate at which claims can be received and their estimated reserved value. As at the end of the 2012/13 financial year the Fund was in credit by £1.5m. However, due to the deteriorating claims experience over the 2013/14 financial year the Fund had switched to a deficit position by March 2014.

9. The Fund is supported by the Insurance Reserve. As at March 2014 this was £5,624,025 in credit. The Reserve exists to meet future unexpected insurance costs such as those relating to former insurers (Municipal Mutual Insurance and Independent Insurance) which ceased trading in the 1990s.

INSURANCE CLAIMS

10. Below is a summary of activity relating to the four main insurance policies during 2013/14.

Employers Liability

11. In the 2013/14 financial year 27 new claims were received. Whilst the majority of accidents occurred during 2011-13 three 'older' claims due to

alleged exposure to asbestos dating back to 1959, 1977 and 1984 were also received. Decisions on liability have been made in respect of 24 of these new claims with 59% having been rejected which exceeds predicted levels. The estimated cost of those claims where liability has been conceded is only £67k and the reserve for the new claims that have yet to be decided is £160k.

12. The overall outstanding balance on all Employers Liability claims that are still open across all years is reserved at £2m.

13. The causes of the claims received are shown below:

Cause of injury	**Claims**
Slip/trip/fall	9
Faulty equipment / fault on premises	5
Manual Handling	4
Asbestos	3
Other	6

14. The Enterprise & Regulatory Reform Act 2013 was enacted last October. This Act is intended to provide those employers who take their health and safety responsibilities seriously with greater protection against claims for compensation. It is too soon to provide any confirmed view of the impact this Act has had upon the number of claims that might be received however it is expected that it will deter some claimant legal firms from pursuing claims where negligence cannot be easily proven.

Public Liability

15. During the 2013/14 financial year a total of 3407 claims were received of which 54% were reported during the last quarter of the period. This increase is attributed to a spike in pothole related claims due to the prolonged period of wet weather.

16. Of the 3407 claims received 3251 were highway related of which 2471 were due to potholes. Liability has been decided in respect of 76% of these claims of which 87% have been rejected.

17. Generally, the vast majority of claims fall between the value range of £1 - £25k however a number of what are known as 'large loss' claims' are also made against the Council which have values in excess of £50k. Since January 2013 27 such claims have been received which have a collective reserved value of £9m of which £1.3m has been set against the Kent Insurance Fund and £7.7m has been reserved for by the Council's insurer.

    The alleged causes of the six highest value claims are:

    - Flood water on carriageway caused motorist to lose control of vehicle

- Pedestrian fell when railing gave way
- Trip on defective footway
- Cyclist struck debris in carriageway
- Pedestrian tripped on kerb
- Private tree fell on vehicle on the carriageway

18. The overall outstanding balance on all Public Liability claims that are still open across all years is reserved at £15m against the Kent Insurance Fund and £11m by insurers. It should be noted that these will not be the final outturn figures as reserves include claims that will eventually be rejected.

Property

19. During the 2013/14 financial year 363 claims were made against the property policy with a total reserved cost of £1.04m which 95 related to the recent severe winter storms. The estimated cost of the storm damage alone is thought to be as much as £400k with all claims being met from the Kent Insurance Fund.

20. During this period there have only been two large losses both of which occurred at school sites. The largest loss resulted from a fire at a school with an estimated reinstatement value of £220k and the other resulted from storm damage with an estimated reinstatement value of £140k.

21. The number of incidents due to the theft of lead and copper has reduced from 88 in 2011/12 to 30 in 2013/14. This reduction is attributed to a tightening up on the ability to sell on stolen metal for cash payments.

Motor

22. During 2013/14 the Council operated 3 motor fleets; commercial, leased cars and bus fleet. As at April 2013 1581 vehicles were insured by under KCC's motor policy. As at April 2014 this figure had reduced to 1019 vehicles. This reduction is due to the termination of the bus fleet in October 2013, transfer of vehicle operated by Kent Commercial Services Ltd to its own insurance policy and continued reduction in the number of lease cars following closure of the scheme in 2010/11.

23. With regard to the lease car scheme it is anticipated that all leased cars will be off cover by the end of the 2014/15 financial year. The scheme has always been self-financing with contributions from staff into the Lease Car Fund meeting the cost of insurance premiums and claims. As the number of vehicles reduces so will the amount paid into the Fund and there is a risk that a poor claims experience over the next 10 months could result in a shortfall between the value of the Fund and its liabilities.

24. The bus fleet has always been a heavy risk in insurance terms due to the number of injuries that might be sustained in a single incident. In October 2013 this fleet ceased to exist. The cost of insurance premiums

and claims was always met from the fund managed by the former Commercial Services Ltd. The fund is now managed by Commercial Services Kent/Trading and, whilst there are still a number of claims to be concluded, it is their view that there are sufficient funds to meet all outstanding liabilities.

DESK TOPPING

25. In the Autumn of 2012 the Insurance section assumed a greater role in the collection and analysis of highways data to assess claims thereby releasing resources within the Highways Division. Essentially this emant that claims officers were tasked with interrogating the Highways database and using the information to assess liability. This was referred to as "desk topping" and has proven to be very successful resulting in claims being dealt with much quicker and a better service provided to claimants.

26. The increased volume of claims being received following the recent wet winter has placed considerable pressure upon the desk topping system. Although there is currently a backlog in the assessment of claims this system still remains more efficient than that which it replaced. It is hoped that this backlog will be brought back to within reasonable levels during July

MUNICIPAL MUTUAL UNSURANCE

24. As previously reported the Municipal Mutual Insurance Company ceased writing business in 1992 and ever since has been operating in run-off. A solvent run-off has not been possible and as a result what is known as the 'Scheme of Arrangement' has been triggered which involves clawing back of monies from past members of the mutual to meet the outstanding future costs of claims. In January the Council received a Levy Notice for just under £600k. Whilst this has been paid it is the view of KCC's insurance broker that further demands may follow, possibly up to a total value of £1.6m, in the medium to long term.

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

CHANGES TO THE PROCESSING TIMES AND COST OF CLAIMS

26. The implementation of the Jackson Reforms and Ministry of Justice claims portal in the summer of 2013 provided opportunities for KCC to make savings on third party legal costs for claims up to £25k. To achieve these savings it would be necessary to deliver decisions on

liability within 30 – 40 days of receipt of a claim. The Insurance section has achieved the new processing times on all claims.

27. It is too soon to comment upon the level of savings that have been achieved however it is hoped to be able to provide a view in the 2015 annual report. .

FRAUD

28. Low level fraud or exaggerated claims are aspects that we remain alert to. Where claims are to be settled details are carefully checked to ensure that payments are only made where justified. This is done both in house and through insurers.

29. Fraud within motor claims has attracted considerable media attention through 'crash for cash' cases. This criminal activity is now spreading into liability type claims and is likely to increase as it becomes more organised and targeted. KCC is working with external fraud teams who are experienced in dealing with criminal gangs to investigate fraud where it is suspected.

FOI REQUESTS

30. FOI requests are increasing. A total of 24 requests were made in 2012 and 42 in 2013. This increase is largely attributed to the number of claimants making requests to identify further information about the claims and maintenance history for their accident locations.

RECOMMENDATION

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

Darryl Mattingly
Insurance Manager
BSS Finance & Procurement

01622 694632

By:	Paul Carter, Leader and Cabinet Member for Business Strategy, Audit and Transformation
	David Cockburn, Corporate Director Strategic & Corporate Services
To:	Governance and Audit Committee – 24th July 2014
Subject:	**CORPORATE RISK REGISTER**
Classification:	Unrestricted

Summary:

Governance & Audit Committee receives the Corporate Risk Register every six months for assurance purposes. The register is presented to the Committee along with an overview of the changes since last presented and an outline of the ongoing process of monitoring and review.

FOR ASSURANCE

1. Introduction and background

1.1 The Corporate Risk Register is maintained by the Corporate Risk Team on behalf of Cabinet and the Corporate Management Team. The register is formally reviewed annually, but is a 'living document' and is reviewed and updated in-year to reflect any significant new risks or changes in risk exposure that may arise due to internal or external events; and to track progress against mitigating actions.

2. Corporate Risk Register

2.1 The Corporate Risk Register contains fourteen risks. Changes since the register was last reported to Governance & Audit Committee in December 2013 are as follows:

2.2 CRR 3: Access to resources to aid economic growth and enabling infrastructure. The risk now reflects the recent work on the local Growth Deal to secure government funding via the Strategic Economic Plan.

2.3 CRR 10a and 10b: The previous management of social care demand risk has been split into adults and children's services due to the differing drivers behind them.

2.4 CRR 13 Delivery of 2014/15 savings: The risk level has been reduced from 'high' to 'medium'. It is proposed that the risk explicitly reflects the medium term picture when the risk register is formally refreshed in the autumn.

2.5 CRR 14 Procurement: The risk level has been reduced from 'high' to 'medium' to reflect the work to bring greater consistency to procurement arrangements across the council. Further work will feed into the broader umbrella of how KCC moves further towards its goal of becoming an outcomes-focused strategic commissioning authority, as outlined in the paper to County Council in May 2014.

2.6 CRR 18 – Public Services Network, compliance with Government ICT security standards. This is a new risk added, as all local authorities are being required to meet more stringent security standards during the coming year to ensure continuing compliance. A work plan is in place for KCC to address this.

2.7 CRR 19: Care Act Implementation. This risk was previously referenced as part of the management of adult social care demand risk but has now been added as a risk in its own right due to the potential scale of the implications and importance of thorough preparations.

2.8 To summarise, out of the fourteen risks there are three areas of risk currently rated as "high", with the other eleven rated as medium. The high risks relate to the management of demand in both adults and children's social care and the future operating environment / landscape for local government. All risks have mitigating actions in place that aim to achieve a target residual rating of 'medium' or 'low'.

2.9 Inclusion of risks on this register does not necessarily mean there is a problem. On the contrary, it can give reassurance that they have been properly identified and are being managed proactively.

2.10 Further details of these risks, including controls and mitigating actions, are contained in the register at appendix 1.

2.11 The Corporate Risk Team supports directorates to ensure that the Corporate Risk Register is underpinned by divisional / service and directorate risk registers, from which risks will be escalated in accordance with KCC's Risk Management Policy. Directorate risk registers are formally reviewed quarterly by Directorate Management Teams and are reported annually to Cabinet Committees.

3. Monitoring, Review and Reporting

3.1 There is a particular focus on ensuring that key mitigating actions are identified and progress monitored. The risks within the Corporate Risk Register, their current risk level and progress against mitigating actions are reported quarterly to Cabinet via the Quarterly Performance Report.

3.2 In addition, the corporate risks relevant to each Cabinet Committee are being reported in the summer round of Committees along with the directorate risk register, allowing for discussion of these risks with the relevant Risk Owners and responsible Cabinet Members. The output from these discussions will inform directorate risk registers and aid the formal annual refresh of the Corporate Risk Register.

4. Risk Management and Transformation

4.1 It is likely that the Authority's risk profile will continue to evolve during the coming months as KCC's transformation agenda progresses. Key risks relating to KCC's *Facing the Challenge* transformation programme are regularly monitored by the Corporate Directors and the Transformation Advisory Group.

5. Recommendations

5.1 The Governance and Audit Committee is asked to:

a) NOTE the assurance provided in relation to the development, maintenance and review of the Corporate Risk Register.

6. Background Documentation

6.1 KCC Quarterly Performance Report Q4 2013-14

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Corporate Risk Manager
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Appendix 1

KCC Corporate Risk Register

FOR PRESENTATION TO GOVERNANCE & AUDIT COMMITTEE – 24TH JULY 2014

Corporate Risk Register - Summary Risk Profile

Low = 1-6	Medium = 8-15	High =16-25

Risk No.*	Risk Title	Current Risk Rating	Target Risk Rating
CRR 1	Data and Information Management	9	9
CRR 2	Safeguarding	15	10
CRR 3	Access to resources to aid economic growth and enabling infrastructure	12	8
CRR 4	Civil Contingencies and Resilience	12	8
CRR 7	Governance & Internal Control	12	8
CRR 9	Better Care Fund (Health & Social Care Integration)	12	8
CRR 10(a)	Management of Adult Social Care Demand	20	12
CRR 10(b)	Management of Demand – Specialist Children's Services	20	12
CRR 12	Welfare Reform changes	12	9
CRR 13	Delivery of 2014/15 savings	12	4
CRR 14	Procurement	9	6
CRR 17	Future operating environment for local government	20	10
CRR 18	PSN – Non-compliance with Code of Connection	8	4
CRR 19	Implications of the Care Act 2014	15	6

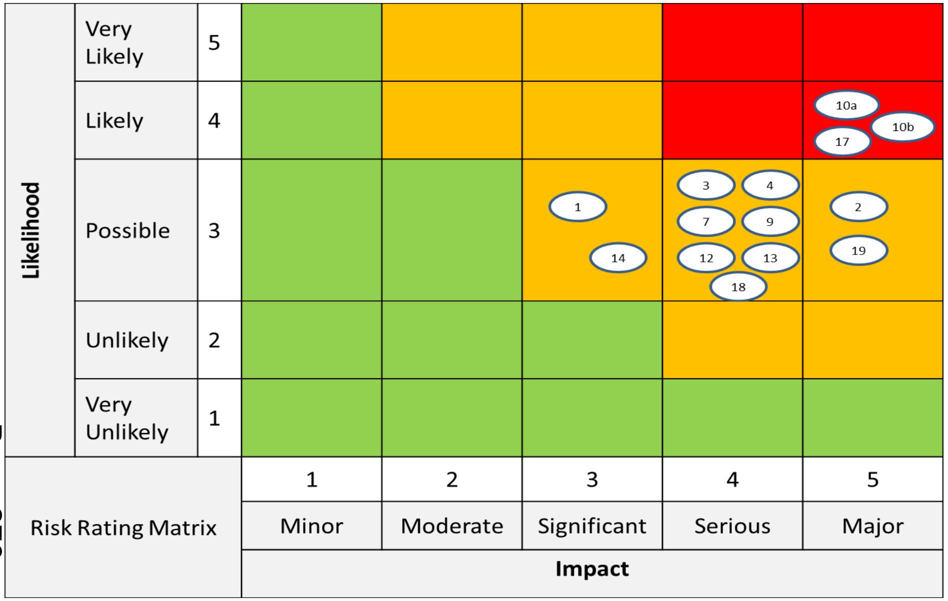
*Each risk is allocated a unique code, which is retained even if a risk is transferred off the Corporate Register. Therefore there will be some 'gaps' between risk IDs.

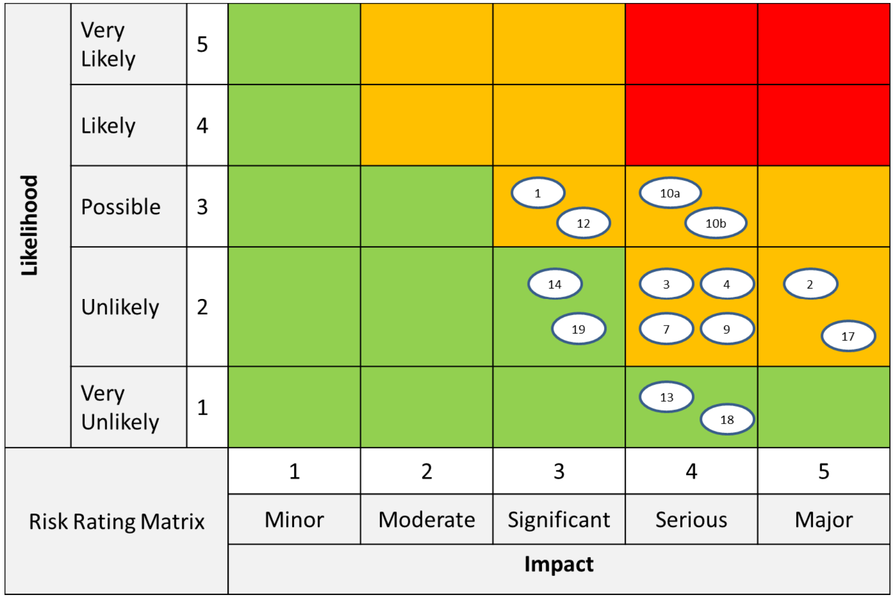
NB: Current & Target risk ratings: The 'current' risk rating refers to the current level of risk taking into account any mitigating controls already in place. The 'target residual' rating represents what is deemed to be a realistic level of risk to be achieved once any additional actions have been put in place. On some occasions the aim will be to contain risk at current level.

Likelihood & Impact Scales					
Likelihood	Very Unlikely (1)	Unlikely (2)	Possible (3)	Likely (4)	Very Likely (5)
Impact	Minor (1)	Moderate (2)	Significant (3)	Serious (4)	Major (5)

Corporate Risk Register Risk Profile

Current Risk Profile	Target Risk Profile





1	Data and Information Management
2	Safeguarding
3	Access to Resources to aid Economic Growth and Enabling Infrastructure
4	Civil Contingencies and Resilience
7	Governance and Internal Control
9	Better Care Fund (Health & Social Care Integration)
10(a)	Management of Adult Social Care Demand
10 (b)	Management of Demand – Specialist Children's Services
12	Welfare Reform Changes
13	Delivery of 2014/15 Savings
14	Procurement
17	Future Operating Environment for Local Government
18	PSN – Non-compliance with Code of Connection
19	Implications of the Care Act 2014

Risk ID CRR1	Risk Title	Data and Information Management			
Source / Cause of risk The Council is reliant on vast amounts of good quality data and information to determine sound decisions and plans, conduct operations and deliver services. It is also required by the Data Protection Act and Government's Code of Connection (CoCo) to maintain confidentiality, integrity and proper use of the data. With the Government's 'Open' agenda, increased flexible working patterns of staff, and increased partnership working and use of multiple information repositories, controls on data management and security have become complex and important.	**Risk Event** Poor decision making due to ineffective use of or insufficient availability of data and information sharing. Loss, misrepresentation or unauthorised disclosure of sensitive data. KCC falls victim to cyber-attacks or sabotage	**Consequence** Under performance. Breach of Data Protection Act leading to legal actions, fines, adverse publicity, and additional remedial and data protection costs. Significant interruption of vital services leading to failure to meet duties and to protect people, finances and assets Potential damage to KCC's reputation	**Risk Owner** On behalf of CMT: Geoff Wild, Director Governance & Law **Responsible Cabinet Member(s):** Gary Cooke, Corporate & Democratic Services	**Current Likelihood** Possible (3) **Target Residual Likelihood** Possible (3)	**Current Impact** Significant (3) **Target Residual Impact** Significant (3)

Control Title	Control Owner
Senior Information Risk Officer in place. Revised SIRO action plan and risk register in place and regularly reviewed.	David Cockburn, Corporate Director Strategic and Corporate Services
Information Security Policy in place	Geoff Wild, Director Governance & Law
Centralised resilience and transparency team in place.	Caroline Dodge, Team Leader-Information Resilience & Transparency team
ICT Security and Service Transition Team in place	Peter Bole, Director ICT
Corporate Director Social Care Health & Wellbeing nominated as KCC Caldicott Guardian, protecting confidentiality of service user information and enabling appropriate information sharing.	Andrew Ireland, Corporate Director SCHWB
Coherent county wide strategy and protocols on sharing information between agencies. Kent & Medway Information Governance Programme Board's Information sharing agreement in place.	Charlie Beaumont, Education & Young People Services

Risk ID CRR1 Risk Title Data and Information Management contd;	
ICT Strategy in place.	Peter Bole, Director ICT
Electronic Communications User Policy, Virus reporting procedure and social media guidelines in place	Peter Bole, Director ICT
Information Governance e-Learning package available to all staff	Geoff Wild, Director Governance & Law
Discussions in place with Government regarding requirements of the Code of Connection (cross reference to CRR 18)	Peter Bole, Director ICT
Information Asset Register established including identification of information asset owners	Geoff Wild, Director Governance & Law
Revised SIRO action plan and risk register in place and regularly reviewed	Geoff Wild, Director Governance & Law
Information Security & Information Risk Management supporting procedures and processes are monitored to ensure realisation of benefits	Andrew Ireland, Corporate Director SCHWB/Geoff Wild, Director Governance & Law/Peter Bole, Director ICT

Action Title	**Action Owner**	**Planned Completion Date**
All staff to complete Information Governance e-learning training	Geoff Wild, Director Governance & Law	July 2014

Risk ID	CRR2	Risk Title	Safeguarding

Source / Cause of risk	Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact
The Council must fulfil its statutory obligations to effectively safeguard vulnerable adults and children.	Insufficiently robust management grip, performance management or quality assurance Its ability to fulfil this obligation could be affected by the adequacy of its controls, management and operational practices or if demand for its services exceeded its capacity and capability. Insufficient rigor in maintaining threshold application/inconsistency Increase in referrals and service demand resulting in unmanageable caseloads/ workloads for social workers Decline in performance and effective service delivery leading to critical inspection findings and reputational damage	Serious impact on vulnerable people Serious impact on ability to recruit the quality of staff critical to service delivery. Serious operational and financial consequences Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities Incident of serious harm or death of a vulnerable adult or child	Andrew Ireland, Corporate Director SCHWB **Responsible Cabinet Member(s):** Peter Oakford, Specialist Children's Services Graham Gibbens, Adult Social Care & Public Health	Possible (3) **Target Residual Likelihood** Unlikely (2)	Major (5) **Target Residual Impact** Major (5)

Control Title	Control Owner
Consistent scrutiny and performance monitoring through Divisional Management Team, District 'Deep Dives' and audit activity	Andrew Ireland, Corporate Director SCHWB
Independent scrutiny by Kent Safeguarding Children Board	
Manageable caseloads per social worker and robust caseload monitoring	Mairead MacNeil, Director Specialist Children's Services
Significant ongoing work to increase rigour and managerial grip in Duty and Initial Assessment Teams	Mairead MacNeil, Director Specialist Children's Services

Risk ID CRR2 Risk Title Safeguarding contd;	
Central Duty Service & Central Referral Unit now in place to ensure increase in consistency and threshold application	Andrew Ireland, Corporate Director SCHWB
SCHWB management team monitors social work vacancies and agrees strategies for urgent situations	Andrew Ireland, Corporate Director SCHWB
Active strategy in place to attract and recruit social workers through a variety of routes with particular emphasis on experienced social workers. Detailed programme of training	Mairead MacNeil, Director Specialist Children's Services / Amanda Beer, Corporate Director Human Resources
CMT, SCHWB Directorate Management Team and the Cabinet Member for Adult Social Care & Public Health and Specialist Children's Services receive quarterly safeguarding performance reports.	Andrew Ireland, Corporate Director SCHWB
Programme of internal and external audits for adult safeguarding case files with regards to SCHWB and Kent & Medway Partnership Trust (KMPT) in place. Peer reviews of safeguarding arrangements conducted by Essex County Council.	Andrew Ireland, Corporate Director SCHWB
Performance management of safeguarding is part of the Improvement Plan in place between KCC (SCHWB directorate) and KMPT.	Penny Southern, Director Learning Disability & Mental Health
SCHWB Strategic Adults Safeguarding Board provides a strategic countywide overview of adult safeguarding within SCHWB and monitors progress towards the SCHWB Strategic Adult Safeguarding action plan	Andrew Ireland, Corporate Director SCHWB
Safeguarding Vulnerable Adults (SGVA) coordinators work closely with Contracting colleagues where there are safeguarding concerns in the independent sector using 'Quality in care' framework	Andrew Ireland, Corporate Director SCHWB
Regular monitoring of SCHWB safeguarding action plan by the SCHWB Strategic Adults Safeguarding Board. Ongoing monitoring of KMPT safeguarding action plan	Mark Lobban, Director Commissioning SCHWB
SGVA Co-ordinator meetings take place on a monthly basis. These meetings are an opportunity to share best practice and raise ongoing issues. The work plan for the group continues to be monitored	Mark Lobban, Director Commissioning SCHWB
Exercise to map levels of safeguarding training completed by staff in the independent sector conducted. Providers signposted to where they can access information about safeguarding training	Mark Lobban, Director Commissioning SCHWB
Practice Development Programme in place to strengthen practice across Children and Families Teams	Mairead MacNeil, Director Specialist Children's Services
Long-term vision for Children's Services in KCC established	Andrew Ireland, Corporate Director SCHWB
Ofsted action plans monitored at bi-monthly Kent Corporate Parenting Group (KCPG)/Corporate Parenting Panel (CPP) meetings	Mairead MacNeil, Director Specialist Children's Services

Risk ID CRR2 Risk Title Safeguarding contd;		
Children's Quality Monitoring Framework in place		Mairead MacNeil, Director Specialist Children's Services
Action Title	**Action Owner**	**Planned Completion Date**
Continued work to strengthen delivery of early help, intervention and prevention services. Services being commissioned to phased timetable according to Commissioning and Procurement Plan Supplier Framework.	Mark Lobban, Director Commissioning SCHWB/Angela Slaven, Interim Director Early Help & Preventative Services	July 2014 (review)
Ongoing development of further strategies and campaigns to support recruitment so that we attract and retain high calibre social workers and managers. Use of competent agency social workers and managers on temporary basis to fill vacancies	Andrew Ireland, Corporate Director SCHWB /Amanda Beer, Corporate Director Human Resources	September 2014 (review)
A structured mechanism for feeding back lessons learnt from assessment, regulation and inspection needs to be implemented	Mairead MacNeil, Director Specialist Children's Services	July 2014 (review)
Feed any outstanding work actions from the Ofsted Action Plans/Children's (social care) Transformation programme (which combines continued improvement with efficiency) into business as usual activity	Mairead MacNeil, Director Specialist Children's Services	September 2014 (review)
Implementation of transformation programme for children's services, including Social Work Contract Programme	Mairead MacNeil, Director Specialist Children's Services	September 2014 (review)
Audit of Children in Need (CIN) cases to be undertaken	Mairead MacNeil, Director Specialist Children's Services	August 2014
Annex A Peer review to be conducted (relates to management information requirements as part of Ofsted Inspection Framework)	Mairead MacNeil, Director Specialist Children's Services	August 2014

Risk ID CRR3	Risk Title	Access to resources to aid economic growth and enabling infrastructure			
Source / Cause of Risk The Council seeks access to resources to develop the enabling infrastructure for economic growth and regeneration. However, in parts of Kent, there is a significant gap between the costs of the infrastructure required to support growth and the Council's ability to secure sufficient funds through s106 contributions, Community Infrastructure Levy and other growth levers to pay for it. This is especially the case in the east of the county. At the same time, Government funding for infrastructure (for example via the new Local Growth Fund) is limited and competitive and increasingly linked with the delivery of housing and employment outputs. Several local transport schemes proposed will require preparatory work without knowledge of funding allocation in order to deliver on time.	**Risk Event** Inability to secure sufficient contributions from development to support growth. Failure to attract sufficient funding via the Local Growth Fund and other public funds to both support the cost of infrastructure and aid economic growth and regeneration.	**Consequence** Key opportunities for growth missed. The Council finds it increasingly difficult to fund KCC services across Kent and deal with the impact of growth on communities. Kent becomes a less attractive location for inward investment and business Without growth the county residents will have less disposable income, face increased levels of unemployment and deprivation which could lead to heightened social and community tensions Our ability to deliver an enabling infrastructure becomes constrained	**Risk Owner** Mike Austerberry, Interim Corporate Director Growth, Environment and Transport) **Responsible Cabinet Member(s):** Mark Dance, Economic Development	**Current Likelihood** Possible (3) **Target Residual Likelihood** Unlikely (2)	**Current Impact** Serious (4) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Unlocking the Potential being prepared as Kent and Medway growth strategy to secure future Government infrastructure funds	Barbara Cooper, Director Economic & Spatial Development
KCC's 20 year transport delivery plan, *Growth without Gridlock* sets out the key transport drivers for change which will help to facilitate and stimulate economic growth in the County. Implementation plan in place and regularly monitored.	Paul Crick, Director Environment Planning & Enforcement
Key infrastructure is identified and planned for as part of District Local Plans and Infrastructure Delivery Plans.	Paul Crick, Director Environment Planning & Enforcement
Environment Planning & Enforcement and Economic Development teams working with each individual District on composition of infrastructure plans including priorities for the CIL and Section 106 contributions, from which gaps can be identified	Barbara Cooper, Director Economic & Spatial Development / Paul Crick, Director Environment

		Planning & Enforcement
Risk ID CRR3 **Risk Title** **Access to resources to aid economic growth and enabling infrastructure**		**contd;**
Coordinated approach in place between Development Investment Team and service directorates		Barbara Cooper, Director Economic & Spatial Development
Dedicated team in Economic Development in place to lead on major sites across Kent.		Barbara Cooper, Director Economic & Spatial Development
Economic Development SMT review of “critical” programmes/projects and review of KPIs to ensure continued appropriateness and relevance		Barbara Cooper, Director Economic & Spatial Development
Strong engagement of private sector through Kent and Medway Economic Partnership (KMEP), Business Advisory Board and Kent Developer’ Group		Barbara Cooper, Director Economic & Spatial Development
Action Title	**Action Owner**	**Planned Completion Date**
Development of proposed Growth Deal via Strategic Economic Plan to secure future government funding	Ross Gill, Economic Strategy & Policy Manager	July 2014
Maintain coordinated dialogue with developers, Districts and KCC service directorates	Nigel Smith, Head of Development	April 2015
Development of programme of transport interventions to deliver growth	Ann Carruthers, Transport Strategy Delivery Manager	April 2015

Risk ID CRR4	Risk Title	Civil Contingencies and Resilience			
Source / Cause of Risk The Council, along with other Category 1 Responders in the County, has a legal duty to establish and deliver containment actions and contingency plans to reduce the likelihood, and impact, of high impact incidents and emergencies and severe / extreme weather conditions.	**Risk Event** Failure to deliver suitable planning measures, respond to and manage these events when they occur. Critical services are unprepared or have ineffective emergency and business continuity plans and associated activities.	**Consequence** Potential increased loss of life if response is not effective. Serious threat to delivery of critical services. Increased financial cost in terms of damage control and insurance costs. Adverse effect on local businesses and the Kent economy. Possible public unrest and significant reputational damage Legal actions and intervention for failure to fulfill KCC's obligations under the Civil Contingencies Act or other associated legislation.	**Risk Owner** Mike Austerberry, Interim Corporate Director Growth, Environment & Transport **Responsible Cabinet Member(s):** Mike Hill, Community Services	**Current Likelihood** Possible (3) **Target Residual Likelihood** Unlikely (2)	**Current Impact** Serious (4) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Legally required multi-agency Kent Resilience Forum in place, with work driven by risk and impact based on Kent's Community Risk Register. Key roles of group include: • Intelligence gathering and forecasting; • Regular training exercises and tests; • Task & Finish groups addressing key issues. • Plan writing • Capability building	Stuart Beaumont, Head of Community Safety & Emergency Planning
Critical functions identified across KCC as a basis for effective Business Continuity Management (BCM).	Stuart Beaumont, Head of Community Safety & Emergency Planning

Risk ID CRR4 Risk Title Civil Contingencies and Resilience contd;	
Management of financial impact to include Bellwin scheme	Dave Shipton, Head of Financial Strategy
Maintenance & delivery of emergency procedures, plans and capabilities in place to respond to a broad range of challenges.	Stuart Beaumont, Head of Community Safety & Emergency Planning
System in place for ongoing monitoring of severe weather events (SWIMS)	Carolyn McKenzie, Sustainability & Climate Change Manager
Implementation of Kent's Climate Adaptation Action Plan	Carolyn McKenzie, Sustainability & Climate Change Manager
Local multi-agency flood response plans in place for each district / borough in Kent, in addition to overarching flood response plan for Kent	Stuart Beaumont, Head of Community Safety & Emergency Planning
Winter Resilience Planning Group & action plan in place.	Stuart Beaumont, Head of Community Safety & Emergency Planning
ICT resilience improvements made to underlying data storage, data centre capability and network resilience. Funds approved for further work to improve services that utilise Microsoft SharePoint such as KNet and Kent.gov in line with Customer Services strategy.	Peter Bole, Director ICT
Upgraded corporate email service in place, providing increased level of resilience	Peter Bole, Director ICT
Business Continuity Management Plan in place to improve overall resilience for Contact Point	Christopher Smith, Operations Manager Contact Point
On-going programme of review relating to Disaster Recovery and Business Continuity	Peter Bole, Director ICT
Infrastructure in place to ensure that KCC has a sustainable support capability for services that use MS SharePoint (e.g. Kent.gov. and KNet)	Peter Bole, Director ICT
Kent Integrated Resilience Team in place	Stuart Beaumont, Head of Community Safety & Emergency Planning
Debriefs conducted to provide a structured and accountable basis for learning lessons from Christmas and New Year storms and floods in order to further refine planning and response categories	Paul Crick, Director Environment Planning & Enforcement
Multi-Agency recovery structures are in place at the Strategic and Tactical levels & working effectively.	Paul Crick, Director Environment Planning & Enforcement

Risk ID CRR4 Risk Title Civil Contingencies and Resilience contd;		
Action Title	**Action Owner**	**Planned Completion Date**
Continue to conduct regular exercises and rehearsals of plans – test two plans per directorate, where there would be significant impact on welfare or business reputation.	Tony Harwood, Senior Resilience Officer (Lead role)	August 2014
Upgrading / enhancement to Automated call distribution system,	Peter Bole, Director ICT	September 2014 (review)
Implementation of Customer Relationship Management System and services that utilise MS Dynamics, including training provision to ensure KCC has a sustainable support capability for these services	Jane Kendal, Head of Customer Contact	July 2014 (review)
Explore alternative methods of delivery of KCC statutory and partnership responsibilities for Community Safety through formal collaboration and more efficient and effective use of resources at both the strategic and operational level.	Stuart Beaumont, Head of Community Safety & Emergency Planning	April 2015
Delivery of KCC-led multi-agency Recovery Strategy & Plan	Paul Crick, Director Environment Planning & Enforcement	September 2014
Bid for emergency financial assistance from Government to aid funding of recovery in Kent	Dave Shipton, Head of Financial Strategy	July 2014
Implement recommendations from internal and external debriefs into the Christmas/New Year 2013 -14 storms and floods and other recent emergencies.	Paul Crick, Director Environment Planning & Enforcement	September 2014 (review)

Risk ID CRR7	Risk Title	Governance and Internal Control			
Source / cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council has legal responsibilities to ensure that adequate governance arrangements are in place to help the Council achieve its statutory responsibilities and to protect the Council's assets and finances. This is particularly important during the current period of significant change.	Major governance and internal control failure within the Council and / or its key suppliers e.g.: Appropriate decision making processes not followed. Significant fraud activity undetected Governance models do not keep pace with changes to operating models	Reputational damage and financial loss Fail external inspection/audit Loss of confidence in the Council and possible government intervention.	Andy Wood, Corporate Director Finance & Procurement (Geoff Wild, Director Governance & Law) **Responsible Cabinet Member(s):** Gary Cooke, Corporate & Democratic Services John Simmonds, Finance & Procurement	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Control Title	Control Owner
KCC Constitution Incorporating: Articles of the Constitution; Statement of Executive Arrangements; Allocation and Delegation of Functions and Responsibilities; Policy Framework; Procedure Rules; Resource Management Responsibilities Statement; Ethical Behavior Codes and Protocols; Members' Allowances Scheme; Management Structure; Member Details and Code of Corporate Governance	Geoff Wild, Director Governance & Law
Code of Corporate Governance in place in line with CIPFA/SOLACE guidelines. References evidence of KCC operating controls, procedures, practices, policies, rules, regulatory rules, schemes, systems of internal control, plans, strategies, etc.	Geoff Wild, Director Governance & Law
Blue Book – Kent Scheme manual sets out the detail of Kent Scheme terms and conditions of employment, legal references and other relevant links for all staff.	Amanda Beer, Corporate Director Human Resources
Kent Manager - defines managers' role clearly, setting out exactly what is required of KCC managers	Amanda Beer, Corporate Director

	Human Resources
Risk ID CRR7 Risk Title Governance and Internal Control contd;	
Governance and Audit Committee & Internal Audit roles	Andy Wood, Corporate Director Finance & Procurement
Standards Committee, Scrutiny Committee & Cabinet Committee roles	Geoff Wild, Director Governance & Law
Scheme of delegation to officers approved by Cabinet.	Geoff Wild, Director Governance & Law
Counter Fraud Team – anti-fraud strategy in place	Andy Wood, Corporate Director Finance & Procurement
Annual Governance Statement Process	Geoff Wild, Director Governance & Law
Management guide for Alternative Service Delivery Models produced	Neeta Major, Head of Internal Audit
Joint Accountability protocol revised to take into account the top tier realignment	KICSB Kent Integrated Children's Services Board Geoff Wild
Support is available from Democratic Services officers to managers seeking guidance at an early stage to ascertain the appropriate route for decisions	Relevant Managers

Action Title	**Action Owner**	**Planned Completion Date**
Additional training on decision making processes where required	Geoff Wild, Director Governance & Law	July 2014 (review)
Develop decision making guidance and publish on KNet	Louise Whitaker, Democratic Services Manager (Executive)	July 2014

Risk ID CRR9	Risk Title	Better Care Fund (Health & Social Care Integration)			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Health & Social Care Act came into effect in April 2013 giving KCC, as an upper tier Authority, a new duty to take appropriate steps to improve and protect the health of the local population. The Government's spending review in June 2013 announced an Integration Transformation Fund (now relabelled Better Care Fund), which provides an opportunity to create a shared plan for health & social care activity and expenditure. The plan for 2015/16 needs to start in 2014 and form part of a five-year strategy for health & social care. A fully integrated service calls for a step change in current arrangements to share information, staff, money and risk. There are a number of national conditions attached to the Fund.	Service delivery requirements suffer during the major integration programme. Failure to maximise opportunities presented for health & social care integration, and ensure changes achieve maximum impact. Governance arrangements for pooled budgets unclear	Ineffective health and social care provision for citizens of Kent. Business Continuity issues due to delay in the development and management of essential new complex partnerships between KCC and the NHS.	Andrew Ireland, Corporate Director SCHWB **Responsible Cabinet Member(s):** Roger Gough, Education & Health Reform Graham Gibbens, Adult Social Care & Public Health	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Control Title	**Control Owner**
KCC has designated Cabinet Portfolio Holders for Public Health and Health Reform, who have assumed central roles at strategic level	Paul Carter, Leader of the Council
Quality and Safety Assurance Framework drafted for Public Health	Andrew Scott-Clark, Interim Director Public Health
Health & Wellbeing Board and CCG-level Health & wellbeing Board sub-committees established	Roger Gough, Cabinet Member Education & Health Reform
Health Protection Committee established with Directors of Public Health in Kent & Medway as Chairs	Andrew Scott-Clark, Interim Director Public Health
Joint Commissioning Board Strategy & Commissioning plans established with Clinical Commissioning Groups	Mark Lobban, Director Commissioning SCHWB

Risk ID CRR9	Risk Title	Better Care Fund (Health & Social Care Integration) contd;
Public Health Steering Group established		Andrew Scott-Clark, Interim Director Public Health
Agreement for Communications support in the event of a public health emergency		Marcus Chrysostomou, Head of External Communications
Kent chosen as one of 14 pioneers of health & social care integration in the UK		Andrew Ireland, Corporate Director SCHWB(KCC lead)
Integration Pioneer Steering Group established as an informal group of the Health & Wellbeing Board to provide strategic direction and oversee successful delivery of health & social care in Kent		Anne Tidmarsh, Director Older People & Physical Disability (KCC lead)
Shared Clinical Commissioning Group and KCC integrated health and social care commissioning plan approved		Andrew Ireland, Corporate Director SCHWB
Action Title	**Action Owner**	**Planned Completion Date**
Engage and work with the Kent CCGs on both adult and children's health services	Andrew Ireland, Corporate Director SCHWB	July 2014 (review)
Clarify governance arrangements for pooled budgets with Clinical Commissioning Groups via the Health & Wellbeing Board	Andrew Ireland, Corporate Director SCHWB (KCC lead)	August 2014
KCC / CCG stakeholder event to be held	Andrew Ireland, Corporate Director SCHWB (KCC lead)	July 2014
Further integrated plan update to be submitted to the September Health and Wellbeing Board	Andrew Ireland, Corporate Director SCHWB	September 2014

Risk ID CRR10(a)	Risk Title	Management of Adult Social Care Demand			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Adult social care services across the country are facing growing pressures. Overall demand for adult social care services in Kent continues to increase due to factors such as increasing numbers of young adults with long-term complex care needs and Ordinary Residence issues. This is all to be managed against a backdrop of reductions in Government funding, implications arising from the implementation of the Care Act, a recent Supreme Court ruling that may lead to increases in Deprivation of Liberty Assessments and longer term demographic pressures.	Council is unable to manage and resource to future demand and its services consequently do not meet future statutory obligations and/or customer expectations.	Customer dissatisfaction with service provision. Increased and unplanned pressure on resources. Decline in performance. Legal challenge resulting in adverse reputational damage to the Council. Financial pressures on other council services.	Andrew Ireland, Corporate Director SCHWB **Responsible Cabinet Member(s):** Graham Gibbens, Adult Social Care & Public Health	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Analysis and refreshing of forecasts to maintain the level of understanding which feeds into the relevant areas of the MTFP and the business planning process	Andrew Ireland, Corporate Director SCHWB/ Mark Lobban, Director Commissioning SCHWB
Implementation of Adults Transformation partnership programme underway including: Care Pathways, Commissioning & Procurement and Optimisation	Mark Lobban, Director Commissioning SCHWB/Anne Tidmarsh, Director Older People & Physical Disability/Penny Southern, Director Learning Disability & Mental Health
Monitoring, vigilance and challenge regarding the placement of Adults into Kent by other local authorities.	Mark Lobban, Director Commissioning SCHWB
Lobby the Treasury to investigate Ordinary Residence matters in more detail as a national funding issue.	Andy Wood, Corporate Director Finance & Procurement
Legal Services are engaged where required to support KCC when challenging other Authorities to accept Ordinary Residence re: responsibilities	Penny Southern, Director Learning Disability & Mental Health

Risk ID CRR10(a) Risk Title Management of Adult Social Care Demand contd;	
Benefits of enablement support to existing and potential service users, their families and key partners being marketed. Work is linked into the Adult Transformation Programme and ensure there is sufficient capacity in the market to provide Enablement Services	Mark Lobban, Director Commissioning SCHWB
Joint commissioning of services with health, in particular for people with dementia, long term conditions and for carers (links to Better Care Fund – see Risk CRR9.	Mark Lobban, Director Commissioning SCHWB/ Anne Tidmarsh, Director Older People & Physical Disability
Utilise opportunities to make contracting and procurement controls drive value for money further	Mark Lobban, Director Commissioning SCHWB
Develop better understanding of demand profile and respond as early as possible to have the greatest impact on demand management	Mark Lobban, Director Commissioning SCHWB
Continued drive to maximise the use of Telecare as part of the mainstream community care services	Anne Tidmarsh, Director Older People & Physical Disability and Penny Southern, Director Learning Disability and Mental Health
Maintain the use of appropriate tools to obtain value for money in relation to the commissioning of expensive specialist residential accommodation	Mark Lobban, Director Commissioning SCHWB
Health & Social Care Integration Programme in place with a strategic objective of proactively tackling demand for health & social care services	Anne Tidmarsh, Director Older People & Physical Disability
Risk stratification tools devised. Now being used by GP's	Anne Tidmarsh, Director Older People & Physical Disability
Briefings being provided in relation to key elements of the Care Bill and their potential implications for KCC	Michael Thomas-Sam, Strategic Business Advisor, SCHWB
Care Act Preparation Programme established as part of the Adults Transformation Change Portfolio to ensure implementation of Care Act. (See risk CRR 19)	Michael Thomas-Sam, Strategic Business Advisor, SCHWB
Twice-yearly Adults Transformation progress updates reported to Cabinet Committee	Mark Lobban, Director Commissioning, SCHWB
Continued support for investment in preventative services through voluntary sector partners	Mark Lobban, Director Commissioning SCHWB

Risk ID CRR10(a) **Risk Title** **Management of Adult Social Care Demand** **contd;**		
Briefing on implications of Supreme Court ruling relating to Deprivation of Liberty Assessments issued		Andrew Ireland, Corporate Director, SCHWB
Action Title	**Action Owner**	**Planned Completion Date**
Public Health & Social Care to ensure effective provision of information, advice and guidance to all potential and existing service users, and to promote self-management to reduce dependency	Andrew Scott-Clark, Interim Director Public Health / Anne Tidmarsh, Director Older People and Physical Disability Services	September 2014 (review)
Tracking and monitoring impact of delivery of Adult Social Care Transformation Programme	Andrew Ireland, Corporate Director SCHWB	September 2014 (review)
Detailed Care Act Programme plan to be completed for approval by the Adults Transformation Board	Michael Thomas-Sam, Strategic Business Advisor, SCHWB	July 2014
Initial analysis being conducted to identify likely extent of demand for Deprivation of Liberty assessments	Mark Lobban, Director Commissioning SCHWB	June 2014

Risk ID CRR10(b)	Risk Title	Management of Demand – Specialist Children's Services			
Source / Cause of Risk Local Authorities continue to face increasing demand for specialist children's services due to a variety of factors, including consequences of highly publicised child protection incidents and serious case reviews, and policy/legislative changes. At a local level KCC is faced with additional demand challenges such as those associated with significant numbers of Unaccompanied Asylum Seeking Children (UASC) There are also particular 'pressure points' in several districts. These challenges need to be met as specialist children's services face increasingly difficult financial circumstances and operational challenges such as recruitment and retention of permanent qualified social workers.	**Risk Event** High volumes of work flow into specialist children's services leading to unsustainable pressure being exerted on the service.	**Consequence** Additional financial pressures placed on other parts of the Authority at a time of severely diminishing resources. Children's services performance declines as demands become unmanageable. Failure to deliver statutory obligations and duties or achieve social value. Ultimately an impact on outcomes for children, young people and their families.	**Risk Owner** Andrew Ireland, Corporate Director SCHWB Patrick Leeson, Corporate Director EYPS **Responsible Cabinet Member(s):** Peter Oakford, Specialist Children's Services	**Current Likelihood** Likely (4) **Target Residual Likelihood** Possible (3)	**Current Impact** Major (5) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Analysis and refreshing of forecasts to maintain the level of understanding which feeds into the relevant areas of the MTFP and the business planning process	Andrew Ireland, Corporate Director SCHWB / Mark Lobban, Director Commissioning SCHWB
Kent Integrated Adolescent Support Service (KIASS) aims to reduce demands by enabling swift access to specific additional and early help, particularly for the most disadvantaged and vulnerable young people, to meet their needs quickly and flexibly.	Patrick Leeson, Corporate Director EYPS
Plans developed to appropriately manage the number of children in care	Mairead MacNeil, Director Specialist Children's Services
Intensive focus on ensuring early help to reduce the need for specialist children's support services.	Patrick Leeson, Corporate Director EYPS / Andrew Ireland, Corporate Director SCHWB

Risk ID CRR10(b)	Risk Title Management of Demand – Specialist Children's Services contd;	
Utilise opportunities to make contracting and procurement controls drive value for money further		Mark Lobban, Director Commissioning SCHWB
Continued support for investment in preventative services through voluntary sector partners		Mark Lobban, Director Commissioning SCHWB
Maintain the use of appropriate tools to obtain value for money in relation to the commissioning of expensive specialist residential and independent fostering accommodation		Mark Lobban, Director Commissioning SCHWB
Dedicated Children in Care project action plan being presented to June 2014 Children's Transformation Board		Mairead MacNeil, Director Specialist Children's Services
Continued support for investment in preventative services through voluntary sector partners		Mark Lobban, Director Commissioning SCHWB
Action Title	**Action Owner**	**Planned Completion Date**
Ensure the appropriate number of looked after children in care (subject to continual monitoring) including ensuring appropriate thresholds for intervention	Mairead MacNeil, Director Specialist Children's Services	September 2014 (review)
Ensure that children in care receive appropriate levels of support and services through effective multi-agency intervention that is responsive to their needs.	Mairead MacNeil, Director Specialist Children's Services	September 2014 (review)
Implement a programme of work to deliver integrated, early help and prevention service for the 0-19s and their families that is streamlined, responsive and effective in terms of reducing demand for acute services and managing need at the appropriate level/tier of support.	Patrick Leeson, Corporate Director EYPS	September 2014 (review)
Diagnostic work for children's services being scoped with aid of efficiency partner	Mairead MacNeil, Director Specialist Children's Services	August 2014

Risk ID CRR 12	Risk Title	Welfare Reform changes			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Welfare Reform Act 2012 put into law many of the proposals set out in the 2010 white paper *Universal Credit: Welfare that Works*. It aims to bring about a major overhaul of the benefits system and the transference of significant centralised responsibilities to local authorities. KCC needs to be prepared to manage the uncertain affects and outcomes that the changes may have on the people of Kent.	The impact of the reforms in regions outside of Kent could trigger the influx of significant numbers of 'Welfare' dependent peoples to Kent. Failure to plan appropriately to deal with potential consequences. The financial models and budgets and funding sources underpinning the new schemes prove to be inadequate and allocation of payments and grants has to become prioritised against more challenging criteria.	Failure to meet statutory obligations. Ineffective delivery of schemes and operations to customers compounds demand on KCC and partner services. An increase in households falling below poverty thresholds with vulnerable people becoming exposed to greater risk. New schemes and operations are undermined by a negative impact on Kent's demographic profile. Insufficient employment to meet additional demand and to fill the publics' 'funding gap' places additional challenges for adult and child safeguarding and demand for social support. Increasing deprivation leads to increase in social unrest and criminal activity.	Andrew Ireland, Corporate Director SCHWB **Responsible Cabinet Member(s):** Graham Gibbens, Adult Social Care & Public Health	Possible (3) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Control Title	**Control Owner**
Welfare Reform sub-group of Kent Chief Execs Group in place	

Risk ID CRR 12 Risk Title Welfare Reform changes contd;	
Key work streams and outputs to prepare for changes identified and detailed in a Welfare Reform Implementation, Response and Monitoring Plan	David Whittle, Head of Policy & Strategic Relationships / Richard Hallett, Head of Business Intelligence
Ongoing analysis of impacts conducted by Policy & Strategic Relationships and Business Intelligence teams plus external partners to give an indication of scale of implications of reforms. Mechanism developed to track benefit migration into Kent.	Richard Hallett, Head of Business Intelligence /David Whittle, Head of Policy & Strategic Relationships
Six-month in-depth research update produced to aid monitoring of potential impacts	David Whittle, Head of Policy & Strategic Relationships & Richard Hallett, Head of Business Intelligence
Briefings given to Managers and staff in SCHWB directorate to raise awareness of potential implications of changes	Policy Manager, Strategic & Corporate Services & Benefits Manager, Finance
Council Tax Benefit Localisation scheme in place	Dave Shipton, Head of Financial Strategy
Kent Support and Assistance Service pilot scheme operating	Graham Gibbens, Cabinet Member Adult Social Care & Public Health
Contacts established with other Local Authorities and interested partners to share intelligence	Eileen McKibbin, Research & Evaluation Manager, Business Intelligence

Action Title	**Action Owner**	**Planned Completion Date**
Universal Credit – Local Support Service Framework (LSSF) Continue work with DWP to establish local delivery aspects in terms of face-to-face support	Jane Kendal, Head Customer Contact	September2014 (review)
Close monitoring of demand and performance of Kent Support and Assistance Service (localised social fund) to inform planning of future programme	Mark Lobban, Director Commissioning SCHWB	August 2014(review)

Risk ID CRR13	Risk Title	Delivery of 2014/15 savings			
Source / Cause of Risk The ongoing difficult economic climate has led to significant reductions in funding to the public sector and Local Government in particular. KCC has already made significant cost savings and still needs to make ongoing year-on-year savings in order to "balance its books."	**Risk Event** The required savings from key programmes or efficiency initiatives are not achieved.	**Consequence** Urgent alternative savings need to be found which could have an adverse impact on service users and/or residents of Kent Potential adverse impact on whole-council transformation plans. Reputational damage to the council.	**Risk Owner** On behalf of CMT: Andy Wood, Corporate Director Finance & Procurement **Responsible Cabinet Member(s):** John Simmonds, Finance & Procurement	**Current Likelihood** Possible (3) **Target Residual Likelihood** Very unlikely (1)	**Current Impact** Serious (4) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Robust budgeting and financial planning in place via Medium Term Financial Planning (MTFP) process	Andy Wood, Corporate Director (Finance & Procurement)
Process for monitoring delivery of savings is in place, including a Budget Programme Board to scrutinise progress.	Andy Wood, Corporate Director (Finance & Procurement)
Robust monitoring and forecasting of arrangements in place relating to the KCC budget as a whole	Andy Wood, Corporate Director (Finance & Procurement)
Corporate Portfolio Office in place providing independent assurance of significant transformational programme and project management across KCC to ensure appropriate benefits realisation, including delivery of savings. Reports to Corporate Board and Budget Programme Board as appropriate.	Paul McCallum, Head of Corporate Portfolio Office
Procedures for appropriate consultation in place (including Equality Impact Assessments) when decisions relating to changes in services are being considered	Steve Charman, Head of Consultation & Engagement
Arrangements for localisation of council tax agreed with District Councils (cross reference to Risk 12 Welfare Reform)	Dave Shipton, Head of Financial Strategy
Re-introduction of savings PIDS to ensure personal accountability for delivery of savings	Andy Wood, Corporate Director Finance & Procurement
Controls and mechanisms remain robust	Andy Wood, Corporate Director Finance & Procurement

Risk ID CRR13	Risk Title	Delivery of 2014/15 savings contd;
Action Title	**Action Owner**	**Planned Completion Date**
NB: Risk is largely to be mitigated to target level via existing controls outlined above		
Management action plan being devised to address potential 2014/15 budget issues in children's services	Mairead MacNeil, Director Specialist Children's Services	August 2014

Risk ID CRR14	Risk Title	Procurement			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
As part of KCC's whole-council transformation programme the Authority is moving towards more strategic commissioning arrangements. This will put even greater emphasis on the importance of robust procurement and commissioning arrangements and contract management.	Commercial or contractual failure of suppliers A procurement process is challenged because it is considered to be discriminatory or to have failed to adhere to procedures set out in procurement law. Potential conflict between best price and *Bold Steps for Kent* objectives Non-delivery of procurement savings Ineffective contract management – KCC fails to act as a strong enough 'client'. Procurement and commissioning functions not appropriately aligned.	Providers fail to deliver expected benefits. Service users / residents of Kent suffer – potential legal, financial and reputational implications. Procurement processes may have to be halted / restarted, which has service and financial implications Failure to secure optimum value for money from service providers.	On behalf of CMT: David Cockburn, Corporate Director Strategic and Corporate Services Andy Wood, Corporate Director Finance & Procurement **Responsible Cabinet Member(s):** Paul Carter, Business Strategy, Audit , Transformation John Simmonds, Finance & Procurement	Possible (3) **Target Residual Likelihood** Unlikely (2)	Significant (3) **Target Residual Impact** Significant (3)

Control Title	Control Owner
KCC Procurement Strategy sets out the strategic approach to procurement across the Authority	Henry Swan, Head of Procurement
Spending the Council's Money – Code of Practice setting out how strategic approach to procurement is to be achieved at operational level.	Henry Swan, Head of Procurement
Procurement Board in place, establishing clear agreed relationships, support, information flow, governance structures and accountability between different levels of commissioning and procurement.	Henry Swan, Head of Procurement

Risk ID CRR14	**Risk Title Procurement**	**contd;**
iProcurement rolled out, as an online way of making and managing requisitions and purchases		Henry Swan, Head of Procurement
Procurement training for KCC managers, as part of the Kent Manager standard, in place		Henry Swan, Head of Procurement
Category Management approach established		Henry Swan, Head of Procurement
Procedures for appropriate consultation in place (including Equality Impact Assessments) where procurement and commissioning decisions are being considered		Steve Charman, Head of Consultation & Engagement
Procurement and Legal Services joint protocol in place to clarify the respective responsibilities of these two functions and service managers		Henry Swan, Head of Procurement/Geoff Wild, Director Governance & Law
Action Title	**Action Owner**	**Planned Completion Date**
Development of a commissioning workstream within the Business Capability change portfolio to deliver the recommendations set out in the May 2014 County Council paper Facing the Challenge: Towards a Strategic Commissioning Authority.	David Cockburn, Corporate Director, Strategic & Corporate Services (supported by Olivia Crill, Project Manager) / Andy Wood, Corporate Director Finance & Procurement	Oct 2014 (review)

Risk ID CRR17	Risk Title	Future operating environment for local government			
Source / Cause of Risk The extension of public sector austerity beyond the current Parliament, the continuing growth in pressures and a radical public service reform agenda being pursued by the Coalition Government means that KCC, like many local authorities, is faced with significant uncertainty and enormous challenges.	**Risk Event** Failure to respond appropriately to the challenges faced and to be able to shape a new resilient and financially sustainable fit-for-purpose Authority in the timescales required.	**Consequence** Services of insufficient quality to support the needs of the people of Kent Unsustainable financial overspend Reduction in resident satisfaction and reputational damage	**Risk Owner(s)** Corporate Directors **Responsible Cabinet Member(s):** Paul Carter, Business Strategy, Audit & Transformation	**Current Likelihood** Likely (4) **Target Residual Likelihood** Unlikely (2)	**Current Impact** Major (5) **Target Residual Impact** Major (5)

Control Title	**Control Owner**
"Facing the Challenge: Whole-Council Transformation" paper approved at County Council – sets out how the Authority will position itself to meet the anticipated financial challenges, outlines a future vision for the Council and a whole-council transformation approach	Paul Leader, Leader of the Council
Version 1 of Transformation Plan (Facing the Challenge: Delivering Better Outcomes) presented to County Council outlining a phased roadmap for transformation	Paul Carter, Leader of the Council/Transformation Advisory Group
Corporate Directors are providing managerial leadership for the transformation agenda and ensuring resources for delivering transformation are adequate and appropriate to ensure successful delivery, alongside maintaining focus on 'business as usual' activity, and meeting regularly to ensure effective oversight of programme management	Corporate Directors
Director of Transformation appointed to support delivery of the transformation agenda	Paul Carter, Leader of the Council
Corporate Directors meet regularly to ensure effective coordination of officer level programme coordination	Corporate Directors
Effective operation of Transformation Board in order to gain wider engagement of political groups	Paul Carter, Leader of the Council/Transformation Advisory Group
Effective operation of Transformation Advisory Group as the vehicle through which strategic management and oversight of delivery takes place.	Paul Carter, Leader of the Council
Resources plan developed to ensure sufficiency of apparatus to deliver Facing the Challenge agenda	John Burr, Director Transformation
Framework for engagement developed to support the transformation agenda.	Diane Trollope, Change/Engagement Manager
Corporate Portfolio Office in place charged with identifying and managing dependencies across all programmes and	Paul McCallum, Head of

projects		Corporate Portfolio Office
Risk ID CRR17 Risk Title Future operating environment for local government contd;		
Service Review model developed to flexibly deliver both in-depth reviews challenging fundamental assumptions about how and why we deliver services and provide a ‘troubleshooting’ function for the Leader.		John Burr, Director Transformation
Communications and Engagement strategy for *Facing the Challenge* developed		Diane Trollope, Change/Engagement Manager
Change Portfolio arrangements established		Portfolio Senior Responsible Officers (SROs)
Top-tier posts realigned to support transformation		Paul Carter, Leader of the Council
Agreed approach with Democratic Services on decision making, governance and approval routes for *Facing the Challenge* programme		John Burr, Director Transformation/ Portfolio Senior Responsible Officers (SROs)
Staff development and Leadership & Management frameworks established to further develop key skills, including commercial acumen and contract management, across the organization as an essential enabler of transformation		Amanda Beer, Corporate Director Human Resources
Action Title	**Action Owner**	**Planned Completion Date**
Development of interventions to improve professional capacity and capability of project and programme delivery as a distinct skill set within KCC	Janet Hawkes, Professional Development Adviser	July 2014 (review)
Further financial modelling required ascertaining savings attributable to change portfolios once Blueprints have been established – 3 year spending plan being devised	Andy Wood, Corporate Director Finance & Procurement	June 2014 (review)
Further development of Change Portfolio arrangements	Portfolio Senior Responsible Officers (SROs)	July 2014

Risk ID CRR 18	Risk Title	Public Sector Network - Compliance with Code of Connection			
Source / Cause of Risk The Public Services Network is the successor to the Government Connect Secure Extranet (GCSx) and Government Secure Intranet (GSi). The PSN is a UK government Wide Area Network, whose main purpose is to enable connected organisations, including local authorities and central government, to communicate electronically and securely at low protective marking levels. The customer Code of Connection (CoCo) provides a minimum set of security standards that organisations must adhere to when joining the PSN. Due to the Government's zero-tolerance approach a number of local authorities need to make changes to current policies / ways of working that requires additional investment. Ongoing compliance with the standard will have a number of potential impacts on KCC objectives.	**Risk Event** Short Term: KCC judged to be non-compliant with Government's Code of Connection Longer Term: Additional investment in technology required to meet standards without commensurate increase in productivity.	**Consequence** Short Term: Reputational damage Longer Term: Impact on "Doing things Differently" objectives – less technology choices available. Financial implications	**Risk Owner** David Cockburn, Corporate Director Strategic & Corporate Services Peter Bole, Director ICT **Responsible Cabinet Member(s):** Gary Cooke, Corporate & Democratic Services	**Current Likelihood** Unlikely (2) **Target Residual Likelihood** V. Unlikely (1)	**Current Impact** Serious (4) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Thorough analysis of potential impacts of satisfying the CoCo compliance conducted	Peter Bole, Director ICT
Impact analysis conducted for adoption of Baseline Personnel Security Standards (BPSS)	Peter Bole, Director ICT/Amanda Beer, Corporate Director HR
CMT commitment to comply communicated to Public Services Network Authority (PSNA)	Corporate Management Team
Project plan devised to achieve compliance	Peter Bole, Director ICT
KCC compliant with current Code of Connection standards	Peter Bole, Director ICT

Action Title	Action Owner	Planned Completion Date

Action plan to meet requirements for compliance in April 2015	Peter Bole, Director ICT	September 2014 (review)

Risk ID	**CRR 19**	**Risk Title**	**Implications of the Care Act 2014**		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Care Act 2014 establishes a new legal framework for care and support services. The new law marks the biggest change to care and support law in England since 1948. The changes will have significant implications for Kent residents and Kent County Council, in terms of both opportunities and risks.	Costs of implementation may not be fully funded. The effect of the changes in law on the existing cost differential between the Local Authority and a self-funder may erode. Significant increase in people coming forward for care and financial assessments. The public may not understand the reforms. Appropriate systems enhancement may not be completed within 2016 timescales	Additional financial pressure Increase in demand for services in addition to existing demand pressures (see CRR 10a risk) Confusion and dissatisfaction of residents and potential service users	Andrew Ireland, Corporate Director Social Care Health & Wellbeing **Responsible Cabinet Member(s):** Graham Gibbens, Adult Social Care and Public Health	Possible (3) **Target Residual Likelihood** Unlikely (2)	Major (5) **Target Residual Impact** Significant (3)

Control Title	**Control Owner**
Care Act Programme established to ensure KCC is well placed to deliver its new responsibilities and that Kent residents who need social care, their carers and local providers are able to take advantage of the developments coming. Programme Board contains representatives from across KCC and efficiency partner.	Andrew Ireland, Corporate Director Social Care Health & Wellbeing (SCHWB)
Adults Transformation Board to oversee the Care Act Programme, setting direction, approving decisions and ensuring successful implementation	Andrew Ireland, Corporate Director SCHWB
Care Act Programme is part of the wider Adults Transformation Change Portfolio to ensure appropriate linkages with other programmes in the portfolio, ensuring that they are "Care Act proof".	Andrew Ireland, Corporate Director SCHWB
Regular briefings for elected Members and other stakeholders being held	Care Act Policy Lead Manager

Action Title	**Action Owner**	**Planned Completion Date**
Outline Programme Plan in place including a number of projects:		
Costs modelling – to ensure that KCC has a full understanding of the total costs	Finance Business Partner / Principal	September 2014

involved in implementing the Care Act	Accountant (Projects)	
Risk ID CRR 19 Risk Title Implications of the Care Act 2014	**contd;**	
Communications – to provide clear and accurate communication to inform the public, service staff and providers about forthcoming changes	Communications Account Manager, Social Care	October 2014 (review)
Workforce capacity, planning and training – ensuring the necessary capacity and that all relevant staff receive appropriate training prior to implementation	Professional Development Advisor, Social Care	January 2015
Commissioning – ensuring that duties regarding preventative services, information & advice, independent advocacy, the facilitation of independent financial advice and oversight of care markets are implemented	Head of Commissioning (Community Support) / Head of Commissioning (Accommodation solutions)	January 2015
Financial assessment and charging – to address the changes in assessment, including the residential means-test threshold, and changes to charging, including the extension of powers to charge	Assessment & Income Client Services Manager	November 2014
Safeguarding – to address safeguarding aspects of the Care Act, including making arrangements for the Adult Safeguarding Board	Head of Adult Safeguarding	November 2014
IT and information systems – to provide effective and timely changes to IT and finance systems	ICT Applications Team Manager	July 2014 (review)
Detailed programme plan to be submitted to Adults Transformation Board	Care Act Programme Manager	July 2014

By: Neeta Major – Head of Internal Audit

To: Governance and Audit Committee – 24 July 2014

Subject: **REVIEW OF ANTI-FRAUD AND CORRUPTION STRATEGY**

Classification: Unrestricted

Summary: This paper provides a summary of proposed amendments to the Council's Anti-Fraud and Corruption Strategy.

FOR APPROVAL

Introduction and Background

1. We have completed our annual review of the Council's Anti-Fraud and Corruption Strategy and a number of amendments are recommended which can be summarised as follows:
    - Removal of the paragraphs related to recruitment checks (paragraphs 17 & 18) as this guidance is included in the Blue Book (Kent Scheme).
    - Inclusion of information about how we will share information to prevent and detect fraud (paragraph 22).
    - Moving the section on whistleblowing to section E Raising a Concern (paragraphs 33 - 38) as this is a more logical place for these paragraphs.
    - Updating the evidential and public interest factors to be taken into account when deciding whether to instigate criminal proceedings in accordance with the latest Code for Crown Prosecutors (annex 1 of the strategy, paragraphs 23-25).
    - Revision of the simple and conditional cautions section so that KCC can offer simple cautions where a more lenient approach to prosecution is considered appropriate (annex 1 of the strategy, paragraphs 29-30). This is in line with the approach adopted by Trading Standards.
    - Revision of the section on corruption as the various corruption acts have been repealed by the Bribery Act 2010 (annex 2 of the strategy).
2. In these circumstances it is appropriate for the strategy to be presented to the Committee for review and agreement. A copy Anti-Fraud and Corruption Strategy (with tracked revisions) is attached at Appendix A for the Committee to approve.

Recommendations

3. Members are asked to approve the revised Anti-Fraud and Corruption Strategy ***(Appendix A)***.

Paul Rock
Counter Fraud Manager (x4694)

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Anti-Fraud and Corruption Strategy

Document Owner	Neeta Major, Head of Internal Audit Tel: 01622-694664 neeta.major@kent.gov.uk
Version	Version 3

Document Review History

Version	Reviewed	Reviewer	Approver	Date approved
Original				
2	30 June 2013	Internal Audit	Governance & Audit Committee	24 July 2013
3	25 June 2014	Internal Audit	Governance & Audit Committee	

Contents

A. Introduction

1. Kent County Council is committed to the Local Government Fraud Strategy: Fighting Fraud Locally which means the Council will:

   - **Acknowledge** the threat of fraud and the opportunities for savings that exist.
   - **Prevent** and detect all forms of fraud.
   - **Pursue** appropriate sanctions and recover any losses.

2. The Council is committed to the highest standards of probity in the delivery of its services, ensuring proper stewardship of its funds and assets. This strategy promotes:

   - A zero-tolerance attitude to fraud requiring staff and Members to act honestly and with integrity at all times, and to report all reasonable suspicions of fraud.
   - The prevention of fraud and the promotion of an anti-fraud culture.
   - The investigation of all instances of actual, attempted and suspected fraud committed by staff, Members, consultants, suppliers and other third parties and the recovery of funds and assets lost through fraud.

B. Culture

3. Kent County Council wishes to promote a culture of honesty and opposition to fraud and corruption. It will ensure probity in local administration and governance and expects:

   - Members and staff to lead through example by acting with integrity at all times and ensuring adherence to legal requirements, policies and procedures, rules and good practice.
   - All individuals and organisations (eg suppliers, contactors and service providers) with whom it comes into contact will act with integrity in all dealings with the Council.
   - Members, staff, bodies and organisations external to the Council, to report suspected fraud, corruption or other irregularity to the Head of Internal Audit in accordance with the Council's Financial Regulations, and Fraud Response Plan for Managers (Annex 1).
   - Senior managers to deal promptly and firmly with those who defraud, or seek to defraud the Council, or who are corrupt. The Council will always be robust in dealing with financial malpractice or those who breach statutory and legal obligations and its code of conduct.

C. Roles and Responsibilities

The Role of Elected Members

4. As elected representatives, all Members of Kent County Council have a duty to act in the public interest and to do whatever they can to ensure that the Council uses its resources in accordance with statute.

5. This is achieved through Members operating within the Constitution which includes the Code of Member Conduct, Financial Regulations and Spending the Council's Money.

The Role of Employees

6. Kent County Council expects its employees to be alert to the possibility of fraud and corruption and to report any suspected fraud or other irregularities to the Head of Internal Audit.

7. Employees are expected to comply with the appropriate Code of Conduct and the Council's policies and procedures.

8. Employees are responsible for complying with Kent County Council's policies and procedures and it is their responsibility to ensure that they are aware of them. Where employees are also members of professional bodies they should also follow the standards of conduct laid down by them.

9. Employees should follow instructions given to them by management. They are under a duty to properly account for and safeguard the money and assets under their control/charge.

10. Employees are required to provide a written declaration of any financial and nonfinancial interests or commitments, which may conflict with KCC's interests. KCC Financial Regulations specify that employees who have a direct or indirect financial interest in a contract shall not be supplied with, or given access to any tender documents, contracts or other information relating to them, without the authority of the senior manager.

11. Failure to disclose an interest or the acceptance of an inappropriate reward may result in disciplinary action or criminal liability. Staff must also ensure that they make appropriate disclosures of gifts and hospitality.

12. Managers at all levels are responsible for familiarising themselves with the types of fraud that might occur within their directorates and the communication and implementation of this strategy.

13. Managers are expected to create an environment in which their staff feel able to approach them with any concerns that they may have about suspected fraud or any other financial irregularities.

Kent County Council's Commitment

14. Fraud and corruption are serious offences and employees and Members will face disciplinary action if there is evidence that they have been involved in

these activities. Where criminal offences are suspected consideration will be given to pursuing criminal sanctions which may involve referring the matter to the police.

15. In all cases where the Council has suffered a financial loss, appropriate action will be taken to recover the loss.

16. In order to make employees, Members, the public and other organisations aware of the Council's continued commitment for taking action on fraud and corruption, details of completed investigations, including sanctions made will be publicised where it is deemed appropriate.

D. Prevention

~~*Recruitment checks*~~

~~17. A key measure to preventing fraud and corruption is to carry out rigorous pre-employment checks to establish the previous record and history of potential employees in terms of their integrity and propriety. This includes:-~~

- ~~obtaining suitable and relevant references;~~
- ~~checking gaps in employment history,~~
- ~~checking qualifications;~~
- ~~checks by the Disclosure and Barring Service (DBS).~~

~~18. The recruitment of temporary, permanent employees and agency staff is treated the same.~~

Responsibilities of management

19. The primary responsibility for the prevention and detection of fraud is with management. They must ensure that they have the appropriate internal controls in place, that they are operating as expected and being complied with. They must ensure that adequate levels of internal checks are included in working practices, particularly financial. It is important that duties are organised in such a way that no one person can carry out a complete transaction without some form of checking or intervention process being built into the system.

Internal Audit

20. Internal Audit is responsible for the independent appraisal of controls and for assisting managers in the investigations of fraud and corruption.

21. Internal Audit includes proactive fraud work in its annual audit plan, identifying potential areas where frauds could take place and checking for fraudulent activity.

Working with others and sharing information

22. The Council is committed to working and co-operating with other organisations to prevent ~~organised~~ fraud and corruption and protect public funds.~~. Wherever possible the Council will assist and exchange information with other appropriate bodies to facilitate the investigation of and to combat fraud.~~ The Council may use personal information and data-matching techniques to detect and prevent

fraud, and ensure public money is targeted and spent in the most appropriate and cost-effective way. In order to achieve this, information may be shared with other bodies responsible for auditing or administering public funds including the Audit Commission, the Department for Work and Pensions, other local authorities, HM Revenue and Customs, and the Police. ~~Kent County Council's Internal Audit Section will facilitate the exchange of information.~~

National Fraud Initiative

23. Kent County Council participates in the National Fraud Initiative (NFI). This requires public bodies to submit a number of data sets (currently to the Audit Commission but in future to the Efficiency and Reform Group, which is a joint Cabinet Office and Treasury initiative) for example payroll, pension, and accounts payable (but not limited to these) which is then matched to data held by other public bodies. Any positive matches (eg an employee on the payroll in receipt of housing benefit) are investigated.

~~**Whistleblowing Procedure**~~

~~24. The Council's Whistleblowing Procedure is intended to encourage and enable staff and organisations or individuals to raise serious concerns. Whilst employees are afforded certain rights and protection through legislation enacted under the Public Interest Disclosure Act 1998, the Council will do its best but cannot guarantee to protect the identity of an individual who raises a concern but does not want their name to be disclosed.~~

~~25. Employees (including managers) wishing to raise concerns should obtain a copy of the Whistleblowing Procedure on KNet.~~

Training and awareness

26. The successful prevention of fraud is dependent on risk awareness, the effectiveness of training (including induction) and the responsiveness of staff throughout the Council.

27. Management will provide induction and ongoing training to staff, particularly those involved in financial processes and systems to ensure that their duties and responsibilities are regularly highlighted and reinforced.

28. Internal Audit will provide fraud awareness training on request and will publish its successes to raise awareness.

E. Detection and Investigation

29. The Council is committed to the investigation of all instances of actual, attempted and suspected fraud committed by staff, Members, consultants, suppliers and other third parties and the recovery of funds and assets lost through fraud.

30. Any suspected fraud, corruption or other irregularity should be reported to the Head of Internal Audit. The Head of Internal Audit will decide on the appropriate course of action to ensure that any investigation is carried out in accordance with Council policy and procedures, key investigation legislation and best practice. This will ensure that investigations do not jeopardise any potential disciplinary action or criminal sanctions.

31. Action could include:

- Investigation carried out by Internal Audit staff;
- Joint investigation with Internal Audit and relevant directorate management;
- Directorate staff carry out investigation and Internal Audit provide advice and guidance;
- Referral to the Police.

32. The responsibility for investigating potential fraud, corruption and other financial irregularities within KCC lies mainly (although not exclusively) with the Internal Audit Section. Staff involved in this work will therefore be appropriately trained, and this will be reflected in training plans.

E. Raising Concerns and the Whistleblowing Policy

Suspicions of fraud or financial irregularity

33. All suspected or apparent fraud or financial irregularities must be brought to the attention of the Head of Internal Audit in accordance with Financial Regulations. Where the irregularities relate to an elected Member, there should be an immediate notification to the Head of Paid Service or the Monitoring Officer.

34. If a member of the public suspects fraud or corruption they should contact the Head of Internal Audit or Counter Fraud Manager in the first instance. They may also contact the Council's External Auditor, who may be contacted in confidence.

35. The Council's Internal Audit Section can be contacted by telephone on 01622 694694 or by mail to internal.audit@kent.gov.uk.

Whislteblowing Policy

36. Employees (including Managers) wishing to raise concerns should refer to the Council's Whistleblowing ~~Procedure~~Policy and associated procedures.

37. The Council's Whistleblowing Policy encourages individuals to raise serious concerns internally within KCC, without fear of reprisal or victimisation, rather than over-looking a problem or raising the matter outside. All concerns raised will be treated in confidence and every effort will be made not to reveal the individual's identity if this is their wish. However, in certain cases, it may not be possible to maintain confidentiality if the individual is required to come forward as a witness.

38. Employees wishing to raise concerns can obtain a copy of the Whistleblowing Procedure on KNet.

~~Suspected or apparent fraud and irregularities must be brought to the attention of the Head of Internal Audit in accordance with Financial Regulations. Where the irregularities relate to an elected Member, there should be an immediate notification to the Head of Paid Service or the Monitoring Officer.~~

~~If a member of the public suspects fraud or corruption they should contact the Head of Internal Audit or Counter Fraud Manager in the first instance. They may also~~

~~contact the Council's External Auditor, who may be contacted in confidence via the Council's main telephone switchboard.~~

~~33.~~39. ~~The Council's Internal Audit Section can be contacted by telephone on 01622 694694 or by mail to internal.audit@kent.gov.uk.~~

F. Conclusion

~~34.~~40. Kent County Council will maintain systems and procedures to assist in the prevention, detection and investigation of fraud. This strategy will be reviewed annually and is available on the Council's Intranet (KNet).

Fraud Response Plan

A. Introduction

1. This Fraud Response Plan forms part of the Council's overall Anti-Fraud Strategy and covers the Council's response to suspected or apparent irregularities affecting resources belonging to or administered by the Council, or fraud perpetrated by contractors and suppliers against the Council.

2. It is important that Managers know what to do in the event of fraud, so that they can act without delay. The Fraud Response Plan for Managers provides such guidance to ensure effective and timely action is taken. Other documents that should be referred to when reading the Plan include:
    - Officers' Code of Conduct
    - Disciplinary procedure
    - Financial Regulations

B. Objective of the Fraud Response Plan

3. To ensure that prompt and effective action can be taken to:
    - Prevent losses of funds or other assets where fraud has occurred and to maximise recovery of losses
    - Identify the perpetrator and maximise the success of any disciplinary or legal action taken
    - Reduce adverse impacts on the business of the Council
    - Minimise the occurrence of fraud by taking prompt action at the first sign of a problem
    - Minimise any adverse publicity for the organisation suffered as a result of fraud
    - Identify any lessons which can be acted upon in managing fraud in the future

C. How to Respond to an Allegation of Fraud

Management

4. Where it is appropriate to do so, and where this can be done without alerting the perpetrator to the investigation, and staff involved have sufficient experience to do so without compromising any potential disciplinary or criminal investigation, initial enquiries may be made to determine if there actually does appear to be an issue of fraud or other irregularity.

5. The purpose of the initial enquiry is to confirm or repudiate the suspicions that have arisen so that, if necessary, further investigation may be instigated.

6. During the initial enquiry, managers should:

   - Determine the factors that gave rise to the suspicion
   - Examine factors to determine whether a genuine mistake has been made or whether a fraud or irregularity has occurred (i.e. any incident or action that is not part of normal operation of the system or the expected course of events)
   - Where necessary, carry out discreet enquiries with staff and / or review documents.

14. If the results of the initial inquiry indicate that a more detailed investigation should be undertaken, managers should contact Internal Audit.

15. Internal Audit should be informed as soon as possible of all suspected or discovered fraud or corruption, in order that they may offer advice on any specific course of action that may be necessary. Managers must inform Internal Audit of:

    - All the evidence that they have gathered.
    - The actions they have taken with regard to the employee (e.g. suspension or redeployment) or any other action taken to prevent further loss.

Internal Audit

16. Depending on the size of the fraud or the circumstances of its perpetration, the Head of Internal Audit will consider whether Internal Audit staff should undertake the investigation. If appropriate, advice and guidance will be provided to enable an investigation to be undertaken by the manager's own staff.

17. Internal Audit will review the outcome of the investigation (irrespective of whether undertaken by its own staff or directorate staff), to ensure that appropriate action is taken to help disclose similar frauds and make recommendations to strengthen control systems.

Investigating Officer

11. The respective Investigating Officer (either from the directorate or from Internal Audit) will:

    - deal promptly with the matter
    - record all evidence that has been received
    - ensure that evidence is sound and adequately supported
    - secure all of the evidence that has been collected
    - where appropriate, contact other agencies
    - when appropriate, arrange for the notification of the Council's insurers

- report to senior management, and where appropriate, recommend that management take disciplinary/criminal action in accordance with this strategy and the Council's Disciplinary Procedures.

12. Where circumstances merit, close liaison will take place between the Investigating Officer, the respective Directorate and Human Resources as appropriate.

Evidence

13. The best form of evidence is original documentation. Where it is not possible to obtain originals, for whatever reason, a copy will normally suffice. The copy should be clearly endorsed as a copy and if possible certified as a true copy of the original. This should preferably be certified by the person who took the copy from the original source document.

Interviews

14. Managers should not conduct any interviews with any suspect or potential witness without seeking advice before hand from Internal Audit.
15. The matters under investigation may constitute criminal acts, and consequently any interview of potential suspects must be conducted and recorded under specific guidelines as detailed in the Police and Criminal Evidence Act 1984 (PACE). Criminal proceedings may be compromised by conducting interviews outside of the scope of PACE.
16. Normal practice will be that Internal Audit staff conduct and/or control any interview related to suspected criminal offences.

D. If Evidence of a Criminal Offence is Discovered

17. At the conclusion of an investigation it may be appropriate to pursue a criminal prosecution. This can be achieved by referring the evidence to the police or alternatively KCC could instigate its own criminal proceedings.
18. Section 222 of the Local Government Act 1972 empowers local authorities, where they consider it “expedient for the promotion or protection of the interests of the inhabitants of their area to:
    - prosecute or defend or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name, and
    - in their own name, make representations in the interests of the inhabitants at any public inquiry held by or on behalf of any Minister or public body under any enactment”.

Police referral

19. Where there is evidence that a criminal act has taken place and referral to the police is considered appropriate by the Head of Internal Audit, any necessary Police liaison will be undertaken by Internal Audit staff.
20. Once referred to the police the decision whether to charge, caution or discontinue any case will rest solely with the police and the Crown Prosecution Service and their decision is final.

Instigating Criminal Proceedings and the Decision to Prosecute

21. This section is not intended to be prescriptive and each case will be considered on its individual merits. This section describes criteria relating to the alleged offence, alleged offender and value of the fraud that will be taken into account.

22. When the Council is considering instigating criminal proceedings the case will be objectively assessed by the Head of Internal Audit who will separately assess the circumstances and the evidence in relation to each potential defendant and each alleged offence.

23. The Head of Internal Audit will give due regard to aggravating and mitigating factors; any evidence pointing towards a statutory (or other) defence; and the Code for Crown Prosecutors. In relation to the Code for Crown Prosecutions consideration will be given to:

- whether there is sufficient ~~admissible~~ evidence ~~that a criminal offence has been committed and there is a~~to provide a realistic prospect of conviction, what the defence may be and how it is likely to affect the prospects of conviction
- whether the prosecution is in the public interest.

24. It has never been the rule that a prosecution will automatically take place once the evidential stage is met. A prosecution will usually take place unless the prosecutor is satisfied that there are public interest factors tending against prosecution which outweigh those tending in favour.

25. When deciding the public interest the following questions will be considered. The questions are not exhaustive, and not all the questions may be relevant to every case. The weight to be attached to each of the questions, and the factors identified, will also vary according to the facts and merits of each case.

~~The following are some specific criteria which will be taken into account (when relevant) whenever a prosecution is contemplated. This will ensure that a prosecution is brought only where it is appropriate to do so and promote consistency in the decision making process.~~

- How serious is the offence committed?
- What is the level of culpability of the suspect?
- What are the circumstances of and the harm to the victim?
- Was the suspect under the age of 18 at the time of the offence?
- What is the impact on the community?
- Is prosecution a proportionate response?
- Do sources of information require protecting?

~~**Mitigating factors**~~
~~Prompt acknowledgement of guilt.~~
~~Making timely and appropriate compensation to the victim(s).~~

- ~~Previous good character.~~ - ~~Age of the defendant.~~ - ~~Degree of culpability.~~ - ~~Other strong mitigation.~~
~~Aggravating factors~~ - ~~The impact or potential impact of the offence is so serious that prosecution is the only suitable method for disposal.~~ - ~~There has been long term or recurring offending.~~ - ~~Age or vulnerability of the victim(s).~~ - ~~Amount of gain for the offender or the amount of loss to the victim relative to the victim's status.~~ - ~~Impact of the crime on the victim.~~ - ~~Prevalence of the offence and its impact on the community.~~ - ~~Any attempt by the offender to conceal his/her identity, whether directly or indirectly, such that the victim, and or investigating agencies, cannot easily identify or trace the person.~~ - ~~Lack of remorse.~~ - ~~The offender's history including previous advice, warnings, cautions and convictions.~~ - ~~There is evidence of significant and/or continuing consumer or public detriment.~~ - ~~There is risk to public health and safety, the environment, animal health and welfare, or a potential impact on disease control and/or traceability.~~ - ~~The offender has acted fraudulently or is reckless or negligent in their activities.~~ - ~~The offer of a simple or conditional caution has been rejected.~~ - ~~An officer was obstructed.~~

26. If during the course of the prosecution process new information becomes available, or the defendant's circumstances alter, a re-assessment of the course of action will be made and, if necessary, a prosecution withdrawn or a different allegation substituted.

After the Decision

27. Once the Head of Internal Audit has decided whether a criminal prosecution should be pursued by the Council, the appropriate Corporate Director will be consulted. If a prosecution is to be pursued the case will be referred to Legal Services who will review the case and if appropriate instigate criminal proceedings on behalf of the Council.

28. It should be noted that the final decision regarding whether or not a case is presented in court rests with the prosecuting solicitor. Where the prosecuting solicitor is the Council's Legal Services, a decision not to proceed with a case will only be taken after discussion in the first instance with the instructing officer.

Simple and Conditional Cautions

29. Where a prosecution could succeed and the offender admits their guilt, but the individual circumstances of the case suggest that a more lenient approach may be appropriate, in accordance with the Code for Crown Prosecutors consideration will be given to -offering a simple caution or referring the matter to the police requesting they deal with the case by way of a conditional caution.

30. No simple caution will be offered unless there is admissible evidence of sufficient weight to suggest that a court would be more likely than not to convict, and there are no statutory bars (e.g. in relation to time limits or statutory notices).

Monitoring

31. The Head of Internal Audit will report annually on the number of cases referred for prosecution and their outcomes to the Governance and Audit Committee.

Glossary of Terms

Fraud

The term ‘fraud’ is commonly used to describe the use of deception to deprive, disadvantage or cause loss to another person or party. This can include theft, the misuse of funds or other resources or more complicated crimes such as false accounting and the supply of false information.

The legal definition of fraud contained within the Fraud Act 2006 includes; fraud by false representation; fraud by failing to disclose information and fraud by abuse of position. Fraud is typically associated with financial loss however the strategy relates to acts of dishonesty whether or not financial loss is incurred.

Bribery and Corruption

~~Corruption is defined as the offering, giving, soliciting or acceptance of an inducement or reward that may influence the action of any person.~~

~~The main law relating to corruption in public bodies is contained in the Public Bodies Corrupt Practices Act 1889 and the Prevention of Corruption Act 1906 as supplemented by the Prevention of Corruption Act 1916, Local Government Act 1972 and the Anti-Terrorism Crime and Security Act 2001.~~

~~The law specifies that it is sufficient to prove that money or other consideration has been given or received and will presume that the money or consideration has been given or received corruptly unless the contrary is proved. This represents a reversal of the usual legal presumption of guilt and innocence.~~

~~Corruption occurs if a person offers gifts or consideration as an inducement or acts in collusion with others (two or more persons acting together). This could involve elected Members or officers of the Council, members of the public or other third parties.~~

~~Bribery~~

The terms bribery and corruption are often used interchangeably. For example, corruption usually involves two or more people entering into a secret agreement. The agreement could be to pay a public official to secure a favour of some description, such as the award of a contract.

The Bribery Act 2010 replaced the Prevention of Corruption Acts 1889 to 1916 with a new consolidated scheme of bribery offences~~New UK anti-bribery legislation also came into force on 1 July 2010~~. The Bribery Act 2010 mak~~d~~es it an offence to;

- Offer, promise or give a bribe (section1).
- Request, agree to receive, or accept a bribe (section 2).
- Bribe a foreign public official in order to obtain or retain business (Section 6).
- The Act also introduced a new corporate offence (section 7) of failure by a commercial organisation to prevent bribery in the course of its business.

The Council’s anti-bribery policy and procedures can be accessed on KNet.

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By:	Neeta Major – Head of Internal Audit
To:	Governance and Audit Committee – 24 July 2014
Subject:	**ANTI-FRAUD AND CORRUPTION PROGRESS REPORT**
Classification:	Unrestricted

Summary: This paper provides a summary of progress of anti-fraud and corruption activity as well as the outcome of investigations concluded since the last Governance and Audit Committee meeting in April 2014.

FOR ASSURANCE

Introduction and Background

1. Within Kent County Council the responsibility for anti-fraud and corruption activity is set out within the Council's Financial Regulations and the Terms of Reference for the Governance and Audit Committee. The work of the Committee is to ensure that the Council has a robust counter-fraud culture backed by well-designed and implemented controls and procedures. This paper supports the Committee in meeting this outcome.

Anti-Fraud and Corruption Activity

Fraud Awareness Campaign

2. We continue to highlight fraud risks across the Council, including schools, and this year, with the agreement of the Leader and the Corporate Management Team, we will be undertaking a month long fraud awareness campaign which will be launched in November 2014.

3. The theme of the campaign is 'Fraud: Spot it, Stop it' based on the former National Fraud Authority's cross-local government internal communication campaign designed to reduce fraud perpetrated against local government. The campaign will include internal communications, fraud awareness workshops and e-learning.

4. The objectives of the campaign are to:
   - Raise staff awareness of fraud – including the scale, nature and impact of fraud and what staff should do to recognise, report and prevent fraud.
   - Establish a sense of personal responsibility for reporting and preventing fraud among staff at all levels.
   - Promote a strong council-wide ethos that fraud will not be tolerated.
   - Encourage take up and completion of the fraud awareness, bribery act and document fraud e-learning courses for all staff.

- Launch a new whistleblowing hotline maintained by Internal Audit.

5. We will measure the success of the campaign and report the results to CMT and the Governance and Audit Committee.

National Fraud Initiative

6. In October 2014 the Audit Commission will require KCC to submit data for its biennial National Fraud Initiative (NFI). The NFI is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The exercise requires KCC to submit data sets for payroll, creditors, pensions, insurance and concessionary fares. The subsequent data matches will be made available in January 2015.

7. When the Audit Commission closes in 2015 the National Fraud Initiative will become part of the Efficiency and Reform Group's remit, which is a joint Cabinet Office and Treasury initiative.

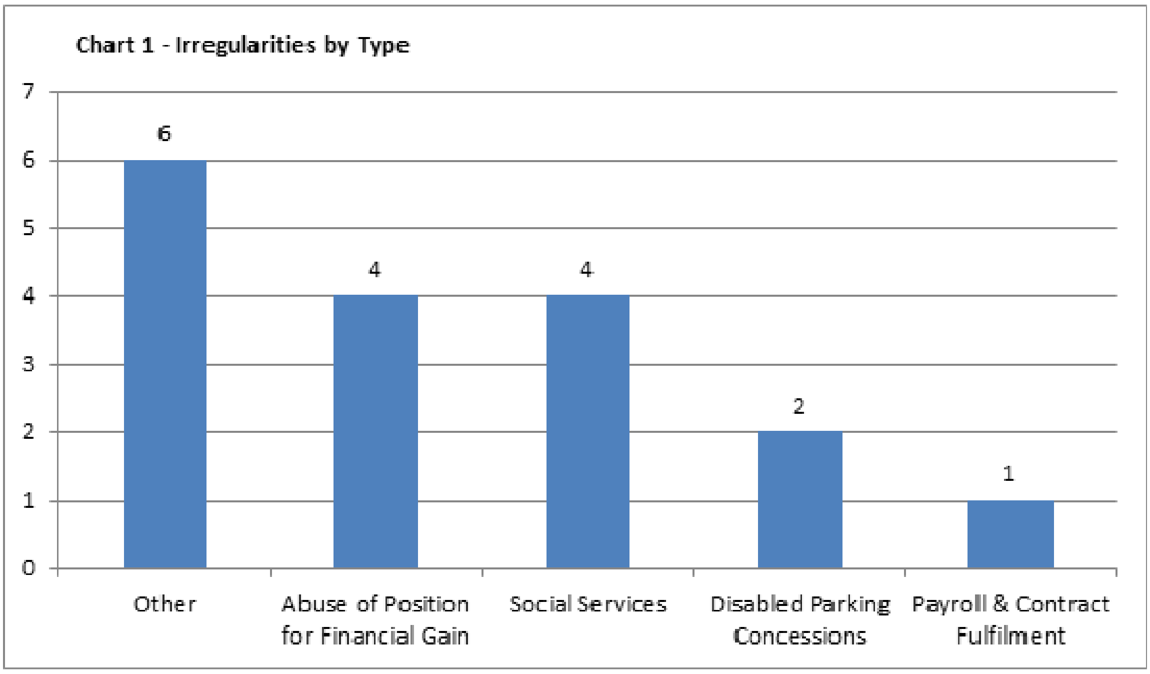
Irregularities

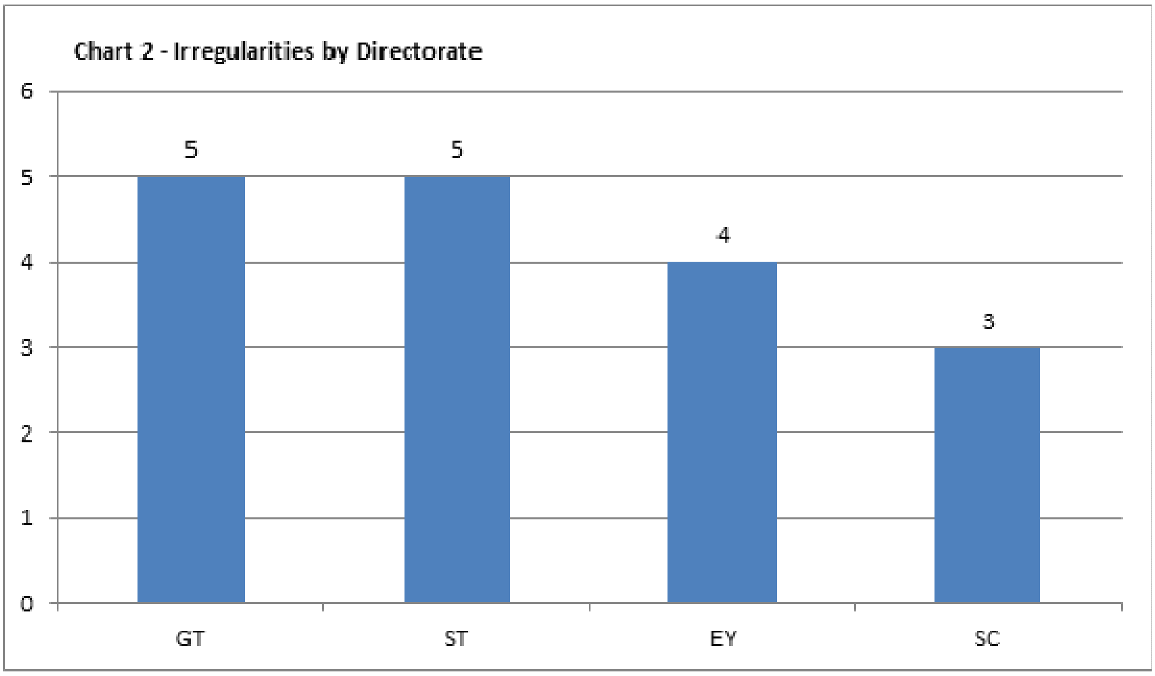
8. The following table summarises the financial irregularities under investigation since the beginning of the financial year. Summaries of the concluded irregularities are set out in Appendix A.

Table 1 – Irregularities Received

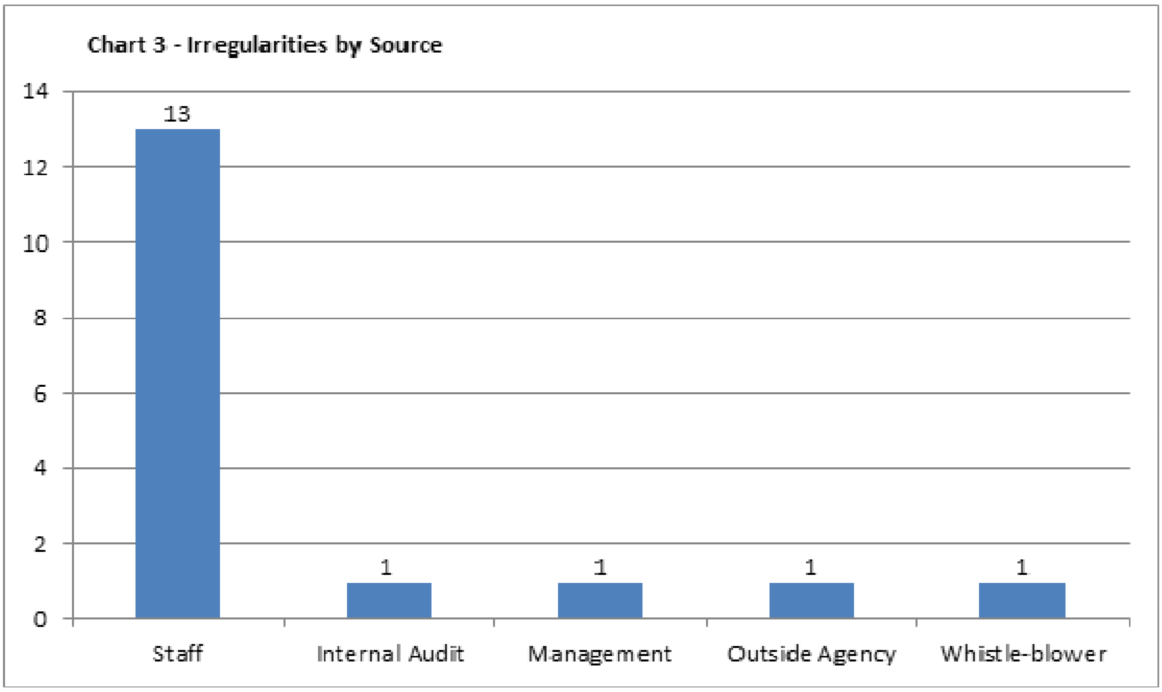
	Number of Irregularities
Bought forward at 1 April 2014	19
New irregularities recorded in period	17
Concluded in period	10
Carried forward at 17 June 2014	26

9. Internal Audit has recorded 17 new irregularities in 2014/15. The most common types of fraud reported have been Abuse of Position for Financial Gain (4), Social Care (4) and several (6) falling within the 'Other' category as defined by the Audit Commission. The 'Other' category includes school cheque frauds, an unauthorised use of a payment card terminal, and an allegation related to multiple applications for concessionary bus passes. The Audit Commission's definitions for each fraud type are detailed in Appendix B. A breakdown by type and directorate is shown below.





10. The most common source of referral was staff (13) which indicates a good level of fraud awareness but we will continue to promote an anti-fraud culture and encourage management and staff to report any concerns. A breakdown is shown below:



Recommendations

11. Members are asked to note for assurance:

- the progress of prevention and investigation anti-fraud and corruption activity.

Appendices

Appendix A	Summary of Concluded Irregularities
Appendix B	Definitions of Fraud Types

Paul Rock
Counter Fraud Manager (Ext: 4694)

Appendix A Summary of Concluded Financial Irregularities

Ref	Internal or External	Allegation	Outcome
848	External	It was alleged that a private provider of Early Years Education was failing to adhere to the Early Years Provider Agreement and had been charging top up fees to parents.	• An audit of Early Years was undertaken which resulted in a 'Substantial' assurance opinion. • The majority of providers were complying with requirements in KCC's Provider Agreement. • There were some examples of non-compliance, but this was mainly due to a lack of understanding rather than fraud. In relation to the specific allegation, new staff are in place and have rectified previous inconsistencies in charges.
886	Internal	It was alleged that inappropriate payments from a Kent school were made to family and friends of the school's staff and governors.	• We identified a number of small payments that when aggregated contravened the school's finance policy because three quotes should have been sought. • However goods and services of appropriate value had been delivered and there was therefore no evidence of fraud. In addition the finance policy was stricter than would be considered necessary and the relevant staff are no longer in post.
898	External	A safeguarding alert was raised following the review of a client's Direct Payment. There were concerns about the amount of care being provided and the charges that had been levied.	• A lack of care records prevented detailed analysis. As a result Internal Audit was unable to substantiate or refute the allegations. • Care Managers are working with the provider to ensure that going forward appropriate level of care is being provided, charged and sufficient records are maintained.
910	External	Internal Audit was asked to review the circumstances that led to an overpayment of financial support for two children who were living abroad with their father and grandparents.	• In our view the overpayment occurred as a result of errors by KCC, as well as the family who failed to notify KCC that their circumstances had changed. • Social Care are reviewing their cases to ensure that similar arrangements are reviewed and amended where necessary.

			• We are in dialogue with the Directorate to understand how this is to be treated going forward. Further audit work is planned in 2014/15 to review Foster Care, Adoption and Section 17 payments.
928	External	A whistle-blower raised a safeguarding alert with the Directorate which included allegations of wide spread misuse of purchase cards in a KCC school.	• The subsequent investigation established that the school's finance policies were breached and a member of school staff had fraudulently used the purchase card for their own purposes (£1,123). The member of staff was prosecuted by Kent police and following a guilty plea was sentenced in the local Magistrates Court.
934	Internal	Internal Audit were alerted to some potentially illogical payments that had been made to a number of third parties.	• The subsequent review identified a number of inaccuracies in the payments and £66,000 has been recovered. A further £12,500 is currently being pursued.
936	Internal	It was alleged that the School Business Manager of a Kent school had failed to record letting income and may have intercepted some of the funds collected.	• The School Business Manager admitted he failed to adhere to the school's policies. As a result the school is likely to have lost income but we could not accurately determine the level of loss due to the incomplete records. • The School Business Manager resigned prior to a disciplinary hearing. We were unable to pursue a criminal prosecution or refer to the police due to a lack of evidence.
941	External	The Finance Manager of a Kent school was made aware by their bank that a fraudulent cheque payable from the school's account had been presented for payment. The value of the cheque was £9,855.47.	• There was no loss to the school. The bank is investigating and the Post Office Investigation Department (POID) has been alerted. No further action is required by Internal Audit.
943	External	It was brought to Internal Audit's attention that the daughter of a Blue Badge holder was regularly using the Blue Badge to park whilst commuting to work.	• A Penalty Charge Notice was issued by the appropriate district council which was later paid without appeal. • As a result of the badge holder's disability Internal Audit telephoned the badge holder to confirm the badge was still in her possession and reminded her of her responsibilities as a Blue Badge holder.
946	External	A Kent school was alerted by their bank to a number of	• To date four cheques have been presented with a total

		duplicate cheques that had been presented for payment. The fraudulent cheques appear to have been copied from a genuine cheque that had been intercepted and altered.	value of £12,000. • There has been no loss to the school. The bank's fraud team are investigating. The POID have been alerted. No further action is required by Internal Audit.

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Appendix B

Audit Commission Definitions of Fraud Types

Procurement	This is any fraud linked to the false procurement of goods and services for the organisation either by internal or external persons or companies including, but not limited to: violation of procedures; manipulation of accounts; records or methods of payment; failure to supply; failure to supply to contractual standard
Fraudulent Insurance Claims	This is any insurance claim against your organisation or your organisation's insurers that proves to be false.
Social Services Fraud	This is any fraud linked to social services provision including, but not limited to: false payments to contractors for house modifications; personalised budgets for the purchase of care; failing to declare capital and assets; care provision by contractors or a non governmental organisation which are not for the benefit of the person being cared for.
Economic & Third Sector Support Fraud	This is any fraud that involves the false payment of grants, loans or any financial support to any private individual or company, charity, or non governmental organisation including, but not limited to: grants paid to landlords for property regeneration; donations to local sports clubs; loans or grants made to a charity.
Debt Fraud	This is any fraud linked to the avoidance of a debt to the organisation including, but not limited to: council tax liabilities; rent arrears; false declarations; false instruments of payment or documentation.
Pension Fraud	This is any fraud relating to pension payments including, but not limited to: failure to declare changes of circumstances; false documentation; or continued payment acceptance after the death of the pensioner.
Investment Fraud	This is any fraud relating to investments including, but not limited to: the fraudulent misappropriation of assets; or loss through breach of procedures
Payroll & Contract Fulfilment Fraud	This includes, but is not limited to: the creation of non existent employees; unauthorised incremental increases; the redirection or manipulation of payments; false sick claims; not working required hours; or not undertaking required duties.
Employee Expense Fraud	This includes, but is not limited to: false declarations of mileage; false documentation to support allowances; breaches of authorisation and payment procedures.

Appendix B

Definitions of Fraud Types

Abuse of Position for Financial Gain	This could include frauds not reported elsewhere (the financial gain could be for the fraudster or other) including, but not limited to: the misappropriation or distribution of funds by someone taking advantage of their position such as payments officers, bursars or finance managers; or fraudulently securing a job for a friend or relative.
Manipulation of Financial or Non-Financial Information	This includes, but is not limited to: the falsifying of statistics to ensure performance targets are met; or the adjustment of accounts to remain within set financial limits for the benefit of an individual or the organisation.
Disabled Parking Concessions	Blue Badges
Recruitment	This could involve any applications, including attempts, to gain employment or subsequently where any of the details prove to be false including, including but not limited to: false identity, immigration (no right to work or reside); false qualifications; or false CVs.