

GOVERNANCE AND AUDIT COMMITTEE

Thursday, 21st July, 2016

10.00 am

Darent Room, Sessions House, County Hall, Maidstone





AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Thursday, 21st July, 2016, at 10.00 am
Darent Room, Sessions House, County Hall,
Maidstone

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

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 D L Brazier, Mr S C Manion, Mr R A Marsh and Mr J E Scholes	Mr R J Parry (Vice-Chairman), Mr E E C Hotson, Mr A J King, MBE,
UKIP (3)	Mr M Heale, 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

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UNRESTRICTED ITEMS

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

1. Introduction/Webcasting
2. Membership

To note that Mr M Heale has replaced Mr M Baldock as a Member of the Committee

3. Substitutes
4. Declarations of Interest in items on the agenda for this meeting
5. Minutes (Pages 7 - 22)
Committee – 27 April 2016
Trading Activities Sub-Committee – 27 April 2016 (To Note)
6. Committee Work and Member Development Programme (Pages 23 - 26)
7. Draft Statement of Accounts 2015/16 (Pages 27 - 198)
8. External Audit Update July 2016 (Pages 199 - 210)
9. External Audit Annual Findings Report 2015/16 (The main report will be presented on the day of the meeting) (Pages 211 - 212)
10. External Audit Pension Fund Audit Findings Report 2015/16 (Pages 213 - 240)
11. Schools Audit Annual Report (Pages 241 - 246)
12. Internal Audit and Counter-Fraud Annual Report and Opinion for 2015/16 (Pages 247 - 302)
13. Update on 2016/17 Savings Programme (Pages 303 - 308)
14. Treasury Management Annual Review 2015/16 (Pages 309 - 320)
15. Debt Management (Pages 321 - 332)
16. Update on Contracts and Tenders Standing Orders part of the Constitution (Pages 333 - 344)
17. Corporate Risk Register (Pages 345 - 384)
18. Update on the governance of the Discovery Park Technology Investment Fund (Pages 385 - 428)
19. Future appointment of External Auditor (Pages 429 - 432)
20. 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
03000 416647

Wednesday, 13 July 2016

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) To approve the appointment and remuneration of External Auditors in accordance with relevant legislation and guidance, and the function is independent and objective. That there is a robust external audit plan to ensure the necessary scrutiny and assurance in relation to obligations for an audited statement of accounts.
- (e) The External Audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.
- (f) On behalf of the County Council provide assurance that the 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.
- (j) The Council monitors the implementation of the Bribery Act Policy to ensure that it is followed at all times.

KENT COUNTY COUNCIL

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, 27 April 2016.

PRESENT: Mr R H Bird, Mr D L Brazier, Mr R E Brookbank (Substitute for Mr A J King, MBE), Mr L Burgess (Substitute for Mr M Baldock), Mrs M E Crabtree (Substitute for Mr J E Scholes), Mr C P D Hoare, Mr E E C Hotson, Mr R L H Long, TD (Chairman), Mr S C Manion, Mr R A Marsh, Mr B Neaves, Mr R J Parry (Vice-Chairman), Mr D Smyth and Mr M E Whybrow

ALSO PRESENT: Mr P B Carter, CBE, Mr S Holden and Mr J D Simmonds, MBE

IN ATTENDANCE: Ms S Buckland (Audit Manager), Miss E Feakins (Chief Accountant), Mrs C Head (Head of Financial Management), Ms A Mings (Treasury & Investments Manager), Mr R Patterson (Head of Internal Audit), Mr M Rolfe (Trading Standards Manager (East)), Mr D Smith (Director of Economic Development), Mr A Tait (Democratic Services Officer), Ms J Ward (Regional Growth Fund Programme Manager) and Mr A Wood (Corporate Director Finance and Procurement)

UNRESTRICTED ITEMS

14. Minutes
(Item 4)

RESOLVED that:-

- (a) the Minutes of the Committee meeting held on 27 January 2016 are correctly recorded and that they be signed by the Chairman; and
- (b) the Minutes of the Trading Activities Sub-Committee held on 29 February 2016 be noted.

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

(1) The Head of Internal Audit proposed an updated forward Committee Work programme and Member Development programme following revised best practice guidance in relation to Audit Committees.

(2) RESOLVED that approval be given to the proposed forward Committee Work and Member Development programme to April 2017.

16. Internal Audit and Counter Fraud Plan 2016-17
(Item 6)

(1) The Head of Internal Audit presented the proposed Internal Audit and Counter Fraud Plan for 2016/17. He drew the Committee's attention to the main audit themes for the year which were set out in paragraph 6 of the report.

(2) RESOLVED that agreement be given to:-

- (a) the proposed Internal Audit and Counter Fraud Annual Plan as set out in Appendix 1 to the report; and
- (b) the minor amendments to the Internal Audit Charter set out in Appendix 2 to the report.

17. Internal Audit and Counter Fraud progress report
(Item 7)

(1) The Head of Internal Audit summarised the outcomes of Internal Audit and Counter Fraud activity for the 2015/16 financial year to date.

(2) RESOLVED that the following matters be noted for assurance:-

- (a) progress and outcomes against the 2015/16 Audit Plan and relevant performance indicators;
- (b) progress and outcomes in relation to Counter Fraud activity; and
- (c) the overall assurance provided in relation to the Council's control and risk environment as a result of the outcome of Internal Audit and Counter Fraud work completed to date.

18. Regional Growth Fund - Equity Investments
(Item 8)

(1) A report entitled "Statutory Accounts for those companies in which KCC has an interest" had been circulated as an Appendix to all Members of the Committee before the meeting, having previously been considered by Trading Activities Sub-Committee on 29 February 2016.

(2) Mr P B Carter (Leader of the Council) and Mr S Holden (Deputy Cabinet Member for Regeneration and Economic Development) were present for this item in order to explain KCC's approach to the use of Regional Growth Fund monies allocated by the Department for Business, Innovation and Skills.

(3) The Director of Economic Development summarised the governance arrangements, particularly in respect of any company which missed the deadline for reporting its quarterly returns to KCC.

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

19. RIPA Report on surveillance, covert human intelligence source and communications data requests carried out by KCC between 1 April 2015 and 31 March 2016

(Item 9)

(1) The Head of Kent Scientific Services reported on work undertaken by KCC officers on surveillance, the use of human intelligence sources and access to telecommunications data governed by the Regulation of Investigatory Powers Act (RIPA) during the 2015/16 business year. He asked the Committee to amend the recommendation through the removal of the endorsement of the RIPA Policy. This was agreed.

(2) The Committee noted in respect of Annex 4 to the report that “paras 4.1 and 4.2” should replace “paras 3.1 and 3.2” in the Guidance on completing Covert Intelligence forms.

(3) RESOLVED that subject to (2) above, the use of powers under RIPA be noted for assurance.

20. Treasury Management Update

(Item 10)

(1) The Treasury and Investments Manager gave an update report on treasury management activity for the 9 months up to 31 December 2015 and on developments thereafter.

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

21. Change in Closedown process and revised accounting policies

(Item 11)

(1) The Head of Financial Management reported changes made to the closedown process and proposed the amendments and revisions to the accounting policies which were needed in respect of the adoption of policy IFRS 13 - Fair Value and amendments to Policy IFRS – Joint Arrangements.

(2) RESOLVED that:-

(a) The changes to the 2015-16 closedown process be noted for assurance; and

(b) approval be given to the additions and amendments to the accounting policies as set out in the Appendices to the report.

22. Updated Financial Regulations

(Item 12)

(1) The Chief Accountant introduced a report setting out the proposed amendments to the Financial Regulations.

- (2) RESOLVED that the proposed amendments to the Financial Regulations, including the delegated authority matrix be endorsed for approval by the County Council.

23. External Audit - Audit Plans for Kent County Council and Kent Superannuation Fund 2015-16

(Item 13)

(1) Mr Nick White from Grant Thornton UK LLP presented a report setting out the proposed work of Grant Thornton to enable them to give an audit opinion on the County Council's 2015/16 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 Kent Superannuation Fund for 2015/16.

24. External Audit Planned Audit Fee 2016-17

(Item 14)

(1) Mr Nick White from Grant Thornton UK LLP reported the estimated total audit fee of £ 155,925 for 2016/17, which was the same fee as in 2015/16.

(2) RESOLVED that the planned audit fees for 2016/17 be noted.

25. Fraud Law and Regulations and Going Concerns Considerations

(Item 15)

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

(2) Mr Nick White from Grant Thornton UK LLP confirmed that the external auditors were satisfied with the responses provided.

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

26. Protocol relating to companies in which KCC has an Interest

(Item 16)

(1) The Director of Governance and Law proposed a number of amendments to the Protocol relating to companies in which KCC has an interest. These included additional amendments suggested by Trading Activities Sub-Committee. These were agreed.

(2) RESOLVED that:-

- (a) approval be given to the amendments set out in the Appendix to the report subject to the following additional amendments:-

- (i) The second sentence of paragraph 7 (d) to read “Where a company adopts its own policies , before it commences trading the Governance and Audit Committee Trading Sub-Committee must be assured that adequate policies and procedures are in place, with particular (but not exclusive) reference to anti-fraud, bribery and corruption, gifts and hospitality”; and
 - (ii) the second sentence of (new) paragraph 17 to read “In the case of a director who is also an elected member, or an officer of KCC, if it were to give rise to a conflict with the interests of KCC, then reference should be made to guidance on Local Authority Companies referred to in paragraph 2 above”; and
- (b) the protocol and Guidance continue to be reviewed bi-annually, unless fundamental changes (for example, legislative changes) necessitate a review during the intervening period.

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GOVERNANCE AND AUDIT COMMITTEE TRADING ACTIVITIES SUB - COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee Trading Activities Sub - Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Wednesday, 27 April 2016.

PRESENT: Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman) and Mr C P D Hoare

ALSO PRESENT: Mr R H Bird and Mr D Smyth

IN ATTENDANCE: Mr A Wood (Corporate Director Finance and Procurement), Mr G Wild (Director of Governance and Law), Mr J Pigott (Head of Law), Mr D Smith (Director of Economic Development), Ms J Ward (Regional Growth Fund Programme Manager), Mr J Burr (Managing Director of Commercial Services), Mr G Singh (Barrister), Mr R Patterson (Head of Internal Audit) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

5. Minutes - 29 February 2016

(Item 3)

RESOLVED that the Minutes of the meeting held on 29 February 2016 are correctly recorded and that they be signed by the Chairman.

6. Protocol relating to companies in which KCC has an Interest

(Item 4)

(1) The Director of Governance and Law introduced the report on the Companies Protocol which had last been reviewed in 2012. The current review needed to take account of the changes to the County Council's approach to commissioning.

(2) The Sub-Committee noted that paragraph 7 (d) of the revised protocol listed certain policies and procedures. It considered that as this could lead to a mistaken view that those which were not mentioned were relatively insignificant, this passage should be reinforced by the addition of the words "but not exclusively" after "with particular" at the end of the paragraph.

(3) The Sub-Committee also considered that new paragraph 17 should include a reference to the action that should be taken in the event that if a director who was also a Member or officer of KCC should have a conflict of interest. It therefore agreed to recommend the re-writing of the paragraph after "or an officer of KCC" to read "If it were to give rise to a conflict with the interests of KCC then reference should be made to *the Guidance on Local Authority Companies* referred to in paragraph (2) above."

(4) The Sub-Committee decided that its own role should be further clarified in paragraph 7 (d) through the specification that it “must be assured” that adequate policies and procedures were in place before a company commenced trading.

(5) RESOLVED that:-

(a) the draft amendments to the *Protocol for Companies in which KCC has an Interest* be recommended to the Governance and Audit Committee for approval subject to the revised paragraphs 7 (d) and 17 as set out below:-

(i) Paragraph 7 (d): “what Council policies (if any) are to apply to the company. Where a company adopts its own policies, before it commences trading the Governance and Audit Committee must be assured that adequate policies and procedures are in place with particular (but not exclusive) reference to anti-fraud, bribery, corruption, gifts and hospitality”; and

(ii) Paragraph 17: “As a matter of general principle, the overriding duty of any director in considering an item before the company is to vote in accordance with the interests of that company. In the case of a director who is also an elected Member, or an officer of KCC, if it were to give rise to a conflict with the interests of KCC, then reference should be made to *the Guidance on Local Authority Companies* referred to in paragraph (2) above”; and

(b) the Protocol and Guidance continue to be reviewed bi-annually, unless fundamental changes (for example, legislative changes) necessitate a review during the intervening period.

7. Discovery Park Investment Fund - Development of the Fund and changes to governance structure

(Item 6)

(1) The report which was unavailable on the date of publication had been circulated to all Members of the Sub-Committee as well as to Governance and Audit Committee Members.

(2) The Chairman declared this item to be Urgent as the governance arrangements needed to be in place by 1 May 2016 and this was the only opportunity for them to be considered by the Sub-Committee.

(3) The Director of Economic Development introduced the report which set out the changes to the governance structure of the Discovery Park Technology Investment Fund since the Committee had last approved the original governance arrangements in November 2014 (*Minute 2014/7*). At that time, KCC had allocated £5m from the overall Regional Growth Fund allocation to offer equity investments. KCC had not wished to be the sole equity provider and had therefore established the governance structure set out in Figure 1 of the report.

(4) The Director of Economic Development continued by saying that the point had now been reached where the new goal was to enable other private sector investors to invest in the fund.

(5) The Director of Economic Development replied to a question from Mr Bird by saying that each of the private investors was registered in England at Companies House. There was no intention to avoid any tax on the investments made by KCC. He could also give a complete assurance that the partner companies would remain subject to English tax and British legal procedures.

(6) The Director of Economic Development explained that due to state aid rules, KCC could not be a majority partner or shareholder in any of the companies. He agreed with the Chairman's understanding that whilst KCC could not control the affairs of the companies which invested, it would have the ability to withdraw its funding in the event that its registration or tax strategy did not comply with the standards that KCC was obliged to uphold.

Kent County Council took great pains to ensure that the companies in which it invested were of the utmost propriety and reputation. It would also have a veto and control over where that money was invested. KCC had already turned down the opportunity to make some apparently attractive investments due to concerns over some aspect of the company's operation. This approach would continue. KCC could not approve the other shareholders. It could only approve the companies in which it invested. This always included scrutiny of the other shareholders whenever KCC was considering whether to invest.

(7) The Director of Economic Development replied to a question from Mr Hoare by saying that KCC's investment strategy was to take a minority shareholding of no more than 10% in order to ensure that the risk was shared. KCC was also constrained by the rules on state aid which specified that any investment by a public authority had to be on commercial terms using an independent manager who could decide what was and was not a commercial investment. KCC had committed itself to only make commercial investments.

(8) The Director of Economic Development then said that the new structure set out in Figure 2 of the report was recognised by the British Venture Capital Association and complied with the guidance of the European Venture Capital Industry. The reason that other authorities had failed in their attempts to create public authority investment companies was because they had not followed the commercial pattern. The advice obtained was that the structure was robust, both in terms of protecting the public authority and its interests as well as being recognisable to the market place. The structure avoided the pitfalls which often arose when a public authority attempted to upset the balance between its commercial and public goals by over-emphasising the latter.

(9) The Director of Economic Development replied to a question by Mr Parry by saying that the Independent Advisory Board would advise the Leader of the Council who would agree the detailed terms of reference and operating procedures. The advice provided to him (including on compliance) would be given by KCC Legal, KCC Procurement, Geldards and Hogan Lovells.

(10) The Chairman asked whether it was intended that the detailed terms of reference and operating procedures would be submitted to the Sub-Committee. The

Director replied that it was not envisaged that they would be in conflict with the report that was under consideration. It was therefore not proposed to bring a further report. He offered to make them available after they had been put into effect. They would continue to be regularly audited by Internal Audit.

(11) It was agreed that the results of Internal Audit's audit of the detailed terms of reference and operating procedures would be reported either to the Sub-Committee or to its parent Committee.

(12) The Director of Economic Development replied to a question from the Chairman by saying that consideration had been given to the question of whether there should be more than one Director of the various companies. He said that Company Law did not require a company to have more than one Director or even a Company Secretary. He anticipated that once the new arrangements were in place there would be an increase in the number. This was because the current structure had been put in place to best enable KCC to transfer to the new structure. The new Directors of the company into which the assets were to be transferred had not yet been identified and would be carefully vetted before their appointment.

(13) The Director of Economic Development replied to a question from Mr Parry by confirming that one of the 5 members of the New Investment Committee would be an elected Member of Kent County Council, another would be a KCC officer. The other 3 members would be people with a private sector background drawn from outside KCC. Their eventual appointments would be made by the Leader following advice from the present Advisory Board. The recruitment process was currently underway

(14) Mr Parry asked for detail on the advertisement process for the three private sector members of the New Investment Committee as well as the qualities and skills that were being sought. This applied, too to the KCC representatives. He also asked who would chair the Company and how that appointment would be made.

(15) The Director of Economic Development replied that the specification was looking for people with the highest level of the requisite skills. This would include experience of successfully running large private sector funds. He was not sure whether the prospective elected KCC Member had actually been approached and could not therefore be identified. He did have considerable experience in the investment management world. The KCC officer was a very senior member of the Finance Team.

(16) Mr Bird said that performance assessment of the members of the New Investment Committee would be a key issue and that it was particularly important that the mechanism was in place to ensure timely replacement if the need arose.

(17) The Director of Economic Development replied that the County Council in the form of the Investment Advisory Board would receive quarterly reports from the Fund Manager. The Fund would last for 5 years (extendable to 10). An internal rate of return of at least 15% was expected. The remuneration rate for the managers was linked to the performance of the Fund and they would only receive remuneration once a trigger point had been achieved. There was also a separate mechanism for removing people if they failed to perform in other respects. He could give an assurance that, in respect of the new Investment Committee there would be absolutely no reward for failure.

(18) The Director of Economic Development said that the Investment Advisory Board was a long-standing informal body which had been set up when KCC first received its allocation of 35 m from the Regional Growth Fund in order that the County Council's decisions could be informed by a broad group of individuals acting in a personal capacity utilising their backgrounds in banking, the Law and a variety of commercial activities. It reported to the Economic Development Board on the loans that had been made using RGF monies as well as to the Leader.

(19) The Sub-Committee agreed the resolution set out in (20) below by 2 votes to 1. The Director of Governance and Law confirmed that this decision did not prevent the Director of Economic Development from putting the new governance arrangements into operation. The Director of Economic Development also confirmed that although there would be a change of ownership, this would not affect the ability to make any required changes to the way in which the process was managed.

(20) RESOLVED that the proposed governance for the Discovery Park Technology Investment Fund be endorsed subject to ratification by the Governance and Audit Committee at the next available opportunity.

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 paragraphs 3 and 5 of Part 1 of Schedule 12A of the Act.)

8. Legal Services - Alternative Business Structure

(Item 5)

(1) The Chairman informed the Sub-Committee that he had been invited to sit on the Board of the company which would be set up under the Alternative Business Structure. This was not a matter which qualified either as a Disclosable Pecuniary Interest or as an Other Significant Interest.

(2) The Director of Governance and Law briefly introduced the report on the Legal Services Alternative Business Structure (ABS) and confirmed that it would conform to the *Protocol for Companies in which KCC has an Interest* if the draft revisions to the Protocol (see *Minute 6 above*) received approval from the Governance and Audit Committee at its next meeting. He also drew the Sub-Committee's attention to the Section 151 Officer's Value for Money Report which was appended to the main report.

(3) During discussion of this item, the Sub-Committee asked for the Shareholder Board chart set out in Appendix 1 of the report to be amended to clarify that it was the Chairman of the Company who would report to the Chairman Head of Paid Service and for those members of the Senior Management Team who were also members of the Board of Directors to be identified with an asterisk. The Director of Governance and Law agreed to make these amendments.

(4) Members also asked for assurance in respect of the impact of the creation of the ABS on the overall Legal Services operation including those members of staff who were to remain in-house. This should include steps taken to ensure staff retention. It was therefore agreed that a progress report would be presented to the Governance and Audit Committee at its meeting in October 2016.

(5) RESOLVED that:-

- (a) approval be given to the governance arrangements for the Alternative Business Structure as set out in the report and its Appendices; and
- (b) a progress report be submitted to the October 2016 meeting of the Governance and Audit Committee with a particular emphasis on those issues set out in (4) above.

9. Consolidated Commercial Services 2014-15

(Item 9)

(1) The Managing Director of Commercial Services presented a report which had arisen out of the Sub-Committee's consideration of Statutory accounts for companies

in which KCC has an interest (*Minute 2/2016*). He briefly summarised the current structure of the Commercial Services business.

(2) The Managing Director of Commercial Services reported that customers of the LASER frameworks had indicated that they placed strong value on KCC being the contracting authority for those frameworks.

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

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By: Richard Long, Chairman of Governance and Audit Committee
 Robert Patterson, Head of Internal Audit

To: Governance and Audit Committee – 21st July 2016

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

Classification: Unrestricted

Summary: This report provides an update on the forward Committee Work and Member Development programme following 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.
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 2017. The content of the programme is matched to the Committee Terms of Reference and aims to provide at least the minimum coverage necessary to meet the responsibilities set out. This does not preclude Members asking for additional items to be added during the course of the year.
4. The programme reflects requests made from previous Committee members for additional reports on specific items of interest.

Member Development Programme

5. It is good practice for the Committee to embrace a Member development programme through a series of pre-meeting briefings, focusing on areas that are of specific relevance to this Committee. This has been successfully implemented over the last few years and it is recommended that it continues into 2016/17 with the following topics :

Description	Timing
Future trends and developments in internal audit and counter fraud	October 2016
Learning the lessons of governance failures.	January 2017

Recommendations

6. It is recommended that Members approve the forward Committee Work Programme (**Appendix 1**) and the associated Member Development Programme outlined in paragraph 5,

Robert Patterson
Head of Internal Audit (03000 416554)

Committee Work Programme

Appendix 1

Category / Item	Owner	Jul - 16	Oct - 16	Jan - 17	Apr - 17	Jul - 17
Secretariat						
Minutes of last meeting	AT	✓	✓	✓	✓	✓
Work Programme	RP	✓	✓	✓	✓	✓
Member Development Programme	RP		✓	✓		
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 Review	NV	✓				✓
Ombudsman Complaints	GW		✓			
Annual Complaints & Customer Feedback Report	DC		✓			
Update on Savings programme/transformation programme	AW/CJ	✓		✓		✓
Annual report on 'surveillance' activities carried out by KCC	MR				✓	
Corporate Governance						
Update on development of management guides	DW	If significant changes to the approach or purpose of the management guides				
Annual review of Terms of Reference of G & A	RP			✓		
Debt Management	NV	✓		✓		✓
Annual review of the Council's Code of Corporate Governance	GW	If material changes to the code				
Commercial Services Policies	AW	If informed of material changes to policies				

Category / Item	Owner	Jul-16	Oct - 16	Jan - 17	Apr - 17	Jul - 17
Internal Audit and Counter Fraud						
Internal Audit and Counter Fraud Progress Report	RP		✓	✓	✓	
Schools Audit Annual Report	RP	✓				✓
Internal Audit and Counter Fraud Annual Report	RP	✓				✓
Internal Audit Strategy and Annual Plan	RP				✓	
Internal Audit Benchmarking Report	RP		✓			
Review of the anti-fraud and anti-corruption Strategy (part of progress report)	RP		✓			✓
Review of anti-money laundering Policy	RP			✓		
External Audit						
External Audit Update	RP	✓	✓	✓	✓	✓
External Audit Findings Report/Value for Money and Annual Audit Letter	RP	✓	✓			✓
Pension Fund Audit Findings Report	RP	✓				✓
External Audit Certification of Claims and Returns Report	RP				✓	
Effectiveness of Internal and External Audit Liaison	RP			✓		
External Audit Plan	RP				✓	
External Audit Pension Fund Plan	RP				✓	
External Audit Fee letter and / or procurement arrangements	RP	✓	✓	✓	✓	
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			✓	✓	

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 – 21 July 2016

Subject: DRAFT STATEMENT OF ACCOUNTS 2015-16

Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2015-16.

FOR DECISION AND APPROVAL

1. INTRODUCTION

1.1 The draft Statement of Accounts of the County Council for 2015-16 follows this report. The Accounts and Audit Regulations 2015 state that;

...no later than 31st July 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) approve the Statement of Accounts by a resolution of that Committee or meeting;

iii) 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 new regulations require the draft accounts to be produced by the 31st May, which is a month earlier than the previous deadline. There is a transitional period in place to allow authorities to implement the new deadline. The deadline must be in place for the 2017-18 Statement of Accounts.

1.3 This year, in preparation for achieving the earlier deadline, the draft accounts were produced by 3rd June. This was one week earlier than the 2014-15 accounts.

1.4 To achieve the earlier date the following changes to our processes were put in place:

- Accounts Payable and Accounts Receivable did not process invoices in period 13.

- The de minimus value for debtors and creditors was increased from £500 to £1,000 for revenue and from £500 to £10,000 for capital. The increasing of the de minimus was evaluated by reviewing the value of debtors and creditors between the aforementioned limits raised in 2014-15, the values were £264k for revenue and £1,028k for capital.
- Purchase Cards and Imprest Accounts – the March transactions which in previous years have been processed in Period 13 have been processed in April 2016. The impact of this change is that there are 11 months' worth of transactions in 2015-16 but from 2016-17 onwards there will be 12 months. The average monthly amount for purchase cards and imprest accounts is £167k and £124k respectively.
- Rental income and payments which have been processed in 2015-16 but related to the first quarter of 2016-17 have not been adjusted for. The impact of this change is that there were five quarters in 2015-16 but from 2016-17 onwards there will be four quarters. The estimated value of the income and payments for the quarter is £141k and £225k respectively, an estimated net amount of £84k.
- A reduction in the level of review and checking of debtor and creditor requests.

The sum total of these changes was not material in terms of the accounts and have been discussed and agreed with our external auditors.

- 1.5 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.
- 1.6 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.
- 1.7 Members are encouraged to scrutinise these Accounts and ask questions.
- 1.8 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 2015-16 is 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.

Narrative Pages 3-12

- 2.4 The narrative provides clarification on the relationship between the Statement of Accounts and other financial information that the Council reports on externally. The 2015-16 narrative provides information on the funding strategy applied during 2015-16 and the direction of travel for 2016-17 onwards.
- 2.5 The details of the revenue outturn are shown on Pages 7 and 9. This shows an underspend of £7.6m 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 27 June.
- 2.6 The level of general revenue reserves has increased by £2.5m and the balance stands at £37.2m. 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.
- 2.7 Capital expenditure excluding that incurred by schools under devolved arrangements was £27.7m less than the latest revised cash limits. Of this, £26.592m reflects re-phasing of capital expenditure plans across all services and £1.171m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2016-17 and beyond in order to accommodate the revised profiles of capital expenditure.
- 2.8 The 2015-16 IAS 19 report shows a decrease in the Pensions Reserve deficit of £133m. See Paragraph 2.16 for more information.

Statement of Responsibilities Page 13

- 2.9 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 14-19

Movement in Reserves Statement (MiRS)

- 2.10 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 decreased by £47m in 2015-16. The main movements are:

Unapplied Capital Grants, reflecting re-phasing of the projects these grants are funding	£m -36
General Fund	2
Schools Reserves	-8
Total of major movements in usable reserves	-42

2.11 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

2.12 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.

2.13 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

2.14 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).

2.15 Property, Plant & Equipment (PPE) has increased by £198m. The majority of this increase relates to revaluation movements (+£211m), donations (+£27m)¹ and net capital additions (+£127m). These increases are offset by the annual depreciation charge (-£139m) and disposals (-£30m) which included £28m due to schools transferring to academy status.

2.16 Long term liabilities have decreased by £136m. £133m of this is due to a decrease in the liability related to defined benefit pensions schemes under IAS 19 reporting. The note to explain the increase can be found in Note 37 on page 99 of the Accounts.

2.17 Our net worth has increased from -£95.9m to £245.2m. This is due to the increase in PPE explained in paragraph 2.15 and the decrease in the pensions liability explained in paragraph 2.16.

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 £49.7m of the £51.5m on the balance sheet.

Significant Notes to the Accounts pages 20-118

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

¹ The donations relate to the transfer of the Marlowe Academy to the Council following its closure

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 25-34 provides details of officers' remuneration over £50,000 and details on exit packages in bands of £20,000 split between compulsory redundancy and other departures.

Deposits in Icelandic banks

2.21 Note 8 on page 35 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 £0.4m to the general fund. This was £0.3m of impairment plus £0.1m of accrued interest. During 2015-16 the final Landsbanki (LBI hf) payments were received. The forecast recovery from Heritable is still forecast to be 100% but the final dividend is delayed due to litigation involving a property development.

Property, Plant and Equipment

2.22 Note 15 on pages 43-57 shows the movements on these assets, which have increased in value (relatively) from £2.18bn to £2.38m.

Reserves

2.23 Details of reserves can be found in the following notes, usable reserves in Note 21 which also include earmarked reserves, unusable reserves in Note 22, and earmarked reserves in Note 23 on pages 81-86. Earmarked reserves have decreased by £3.8m; the remainder of usable reserves have decreased by £43.6m and unusable reserves have increased by £388.5m.

Amounts Reported for Resource Allocation Decisions

2.24 Note 32 on pages 92-95 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 119-145

2.25 Pages 119-145 contain a summarised extract of a more detailed statement produced for the Pension Fund.

Auditor's Report Pages 146-149

2.26 Within the Accounts and Audit Regulations 2015 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 2015-16 Accounts commenced on the 6th June and ended on the 15th 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 2016 and its income and expenditure for the year ended 31 March 2016. The audit started in June and finished 1st 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 (21st July), with an unqualified opinion.

Annual Governance Statement Pages 150-162

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 150 to 162 which confirms how the Council has discharged this responsibility, in accordance with the Accounts and Audit regulations 2015. The Statement confirms that, during the financial year 2015-16, 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 163-164.

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 2015-16.
- 3.2 Approval of the Letters of Representation
- 3.3 Note the recommendations made in the Annual Findings Report.

Emma Feakins
Chief Accountant
Ext: 416082

Cath Head
Head of Financial Management
Ext: 416934

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Narrative

The purpose of this Statement of Accounts (Accounts) is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information on the financial performance for the year 2015-16 and the overall financial position of the Council.

The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting in the United Kingdom (the Code). To make the document as useful as possible to its audience and make more meaningful comparisons between authorities, the Code requires:

- all Statements of Accounts to reflect a consistent presentation;
- interpretation and explanation of the Statement of Accounts to be provided; and
- the Statement of Accounts and supporting notes to be written in plain English

The Statement of Accounts comprises various sections and statements, which are briefly explained below:

- Narrative - this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2015-16.
- The Statement of Responsibilities - this details the responsibilities of the Council and the Corporate Director of Finance and Procurement concerning the Council's financial affairs and the actual Statement of Accounts.
- The main Accounting Statements, comprise:
 - ~ The Movement in Reserves Statement (MIRS) - 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', which are held either for statutory purposes or to comply with proper accounting practice. (see pages 14 and 15)
 - ~ The Comprehensive Income and Expenditure Statement (CIES) - this provides a high level analysis of the Council's spending. It brings together all the functions of the Council and summarises all of the resources that the Council has generated, consumed and set aside in providing services during the year. (see pages 16 and 17)
 - ~ The Balance Sheet - this statement shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets/liabilities of the Council (assets less liabilities) are matched by the reserves held by the Council. (see page 18)
 - ~ The Cash Flow Statement - this summarises the changes in cash and cash equivalents of the Council during the reporting period. (see page 19)
- Accounting Policies - notes relating to specific accounting statement lines include the corresponding accounting policy. Note 2 - General Accounting Policies details the policies where there are not accompanying notes.
- The Notes to the Accounting Statements provide supporting and explanatory information and are fundamentally important in the presentation of a true and fair view. (See pages 20 to 118)
- The Pension Fund Accounts - the Kent Pension Fund is administered by the Council, however, the Pension Fund has to be completely separate from the Council's own finances. (see pages 119 to 145)
- The Independent Auditor's Report to the Council - this is provided by the external auditors, Grant Thornton LLP, following the completion of the annual audit.
- The Annual Governance Statement - the Council is required to carry out an annual review of the effectiveness of the systems of internal control and to include a status report with the Statement of Accounts. The Statement explains how the Council has complied with the Code of Corporate Governance during 2015-16. See pages (150 to 162)
- The accounting arrangements of any large organisation such as Kent County Council are complex, as is local government finance. The Accounts are presented as simply as possible, however it is still a very technical document. A glossary of terms is provided to make the Statement of Accounts more understandable for the reader.

Changes to financial reporting requirements and accounting policies

The Code of Practice is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board. These Statement of Accounts for 2015-16 are prepared on an IFRS basis.

The Code of Practice on Local Authority Accounting 2015-16 (the Code) highlights the following most significant key changes in accounting practice:

- A new accounting policy due to the adoption of IFRS 13 Fair Value Measurement - which sets out a single framework for measuring fair value.
- The adoption of IFRS 13 Fair Value Measurement in relation to Property, Plant and Equipment (PPE), the standard states that PPE should be measured at 'highest and best use' rather than existing use. This amendment will impact on the treatment of surplus assets. The accounting policy for PPE has been amended to reflect the introduction of IFRS 13 and the change to measurement of surplus assets.
- The adoption of IFRS 13 Fair Value Measurement has required the Financial Instruments accounting policy to be amended in respect of measurement of Assets-held-for-Sale.
- Amendment to the accounting policy for Joint Operations following the introduction of IFRS 11 Joint Operations. There is no change in how joint operations are accounted for.

Financial Report

Setting the Revenue Budget for 2015-16 - the budget strategy

The Council has continued to be in an era of the greatest financial challenge ever faced by local government. Local government and the wider public sector has had to realign itself to the fiscal reality and manage spending within the available funding. The Council has made £350m of savings between 2011-12 to 2014-15 in response to reduced government funding and the requirement to cover additional spending demands. We are planning for the need to make further savings of a proportionate magnitude over the next 3 years, which will see an unprecedented period of sustained reductions in public spending.

KCC's approved budget for 2015-16 included some significant investments in a number of essential areas, particularly in services which support the most vulnerable. Demand across a range of services has continued to increase, particularly in children's and adult social care, at the same time as funding from Central Government has been reducing. The Council also has had to offset the impact of inflation on goods and services it purchases and we have needed to continue to invest in capital infrastructure. This additional spending coupled with funding reductions from Central Government and limits on the ability to raise Council Tax present a significant challenge to find sustainable savings every year.

Since 2010-11 the Council has delivered significant budget savings without having to make the sort of cuts to services seen in some local authorities. The Council's focus has been to deliver front-line services in a cost effective way and to maximise efficiency savings from reshaping the size and structure of the council. The Council's approach for 2015-16 was to continue to avoid direct cuts to services wherever possible, and further improve the quality of service delivery within the reduced monies available. A key aspect of this involved managing down the demand for KCC services whilst still protecting those for the most vulnerable. Moving forwards the Council needs to challenge even more rigorously spending increases to ensure they can be avoided, that spending will accrue long term benefits and is affordable within the context of further substantial funding restrictions.

Despite the difficult financial climate we have been able to make substantial improvements to the quality of children's services. This has been recognised by OfSTED which has now removed all improvement notices. Having tackled the urgent quality issues we now need to focus attention on putting children's services on a more sustainable financial footing without risking the quality of the service.

Narrative

KCC Adult Social Care (in line with many departments nationally) has experienced a slowdown in demand pressures which goes against the underlying demographic trend of an aging population. This is due to a number of factors including the benefits of early intervention and preventative programmes. The budget was built on the assumption this trend would continue and aimed to build on this through further transformation. This will put an even greater emphasis on making sure clients are assessed quickly and accurately and given the right care packages to enable them to live independent lives for as long as possible. The budget also sought better procurement of services, increased prevention and improved partnership with the NHS to deliver better outcomes at lower cost.

The budget also assumed the Council would be able to see through the review of all other areas of the Council's spending under the 'Facing the Challenge' programme. The budget included over £20m of savings from phase 1 of this programme in the MTFP over the next 3 years.

The budget also sought to continue to make the improvements across all KCC services and focus on those services which are most valued by KCC residents. In particular the budget looked to increase the efficiency savings and make further reductions in reserves so that we can protect those services for the most vulnerable and those services which make the most difference to people's day to day lives.

Risk Strategy

Effective risk management has been essential in ensuring we have been able to deal with the difficult times. The Council need to become less risk averse by managing risks more effectively. Improved links between risk management and the performance management, business planning and business intelligence functions are aimed at ensuring risk management supports the delivery of organisational priorities and objectives.

Our revenue and capital Medium Term Financial Plan (MTFP) covered a three year period and is updated annually and council tax and savings targets will be set over a three year period. The budget is presented in a summary format by Directorate, Service Analysis level and Manager Analysis level including delegations to directors. Work developing the revenue and capital MTFP for 2015-16 began during Summer 2014. The budget setting process involved the Corporate Management Team (CMT) and Cabinet, with the budget being taken to County Council at a number of stages for approval. The final budget was approved at County Council in February 2015.

Revenue Strategy

The overall revenue strategy was based on the following key elements:

- Funding estimate - Government Grants, Council Tax and Business Rates
- Spending demands
- Savings and income requirements
- Consultation and engagement

Funding Estimate

Our 2015-16 revenue budget income came from these principal sources:

- From Government - Revenue Support Grant, Business Rate Top-up, Business Rate Compensation Grant, New Homes Bonus and specific and other grants.
- From Residents - Council Tax.
- From Business - Local share of Business Rates.
- From Goods and Services - receipts from service users.

Narrative

The funding estimate for 2015-16 was £916.5m, a reduction of £23.8m from the 2014-15 budget, details of the funding estimate including 2014-15 budget, for comparator purposes, are detailed in the table below:

	2014-15 Budget £'000	2015-16 Estimate £'000	Movement £'000
Council Tax			
Tax Base (incl previous year tax increase)	518,787	538,290	19,503
Assumed annual increase	10,338	10,744	406
Collection Fund Balance	4,018	7,079	3,061
Local Share of Business Rates			
Business Rates	46,924	49,227	2,303
Business Rates Collection Fund (deficit)	-1,236	451	1,687
Un-ring fenced grants			
Revenue Support Grant	213,092	161,005	-52,087
Business Rate Top-Up	120,634	122,939	2,305
Business Rate Compensation Grant	2,000	3,342	1,342
New Homes Bonus	6,610	7,886	1,276
Education Services Grant	17,000	13,750	-3,250
Other Grants	2,146	1,766	-380
Total	940,313	916,479	-23,834

- The outcome of the Spending Round 2013 indicated a reduction in baseline funding for local authorities of 13.2%. The reduction was due to the creation of new funding streams as well as the expansion of New Homes Bonus which were funded out of the overall settlement for local government. A number of other grants were allocated separately by the Department of Communities and Local Government.

- The Autumn Budget Statement in 2014 announced that business rates would only be increased by 2% in 2015-16 (instead of the 2.3% September RPI). The Local Government Finance Settlement included the impact of this lesser increase in the baseline of the retained share of business rates and the business rate top-up. We have been compensated by an additional un-ring-fenced grant.

- Council Tax - the final tax base from district councils showed a 1.7% increase over 2014-15. Initial analysis showed that the expected increase was due to a combination of more households being included on the valuation list and fewer discounts being applied.

- For residents there has been an increase in the County Council's element of the council tax for 2015-16 up to the 2% referendum limit (1.99%)

Spending Demands

Forecasts for spending demands were based upon a combination of in year monitoring of budgets, and estimates for the impact of anticipated changes over the forthcoming year. The impact of needing to replace one-off actions from reserves and underspends, agreed as part of setting the 2014-15 budget, were also shown as additional spending demand.

The final budget showed £83.6m of additional spending demands in 2015-16, the breakdown of spending demands is as follows:

- £11.4m as a result of pay and price rises.
- £27.8m arising from government and legislation decisions.
- £18.8m arising from additional demand and demographic changes.
- £12.6m to replace one-off savings in the previous year.
- £8.3m for local decision to improve services and assets.
- £4.7m for other minor demands.

Narrative

Savings and Income

Over the past few years the Council has had to make unprecedented levels of savings to offset the impact of reduced government funding and meeting the cost of additional spending demands. This trend has continued throughout the current MTFP and beyond. The final MTFP identified the need for £107.4m of savings and income in 2015-16, the main savings and income generation are as follows:

- £4.2m income generation including an increase in Social Care Charges in line with benefits uplift and an increase in trading income from schools, academies, other local authorities and public bodies.
- £24.3m increases in Grants and Contributions.
- £29.4m from efficiency savings.
- £27.3m from Transformation Savings.
- £22.2m from Financial and Policy savings.

Revenue Budget and Outturn

In February 2015 the Council approved a net revenue budget for 2015-16 of £916.479m. In addition £10.909m of 2014-15 underspending was rolled forward and added to the budget. During the year, there were some adjustments to our funding levels, totalling an additional £3.627m, 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.

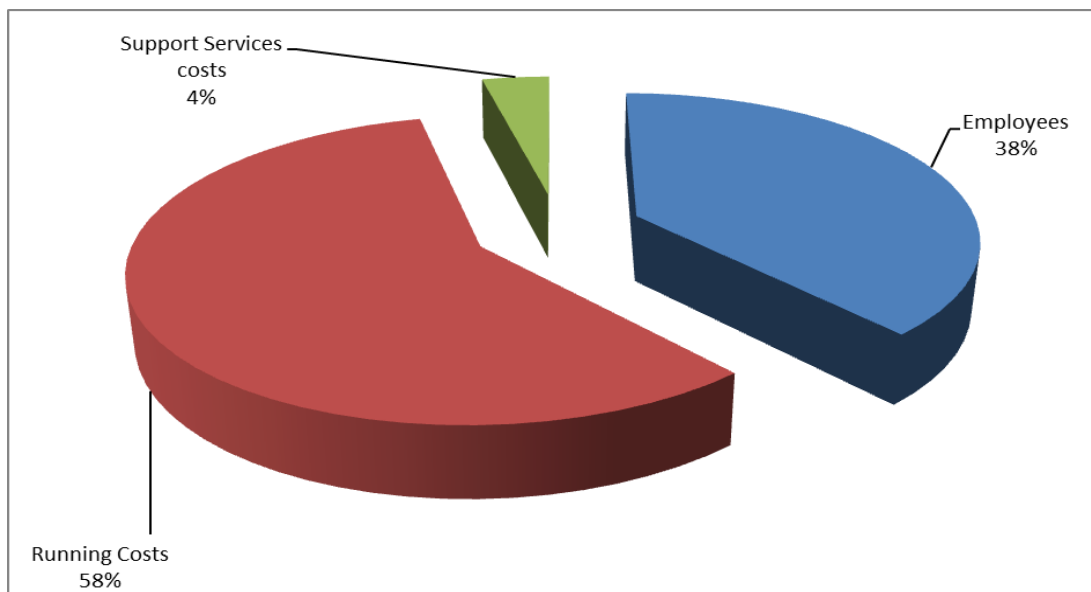
DIRECTORATE	Budget £000's	Outturn £000's	Variance £000's
Education & Young People	54,967	53,887	-1,080
Social Care, Health & Wellbeing:			
- Specialist Children's Services	133,365	132,295	-1,070
- Adult Social Care	343,073	347,868	4,795
- Public Health	0	0	0
Growth, Environment & Transport	173,518	170,790	-2,728
Strategic & Corporate Services	72,475	69,195	-3,280
Financing Items	153,617	149,167	-4,450
	931,015	923,202	-7,813
Delegated Schools Budgets	0	6,967	6,967
	931,015	930,169	-846
FUNDED BY:-			
Reserves	-10,909	-10,909	0
Formula Grant	-161,005	-161,005	0
Council Tax	-556,113	-556,113	0
Retained Business Rates incl retained levy	-51,155	-51,107	48
Business Rate Top Up	-122,939	-122,939	0
Business Rate Compensation Grant	-3,321	-3,321	0
Business Rates Flood Relief Grant	0	0	0
Small Business Rate Compensation Grant	-1,371	-1,154	217
New Homes Bonus Grant & Top Up	-7,886	-7,880	6
Education Services Grant	-14,550	-14,618	-68
Local Services Support Grant	-1,766	-1,766	0
Total Funding	-931,015	-930,812	203
NET OUTTURN POSITION	0	-643	-643

Narrative

The net underspending within the directorates of £7.610m, being £7.813m less £0.203m funding variance (excluding £6.967m delegated schools overspend) has been carried forward and will be added to the 2016-17 budget to support the re-scheduling of projects and to fund County Council and Cabinet decisions affecting the 2016-17 and future year's budgets.

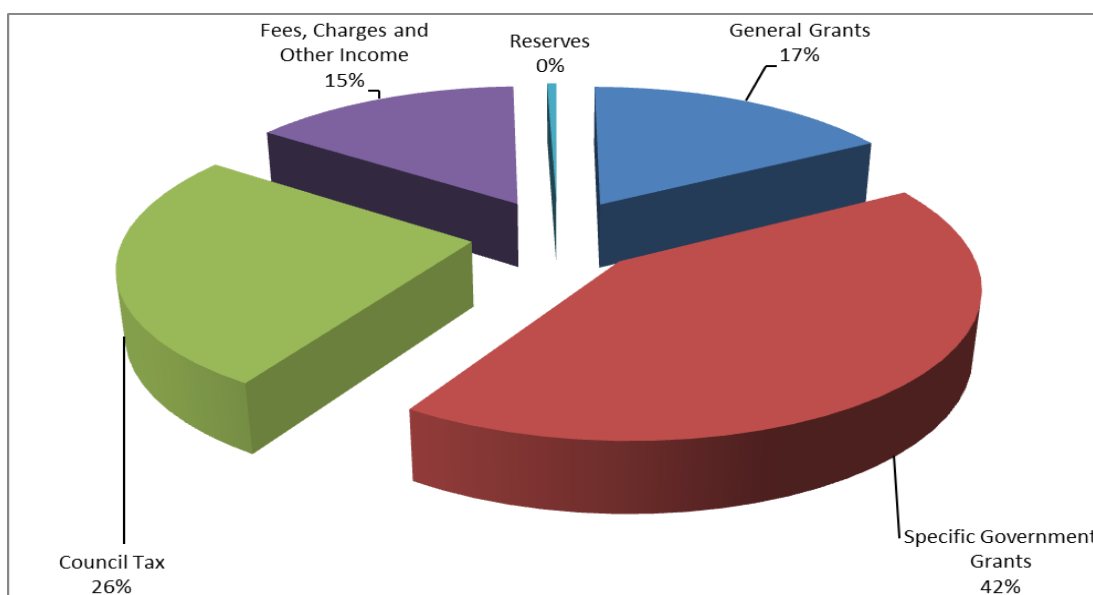
The charts below present a breakdown of the figures shown in the table above:

What the money is spent on



Employees costs account for 38% (40% in 2014-15) of the Council's expenditure. Running costs including cost of premises, transport, supplies and services and third party payments account for 58% (58% in 2014-15) of the expenditure.

Where the money came from



42% of our income came from Specific Government Grants (42% in 2014-15), 26% of our income came from residents through council tax (25% in 2014-15), 17% of our income came from general grants, including business rates (19% in 2014-15), and 15% of our income came from users of our services (13% in 2014-15)

Schools

In total, schools overspent against their delegated budgets by £2.930m, which has been drawn down from school reserves. This includes a £1.309m drawdown from school reserves as a result of 12 schools converting to new style academy status which allows them to take their reserves with them, and a £1.621m overspend against delegated budgets for the remaining Kent schools. In addition, there was £4.037m of overspending on the unallocated schools budget, largely due to £2.103m to fund the net deficits of closing schools; £0.635m for schools ICT; £1.200m for school improvement collaborations and other minor variances of £0.099m.

In addition, there is a further movement in the unallocated schools budget reserves of £0.681m as a result of a net underspend on Early Years Education of £0.373m which is due to an underspend on the Early Years Pupil Premium for disadvantaged three and four year olds, together with an overspend due to higher than affordable levels of parental demand for places for two year olds; this is more than offset by a net overspend on High Needs Education of £1.054m. Both Early Years and High Needs Education are funded by Dedicated Schools Grant, so any under or overspending must be carried forward, via the unallocated schools budget reserve, in accordance with Government regulations.

Schools reserves, including the unallocated schools budget reserves, have therefore reduced by £7.648m in 2015-16, as reflected in note 21 on page 72. Schools now have some £39.510m of revenue reserves and there is £6.851m of unallocated schools budget reserves.

Earmarked Reserves

The financial statements set out the detail and level of the Council's earmarked reserves. Earmarked reserves are an essential tool that allows the Council to manage risk exposure and smooth the impact of major costs. The requirement for financial reserves is acknowledged in statute. Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement, and regard to LAAP 99: Local Authority Reserves and Balances.

Revenue earmarked reserves are £164.514m and Note 23 on pages 81 to 86 provides an explanation of the purpose of each significant reserve along with the balance held at 31 March 2016. The general reserve position at 31 March 2016 is £37.213m, which is an increase of £2.488m from the position as at 31 March 2015 recognising our increased financial risk in a climate of reducing Government funding levels and increasing demand for services such as social care.

At 31 March 2016 the Council has usable capital reserves of £74.856m as shown on page 72.

Certain reserves are held to manage the accounting processes for such items as capital assets, collection fund and retirement benefits and these are unusable reserves of the Council. The Council also has a number of provisions set aside to meet known liabilities. The main provisions are for insurance claims and redundancies. Provisions held at 31 March 2016 totalled £33.090m, see Note 24 on pages 87 to 88.

The level of the County Council General Fund is consistent with the overall financial environment and the key financial risks faced by the Council. A thorough review of the reserves was carried out during the 2015-16 budget setting process. 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.

Investments in Iceland

In 2008 the Council had £50.35m of deposits in Icelandic owned banks, including £16m invested on behalf of the Pension Fund and £1.3m on behalf of Kent and Medway Fire Authority. To date £50.28m has been received back, that includes a 100% recovery from Glitnir and Landsbanki and a 100% recovery is now forecast on Heritable.

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 is funded from a variety of sources including: grants, capital receipts, borrowing, external contributions including developer contributions and revenue contributions. Capital expenditure for the year was £251.462m. The expenditure analysed by portfolio was:-

PORTFOLIO	Revised Budget £'000s	Outturn £'000s	Variance £'000s
Education & Young People	126,594	123,038	-3,556
Social Care, Health & Wellbeing:			0
- Specialist Children's Services	827	928	101
- Adult Social Care	7,027	3,643	-3,384
- Public Health	180	0	-180
Growth, Environment & Transport	108,756	91,902	-16,854
Strategic & Corporate Services	21,568	17,741	-3,827
	<u>264,952</u>	<u>237,252</u>	<u>-27,700</u>
Devolved Capital to Schools	4,434	14,210	9,776
TOTAL	<u><u>269,386</u></u>	<u><u>251,462</u></u>	<u><u>-17,924</u></u>

Expenditure excluding that incurred by schools under devolved arrangements was £27.700m less than cash limits. Of this, £26.529m reflected re-phasing of capital expenditure plans across all services and £1.171m was due to real variations on a small number of projects. These unspent capital resources will be carried forward into 2016-17 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2015-16 was £14.210m.

Details of the financing of capital expenditure are on page 61.

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 2016 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 87.

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

The 2015-16 IAS 19 report shows that the Kent County Council Pension Fund now has a deficit of £1,214.1m. This is a decrease in the deficit of £133m in year.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2015-16, earlier years and for future years. The balance currently stands at £993m as shown on the balance sheet on page 18. Future capital expenditure will be financed from, revenue contributions, sale of surplus fixed assets, capital grants and contributions, and relevant funds within earmarked reserves. Borrowing will only be undertaken as a last resort.

East Kent Opportunities

East Kent Opportunities (EKO) is a "Jointly Controlled Operation" and in 2015-16 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.

2016-17 onwards

Local authorities in the United Kingdom will continue to keep their Accounts in accordance with 'proper practices'. CIPFA/LASAAC continue to consider future changes to IFRS for Local Government, as it reinforces the drive to improve financial reporting and enhance accountability for public money.

The Council's 2016-19 MTFP was approved by County Council on 11 February 2016. The MTFP highlighted that there will be continued reductions in the role of the public sector, as the government seeks to reduce public spending to 36.4% of the overall economy by 2020-21 as part of redressing the public finances. The Council can no longer rely on central government funding, principally Revenue Support Grant (RSG), as this is being phased out over the next 4 years. This means the Council will have to find alternative sources of funding those services previously supported by RSG, deliver further efficiency savings, or find other ways to reduce the cost of services.

The Council will continue to manage as much as possible of this reduction through transformation (delivering better outcomes for less money) or efficiencies (delivering similar outcomes for less money). This means the Council may have to reduce some services and in some cases may have to question whether to continue to provide services at all. This fits well with the Council's objective to move from being a service provider to a service commissioner.

The Council must also find ways to reduce dependence on public funded local authority services through prevention and promoting greater self-reliance. This will mean a dramatic change in the way local authority services are viewed by the public. The Council needs to find ways of providing advice and support to help more people help themselves or access services elsewhere, and encourage them to view local authority service delivery (whether provided directly or commissioned) as the last resort for those who can't help themselves or have no other alternative.

This is a new way of looking at how local government can contribute to improving the lives of our residents and promoting local communities whilst recognising the financial reality. It is imperative that residents and local businesses (as well as county council elected members and staff) understand and embrace that resources are finite and that the destiny for the local authority and the services we provide for local communities is very much in our own hands. The Council must continue to change, adapt and innovate, with the clear aim to deliver better outcomes for people at lower cost to the public purse.

The budget for 2016-17 includes a 1.998% Council Tax increase (the maximum permitted without a formal referendum) to help fund the additional spending requirements across the full range of services.

Under the new powers to support adult care spending, we are increasing Council Tax by a further 2% to meet the growing demand for adult social care. Adult social care faces a number of challenges including growing demand from an aging population, increase complexity of client's needs, and substantial additional cost pressures.

The Council's Stewardship, Responsibilities and Financial Management Policies

The Council is responsible for handling a significant amount of public money. The Council's Financial Regulations must comply with the Constitution and set the control framework for five key areas of activity:

- Financial Planning
- Financial Management
- Risk Management and Control of Resources
- Systems and Procedures
- External Arrangements

The Council needs to ensure that it has sound financial management and procedures in place and that they are adhered to. The Financial Regulations are reviewed annually to reflect changes in structures and working practices; and to ensure our regulations reflect current best practice and strengthen areas where there were known gaps. The regulations provide clarity about the accountability of the following:

- Cabinet
- Members
- the Monitoring Officer
- the Chief Finance Officer (Corporate Director of Finance and Procurement)
- Corporate Directors

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

Telephone Maidstone (03000) 416082 or e-mail emma.feakins@kent.gov.uk.

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 21 July 2016 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 2016.

In preparing this Statement of Accounts the Corporate Director of Finance and Procurement has:

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

The 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 2016.

Certificate of the Corporate Director of Finance and Procurement



Andy Wood
Corporate Director of Finance and Procurement
12 July 2016

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 2015				
	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves
	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2014	-31,725	-210,051	-34,707	-118,967	-395,450
Movement in reserves during 2014-15					
Surplus or (Deficit) on Provision of Services	27,956				27,956
Other Comprehensive Expenditure and Income					0
Total Comprehensive Expenditure & Income	27,956	0	0	0	27,956
Adjustments between accounting basis & funding basis under regulations - Note 10	-46,139		11,478	31,207	-3,454
Net increase/Decrease before Transfers to Earmarked Reserves	-18,183	0	11,478	31,207	24,502
Transfers to/from Earmarked Reserves (total of *s on Note 21)	15,183	-15,183			0
Increase/Decrease (movement) in Year	-3,000	-15,183	11,478	31,207	24,502
	Year ended 31 March 2016				
Balance at 31 March 2015 carried forward	-34,725	-225,234	-23,229	-87,760	-370,948
Movement in reserves during 2015-16					
Surplus or (Deficit) on Provision of Services	43,365				43,365
Other Comprehensive Expenditure and Income					
Total Comprehensive Expenditure & Income	43,365	0	0	0	43,365
Adjustments between accounting basis & funding basis under regulations - Note 10	-32,073		-300	36,433	4,060
Net increase/Decrease before Transfers to Earmarked Reserves	11,292	0	-300	36,433	47,425
Transfers to/from Earmarked Reserves (total of *s on Note 21)	-13,780	13,780			0
Increase/Decrease (movement) in Year	-2,488	13,780	-300	36,433	47,425
Balance at 31 March 2016 carried forward	-37,213	-211,454	-23,529	-51,327	-323,523

Movement in Reserves Statement

	Restated Year ended 31 March 2015		
	Total Usable Reserves	Unusable reserves	Total Council Reserves
	£'000	£'000	£'000
Balance at 31 March 2014	-395,450	315,467	-79,983
Movement in Reserves during 2014-15			
Surplus or (Deficit) on Provision of Services	27,956		27,956
Other Comprehensive Expenditure and Income (total of *s on CIES)		147,921	147,921
Total Comprehensive Expenditure and Income	27,956	147,921	175,877
Adjustments between accounting basis & funding basis under regulations	-3,454	3,454	0
Net increase/Decrease before Transfers to Earmarked Reserves	24,502	151,375	175,877
Transfers to/from Earmarked Reserves (total of *s on Note 21)	0	0	0
Increase/Decrease (movement) in Year	24,502	151,375	175,877
Year ended 31 March 2016			
Balance at 31 March 2015 carried forward	-370,948	466,842	95,894
Movement in reserves during 2015-16			
Surplus or (Deficit) on Provision of Services	43,365		43,365
Other Comprehensive Expenditure and Income (total of *s on CIES)		-384,439	-384,439
Total Comprehensive Expenditure & Income	43,365	-384,439	-341,074
Adjustments between accounting basis & funding basis under regulations	4,060	-4,060	0
	47,425	-388,499	-341,074
Transfers to/from Earmarked Reserves (total of *s on Note 21)	0	0	0
Increase/Decrease (movement) in Year	47,425	-388,499	-341,074
Balance at 31 March 2016 carried forward	-323,523	78,343	-245,180

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.

		Year ended 31 March 2016		
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Service				
Cultural and Related Services		42,053	8,812	33,241
Environmental and Regulatory Services		84,866	4,010	80,856
Planning Services		36,631	8,425	28,206
Central Services to the public		2,970	930	2,040
Children's and Education Services		1,214,293	967,126	247,167
Highways and Transport Services		172,443	22,776	149,667
Adult Social Care		505,697	125,495	380,202
Public Health		71,476	66,574	4,902
Corporate and Democratic Core		48,867	23,755	25,112
Non Distributed Costs		22,370	13,758	8,612
Cost of Services		2,201,666	1,241,661	960,005
Other operating Expenditure	11			26,401
Net Surplus on trading accounts	33			-4,360
Financing and Investment Inc and Exp	12			92,320
Taxation and Non Specific Grant Income	13			-1,031,001
(Surplus) or deficit on Provision of Services				43,365
(Surplus)/deficit arising on revaluation of non current assets			*	-187,864
Remeasurement of the net defined benefit liability			*	-195,936
(Surplus)/deficit on revaluation of available for sale financial assets			*	-639
Other Comprehensive Income and Expenditure				-384,439
Total Comprehensive Income and Expenditure				-341,074

Comprehensive Income and Expenditure Statement

Notes

Restated Year ended 31 March 2015

		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Service				
Cultural and Related Services		44,399	9,648	34,751
Environmental and Regulatory Services		86,014	8,110	77,904
Planning Services		36,720	9,656	27,064
Central Services to the public		3,381	986	2,395
Children's and Education Services		1,198,671	948,611	250,060
Highways and Transport Services		170,772	20,406	150,366
Adult Social Care		473,112	117,182	355,930
Public Health		64,636	63,256	1,380
Corporate and Democratic Core		41,249	24,851	16,398
Non Distributed Costs		21,327	11,640	9,687
Cost of Services		2,140,281	1,214,346	925,935
Other operating Expenditure	11			32,815
Net Surplus on trading accounts	33			-5,525
Financing and Investment Inc and Exp	12			110,450
Taxation and Non Specific Grant Income	13			-1,035,719
(Surplus) or deficit on Provision of Services				27,956
(Surplus)/deficit arising on revaluation of non current assets			*	-121,651
Remeasurement of the net defined benefit liability			*	270,199
(Surplus)/deficit on revaluation of available for sale financial assets			*	-627
Other Comprehensive Income and Expenditure				147,921
Total Comprehensive Income and Expenditure				175,877

Balance Sheet

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

	Notes	31 March 2016		Restated
		£'000	£'000	31 March 15 £'000
Property Plant & Equipment	15	2,380,546		2,182,242
Heritage Assets	19	7,663		7,375
Investment Property	16	48,649		34,151
Intangible assets		5,400		5,838
Long-term investments	38	130,782		118,700
Long-term debtors	25	89,921		86,900
Total long-term assets			2,662,961	2,435,206
Inventories		5,235		4,915
Assets held for sale (<1yr)		2,332		3,635
Short term debtors	25	168,203		168,555
Short-term investments	38	127,965		110,364
Cash and Cash equivalents	27	51,469		102,771
Total current assets			355,204	390,240
Temporary borrowing	38	-32,943		-31,760
Short term Lease Liability	38	-5,403		-4,777
Short term provisions	24	-19,906		-22,309
Creditors	26	-229,348		-226,776
Total Current liabilities			-287,600	-285,622
Creditors due after one year	26	-47		-5,341
Provisions	24	-13,184		-13,518
Long-term borrowing	38	-959,991		-965,932
Other Long Term Liabilities	37/38	-1,459,035		-1,594,937
Capital Grants Receipts in Advance	14	-53,128		-55,990
Long Term Liabilities			-2,485,385	-2,635,718
Net Assets/(Liabilities)			245,180	-95,894
Usable Reserves	21	-323,523		-370,948
Unusable Reserve	22	78,343		466,842
Total Reserves			-245,180	95,894

The balance sheet as at 31 March 2015 together with associated notes have been restated to reflect the reinstatement of an operational asset following clarification of ownership in 2015-16.

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 income 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	2015-2016 £'000	Restated 2014-2015 £'000
Net (Surplus) or deficit on the provision of services		43,365	27,956
Adjustments to net surplus or deficit on the provision of services for non cash movements	28	-298,549	-258,070
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	28	194,182	149,042
Net cash flows from operating activities		-61,002	-81,072
Investing Activities	30	105,462	36,445
Financing Activities	31	6,842	49,261
Net increase(-) or decrease in cash and cash equivalents		51,302	4,634
Cash and cash equivalents at the beginning of the reporting period		102,771	107,405
Cash and cash equivalents at the end of the reporting period	27	51,469	102,771

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 or those 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 2015 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 2015-16 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.

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

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 is located within Usable Reserves.

Non-current assets for maintained schools are included on the balance sheet where they are owned or controlled by the Authority or the school governing body. Each school is considered on an individual basis taking into account ownership rights and, where relevant, the circumstances under which the school is using the asset.

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.

Fair Value

The Council measures some of its non-financial assets such as surplus assets, investment properties and assets held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

Valuation techniques for levels 2 and 3 include market approach, cost approach and income approach.

Note 2 - Accounting Policies & Note 3 - Accounting Standards that have been issued but have not yet been adopted

Joint Operations

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sale of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

Support service and overheads

The cost of support services and overheads are allocated to services on the following basis in accordance with the Service Reporting Code of Practice 2015-16 (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 participating in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. The allowances are purchased in advance and any unused allowances at the end of the financial year are treated as a payment in advance.

Note 3. Accounting Standards that have been issued but have not yet been adopted

For 2015-16 there are amendments to the following accounting standards:

IAS 19 Employee Benefits (Defined Benefit Plans: Employees Contributions) - clarification on how contributions from employees that are linked to services should be attributed to periods of service.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of acceptable methods of depreciation and amortisation

IFRS 11 Joint Arrangements - Accounting for acquisitions of Interests in Joint Operations

IAS 1 Presentation of Financial Statements - amendments relating to the Disclosure Initiative. The initiative clarifies materiality, presentation of main statements and the order of the notes.

Note 3 - Accounting Standards that have been issued but have not yet been adopted & Note 4 - Critical Judgements in applying Accounting Policies

There are changes in format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis. These changes will require the 2015-16 statements to be restated.

An accounting policy will be required for Highways Network Assets to reflect the change from measuring the assets at historical replacement cost to depreciated replacement cost. There will be no requirement to restate 2015-16 information or the opening balance as at 1 April 2016.

There will be changes to the format of the Pension Fund Account and the Net Assets Statement.

The impact of the above amendments will be reflected in the 2016-17 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 at least every 4 years 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. Due to continued significant increases in construction costs during 2015-16 which could have had a material impact on asset values we have revalued more assets than were due as part of our rolling programme of asset valuations. £432m worth of assets in the balance sheet have not been revalued in 2015-16. Due to the value, nature and prior valuation date of these assets we are confident that the value of these assets is not materially different to their fair value at the balance sheet date.

One Community school on the balance sheet as at 31 March 2016 converted to academy status between 1 April 2016 and 1 May 2016. The net book value of this asset as at 31 March 2016 is £7.5m. A further ten schools are due to convert to academy status between 1 June 2016 and 1 November 2016. The net book value of these assets as at 31 March 2016 is £32.3m. An additional £0.2m included in the balance sheet as at 31 March 2016 relates to playing fields at Voluntary Aided/Church schools that have or will convert to academy status in 2016-17

- 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.

- The Council holds unquoted equity which is measured at cost as the fair value cannot be reliably measured. The total value of the unquoted equity is £11.4m, of which £4m is held in a wholly-owned subsidiary of the Council and for all other investments we only have a minority interest. The fair value cannot be reliably measured either because there is no reliable trading history as the companies have only recently begun trading and/or there are no established companies with similar aims in Kent whose shares are traded and that might provide comparable data.

Note 5 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

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 2016 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	<p>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.</p> <p>Under component accounting the authority has applied a de minimus threshold for each category of asset that is revalued in the current year. In 2015-16 the following de minimus thresholds were applied:</p> <p>Primary Schools: £2m Secondary Schools: £8m Special Schools: £2m Families & Social Care establishments: £2m Highways & Waste Depots: £2m County Offices: £2m Libraries: £2m Youth & Community Centres: £2m</p>	<p>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 £3.13m for every year that useful lives had to be reduced. Over a period of 3 years (before the next valuation takes place) this could result in an error of £9.39m - this is not material.</p> <p>If all assets had been componentised the difference between depreciation under componentisation and non componentisation is £8.248m. Over 3 years this would give a difference of £24.74m - this is not material.</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The decrease in pension deficit during the year has arisen principally due to the technical decrease 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 increased from 0.1% to 0.4% 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 2015-16, the Council's actuaries advised that the net pensions liability had decreased by £0.1m as a result of estimates being corrected due to experience and increased by £236m attributable to the updating of the assumptions.</p>

Note 5 and Note 6

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 £722k the effect of the estimation is not material.
Fair Value measurements	<p>Surplus and Investment Properties cannot be measured based on quoted prices in active markets (ie Level 1 inputs), so their fair value is measured using income or market approach valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible unobservable inputs, which require judgement, are used to establish fair values. The significant unobservable inputs used in the fair value measurement include assumptions regarding passing rents and yields, estimated sale values, revenue streams and discount rates.</p> <p>Information about valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 15, 16 and 38 below.</p>	Significant changes in any of the unobservable inputs would result in a significant lower or higher fair value measurement for those assets held at fair value.
Debtors and creditors	Activity is accounted for in the year that it takes place not when the cash payments are made or received. Debtors and creditors are raised when they meet the agreed criteria and have the appropriate evidence. In implementing a faster closure changes have been made to the criteria including an increase in the de minimus for debtors and creditors to £1,000 from £500 for revenue and to £10,000 from £500 for capital. The cut off date for raising invoices and processing payments was shortened by 8 days resulting in more manual debtor and creditors being raised.	Implementing the changes have caused no significant issues. The only change is a shift between computer generated and manual debtor/creditor values.

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.

Note 6 - Officers Remuneration

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.

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 Provision 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.

Note 6 - Officers Remuneration

– 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.

Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2015 to 31 March 2016

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 2015-16, 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	Schools	Non-Schools	Schools
(£)	31 March	31 March	31 March	31 March
	2016	2016	2015	2015
50,000 - 54,999	188	180	181	197
55,000 - 59,999	115	154	118	157
60,000 - 64,999	48	103	46	92
65,000 - 69,999	44	52	37	57
70,000 - 74,999	31	32	34	35
75,000 - 79,999	15	19	15	16
80,000 - 84,999	19	7	13	10
85,000 - 89,999	10	6	6	6
90,000 - 94,999	14	7	7	7

Note 6 - Officers Remuneration

Remuneration	Total number of employees			
	Non-Schools	Schools	Non-Schools	Schools
(£)	31 March	31 March	31 March	31 March
	2016	2016	2015	2015
95,000 - 99,999	8	6	4	6
100,000 - 104,999	3	2	2	2
105,000 - 109,999	6	4	4	3
110,000 - 114,999	4	3	5	2
115,000 - 119,999	0	3	1	2
120,000 - 124,999	3	0	2	0
125,000 - 129,999	0	0	1	1
130,000 - 134,999	2	1	2	0
135,000 - 139,999	2	0	1	0
140,000 - 144,999	1	0	1	0
145,000 - 149,999	1	0	1	0
150,000 - 154,999	0	0	0	0
155,000 - 159,999	0	0	1	0
160,000 - 164,999	1	0	0	0
165,000 - 169,999	1	0	1	0
170,000 - 174,999	0	0	1	0
175,000 - 179,999	0	0	1	0
180,000 - 184,999	1	0	0	0
185,000 - 189,999	0	0	0	0
190,000 - 194,999	0	0	0	0
195,000 - 199,999	0	0	1	0
200,000 - 204,999	1	0	0	0
Total	518	579	486	593

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 requires the employer's pension contribution to be disclosed but only for senior officers. The Code defines senior officers as those whose annual salary is £150k or more, or those whose salary is above £50,000 and holds a chief officer position. 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 increase in the number of employees earning over £50,000 is due to the number of agency staff in substantive posts; agency staff cost more than substantive staff.

The slight reduction in the number of school employees earning over £50,000 is mainly due to the transfer to Academy status for a number of schools; figures for Academies are not included in the above table.

The remuneration paid to the Authority's senior employees for 2015-16 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		200,950					200,950	42,199	243,149
Corporate Director Families & Social Care - Andrew Ireland		184,402					184,402	38,724	223,126
Corporate Director Education Learning & Skills - Patrick Leeson		160,789		7,141			167,930	35,265	203,195
Director of Governance & Law - Geoff Wild		145,981					145,981	29,716	175,697
Corporate Director Growth, Environment & Transport -Barbara Cooper		139,456					139,456	29,586	169,042

The remuneration paid to the Authority's senior employees for 2015-16 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 Finance & Procurement - Andy Wood		138,287					138,287	29,040	167,327
Corporate Director Human Resources - Amanda Beer		132,435					132,435	27,811	160,246
Director Public Health - Andrew Scott-Clark		107,086					107,086		107,086
							0		0
							0		0

* This includes all contractual entitlements.

The remuneration paid to the Authority's senior employees for 2014-15 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		199,898					199,898	41,979	241,877
Corporate Director Families & Social Care - Andrew Ireland		178,166					178,166	37,415	215,581
Corporate Director Education Learning & Skills - Patrick Leeson		161,537		7,070			168,607	35,408	204,015
Director of Governance & Law - Geoff Wild		141,780					141,780	28,834	170,614
Corporate Director Finance & Procurement - Andy Wood		130,460					130,460	27,396	157,856

The remuneration paid to the Authority's senior employees for 2014-15 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 Growth, Environment & Transport -Barbara Cooper		129,762					129,762	27,250	157,012
Corporate Director Human Resources - Amanda Beer		124,844					124,844	26,217	151,061
Corporate Director Customer & Communities - Amanda Honey	1	72,992			73,218		146,210	5,696	151,906
Interim Corporate Director Growth, Environment & Transport - Mike Austerberry	2	79,421			40,813		120,234		120,234
Director Public Health - Andrew Scott-Clark		104,996					104,996		104,996

* This includes all contractual entitlements.

The remuneration paid to the Authority's senior employees for 2014-15 is as follows:

Notes

- 1 Ms Honey left KCC during May 2014. The annualised salary for this post was £156,075
- 2 Mr Austerberry left KCC during September 2014. The annualised salary for this post was £157,637.

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 25% 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 2015-16 of £2.2m includes schools and commitments in 2016-17.

(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	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15 £	2015/16 £
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	4	0	4	2	8	2	356,769	88,686
20,001-40,000	23	9	30	25	53	34	1,376,421	896,910
0-20,000	143	35	182	103	325	138	2,507,629	1,257,397
Total	170	44	216	130	386	174	4,240,819	2,242,993

Note 7 - Members Allowances and Note 8 - Deposits in Icelandic Banks

Note 7. Members Allowances

The Council paid the following amounts to members of the Council during the year.

	2015-16 £'000	2014-15 £'000
Salaries	0	0
Allowances	1,641	1,634
Expenses	127	114
Total	1,768	1,748

In 2015-16 the cost of the County Cars was £48.2k (£38.8k in 2014-15).

Note 8. Deposits in Icelandic banks

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed and the Landsbanki'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	2,100
LBI hf	5,000	6	5,300	5,264
LBI hf	5,000	5.96	5,291	5,230
LBI hf	5,000	5.93	5,028	4,998
Total	50,350		51,992	50,283

Note 8 - Iceland and Note 9 - Material Items of Income and Expenditure

Heritable

There is an outstanding amount of £300,000 relating to Heritable Bank where the final dividend is delayed due to litigation involving a property development.

LBI hf (formerly Landsbanki)

The Council received 100% of the recoverable amount during 2015-16.

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

Accounting Policy

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 £25.8m includes a loss of £27.5m which relates to schools transferring to academy status, at nil value.

Note 10 - Adjustments between accounting basis & funding basis under regulations

Note 10. Adjustments between accounting basis and funding basis under regulations

31 March 2016	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	-138,966			138,966
Revaluation losses on Property Plant and Equipment and Assets held for Sale	23,731			-23,731
Movements in the fair value of Investment Properties	9,992			-9,992
Amortisation of intangible assets	-2,222			2,222
Capital Grants and contributions applied	137,590			-137,590
Income in relation to donated assets	26,341			-26,341
In year revenue expenditure funded from capital under statute	-97,544			97,544
Prior year revenue expenditure funded from capital under statute	-3,599			3,599
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*	-31,199			31,199
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	64,511			-64,511
Capital expenditure charged against the General Fund	14,857			-14,857
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	23,605		-23,605	0
Application of grants to capital financing transferred to the Capital Adjustment Account			56,658	-56,658
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	4,999	-4,999		0
Transfer of cash sale proceeds from disposal of investment property credited to the Comprehensive Income and Expenditure Statement	1,229	-1,229		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		16,874		-16,874
Transfer of loan repayment balances		-3380	3380	0
Loan repayments	18	-7566		7,548
Movement in Donated Asset Account	400			-400
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	-3,009			3,009
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-133,376			133,376
Employer's pensions contributions and direct payments to pensioners payable in the year	69,990			-69,990
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	1,104			-1,104
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	-525			525
Total Adjustments	-32,073	-300	36,433	-4,060

Note 10 - Adjustments between accounting basis & funding basis under regulations

Note 10. Adjustments between accounting basis and funding basis under regulations

31 March 2015	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	-136,483			136,483
Revaluation losses on Property Plant and Equipment and Assets held for Sale	19,760			-19,760
Movements in the fair value of Investment Properties	-983			983
Amortisation of intangible assets	-1,914			1,914
Capital Grants and contributions applied	110,764			-110,764
Income in relation to donated assets	19			-19
In year revenue expenditure funded from capital under statute	-74,602			74,602
Prior year revenue expenditure funded from capital under statute	-312			312
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*	-38,206			38,206
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	65,312			-65,312
Capital expenditure charged against the General Fund	13,978			-13,978
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	31,136		-31,136	0
Application of grants to capital financing transferred to the Capital Adjustment Account			62,343	-62,343
Correction to prior year capital receipt				
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	7,335	-7,335		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				
Use of the Capital Receipts Reserve to finance new capital expenditure		18,601		-18,601
Correction to prior year capital receipt	-212	212		0
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	-2,116			2,116
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-117,822			117,822
Employer's pensions contributions and direct payments to pensioners payable in the year	70,571			-70,571
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	5,642			-5,642
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	1,994			-1,994
Total Adjustments	-46,139	11,478	31,207	3,454

Note 11. Other Operating Expenditure

	2015-16	2014-15
	£000's	£000's
Levies	735	729
Gains/Losses on the disposal of non-current assets	25,782	31,083
Assets held for Sale - revaluation movements	-116	1,003
	26,401	32,815

Note 12. Financing and investment income and expenditure

	2015-16	2014-15
	£000's	£000's
Interest payable and similar charges	73,549	77,188
Net interest on the net defined benefit liability	43,041	43,447
Interest receivable and similar income	-8,660	-6,643
Income and expenditure in relation to investment properties and changes in their fair value	-11,916	379
Other investment income	-3,694	-3,921
	92,320	110,450

Note 13. Taxation and non specific grant income

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 liability for refunding ratepayers that have successfully appealed against the rateable value of their property. At the end of 31 March 2016 the Council's estimated share of these liabilities is £6.4m.

	2015-16	2014-15
	£000's	£000's
Income from Council Tax	-560,377	-537,522
Non-domestic rates income and expenditure	-47,947	-47,245
Non-ringfenced government grants	-422,677	-450,952
	-1,031,001	-1,035,719

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 2015-16:

	2015-16	2014-15
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Council Tax	-560,377	-537,522
Business Rates	-47,947	-47,245
Revenue Support Grant	-283,944	-333,725
Local Services Support Grant	-1,766	-2,146
Other Grants	-14,619	-18,811
New Homes Bonus Grant	-7,880	-6,610
Business Rate Compensation Grant	-4,474	-4,144
Capital Government Grants and Contributions	-109,994	-85,516
Total	-1,031,001	-1,035,719
Credited to Services		
Dedicated Schools Grant	-677,826	-698,368
Education Funding Agency	-82,446	-80,319
Other DFES Grants	-76,457	-55,418
Department of Health Grants	-65,878	-60,962
Asylum	-27,651	-9,482
Other	-74,381	-72,779
Total	-1,004,639	-977,328

KCC's share of surplus on the Council Tax has increased by £4.3m (2014-15 surplus increased by £4.4m). For 2015-16 the Business Rate Collection Fund deficit increased by £3.2m. See the Collection Fund Adjustment Account detailed in Note 22.

Note 14 - Grant Income and Note 15 - Property, Plant and Equipment

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2015-16 £'000	2014-15 £'000
Capital Grants Receipts in Advance		
Department for Education	-4,865	-17,978
Other Grants	-14,821	-15,826
Other Contributions	-33,442	-22,186
Total	-53,128	-55,990

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
- surplus assets – fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

The Council has a policy in place to revalue its assets on a rolling programme basis. All assets will be revalued at least every four 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, after reversing any revaluation losses on that asset previously posted to the Comprehensive Income and Expenditure Statement. 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 24.

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 previous 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 £25.8m includes a loss of £27.5m which relates to schools transferring to academy 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 and Equipment

Note 15. Property, Plant & Equipment

Movement on balances - Movements in 2015-2016

	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 2015	1,399,388	96,254	1,544,043	9,535	42,908	36,197	3,128,325	251,738
Additions	36,130	4,238	41,831	33	66,169	1,148	149,549	5,554
Donations	26,341					388	26,729	
Revaluation increases / (decreases) recognised in the Revaluation Reserve	127,195					19,437	146,632	18,791
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	14,213					-4,648	9,565	1,580
Derecognition - Disposals	-26,763	-2,583			-484	-2,765	-32,595	

Property, Plant & Equipment - Movements in 2015-2016

	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	0	-8,699				-349	-9,048	
Assets reclassified (to) / from Held for Sale	-100					0	-100	
Other Movements in cost or valuation*	13,771	0	-5,474	296	-19,318	-10,498	-21,223	507
At 31 March 2016	1,590,175	89,210	1,580,400	9,864	89,275	38,910	3,397,834	278,170

* This line shows a movement of -£21,223k which includes -£19,318k which relates to amounts removed from the AUC balance following our annual review of AUC and completed capital works.

Property, Plant & Equipment - Movements in 2015-2016

	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 2015	-28,412	-74,534	-838,817	0	0	-4,320	-946,083	-6,197
Depreciation Charge	-54,336	-6,650	-76,928			-875	-138,789	-7,466
Depreciation written out to the Revaluation Reserve	38,155					2,790	40,945	4,703
Depreciation written out to the Surplus / Deficit on the Provision of Services	12,553					1,497	14,050	540
Impairment (losses) / reversals recognised in the Revaluation Reserve							0	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	168				-345		-177	

Property, Plant & Equipment - Movements in 2015-2016

	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	612	2,447				152	3,211	
Derecognition - Other	0	8,699				13	8,712	
Other movements in Depreciation and Impairment	-898	0	661		345	735	843	
At 31 March 2016	-32,158	-70,038	-915,084	0	0	-8	-1,017,288	-8,420
Net Book Value								
At 31 March 2016	1,558,017	19,172	665,316	9,864	89,275	38,902	2,380,546	269,750
At 31 March 2015	1,370,976	21,720	705,226	9,535	42,908	31,877	2,182,242	245,541

Note 15 - Property, Plant and Equipment

Note 15. Property, Plant & Equipment

Movement on balances - Movements in 2014-2015 - Restated

	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 2014	1,343,379	89,202	1,489,665	9,482	40,917	37,101	3,009,746	213,097
Additions	52,862	8,088	54,378	53	33,684	1,211	150,276	1,499
Donations						400	400	
Revaluation increases / (decreases) recognised in the Revaluation Reserve	59,670					-208	59,462	18,208
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-13,001					-408	-13,409	18,934
Derecognition - Disposals	-26,211	-1,117			-57	-5,306	-32,691	

Property, Plant & Equipment - Comparative Movements in 2014-2015 - Restated

	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	-7,050					-3,678	-10,728	
Assets reclassified (to) / from Held for Sale	-1,506					-411	-1,917	
Other Movements in cost or valuation*	-8,755	81			-31,636	7,496	-32,814	
At 31 March 2015	1,399,388	96,254	1,544,043	9,535	42,908	36,197	3,128,325	251,738

* This line shows a movement of -£32,814k which includes -£31,636k which relates to amounts removed from the AUC balance following our annual review of AUC and completed capital works.

Property, Plant & Equipment - Comparative Movements in 2014-2015 - Restated

	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 2014	-75,649	-68,078	-764,334	0	0	-3,668	-911,729	-11,838
Depreciation Charge	-52,899	-7,507	-74,483			-1,311	-136,200	-10,187
Depreciation written out to the Revaluation Reserve	61,958					28	61,986	8,969
Depreciation written out to the Surplus / Deficit on the Provision of Services	34,160					12	34,172	6,859
Impairment (losses) / reversals recognised in the Revaluation Reserve							0	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	-180						-103	-283

Property, Plant & Equipment - Comparative Movements in 2014-2015 - Restated

	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	1,637	1,056				497	3,190	
Derecognition - Other	1,574					897	2,471	
Other movements in Depreciation and Impairment	987	-5			103	-775	310	
At 31 March 2015	-28,412	-74,534	-838,817	0	0	-4,320	-946,083	-6,197
Net Book Value								
At 31 March 2015	1,370,976	21,720	705,226	9,535	42,908	31,877	2,182,242	245,541
At 31 March 2014	1,262,417	21,124	725,331	9,482	40,917	33,433	2,092,704	201,259

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 31 March 2016 were carried out by Montagu Evans, overseen by Gary Howes MRICS. The basis for valuation is set out in the statement of accounting policies, and further explained below.

	Land and buildings
	<u>£'000</u>
Valued at current value as at:	
1 April 2011	424,096
1 April 2012	350,976
Restated 1 April 2013	905,326
31 March 2015	1,304,025
31 March 2016	1,288,023

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 2015-16 all land and buildings which have not had a valuation within the last four years have been valued. All schools, highways / waste depots, county offices and surplus assets have been revalued.

The following methods/assumptions have been applied in estimating the current values:

- 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;
- Fair value for surplus assets.

We have considered and analysed the assets which have not been revalued in 2015-16 and are confident that the carrying amount of these assets as at 31 March 2016 is not materially different to their current value as at 31 March 2016.

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

Note 15 - Property, Plant and Equipment

Surplus Assets Fair Value Hierarchy

Details of the authority's surplus assets and information about the fair value hierarchy as at 31 March 2016 (excluding in year additions) are as follows:

<i>Recurring fair value measurements using:</i>	Level 2 inputs £000's	Level 3 inputs £000's	Fair value as at 31 March 2016 £000's	Level 2 Valuation Technique	Level 3 Valuation Technique
Residential developments	6,297	14,587	20,884	<i>Market approach</i>	<i>Market approach</i>
Non-residential institutions		7,086	7,086		<i>Income approach</i>
Over 55 sheltered housing		3,997	3,997		<i>Market approach</i>
Industrial development/commercial development/amenity land/educational land/woodland		3,790	3,790		<i>Market approach</i>
Residential dwellings		2,018	2,018		<i>Market approach</i>
	6,297	31,478	37,775		

NB The council does not have any Level 1 valuations

Reconciliation of Fair Value Measurements (using Significant Unobservable Inputs) Categorised within Level 3 of the Fair Value Hierarchy

The movements during the year of level 3 surplus assets held at fair value, are analysed below:

	2015-16 £000's
Opening balance	15,932
Transfers into Level 3	
Transfers out of Level 3	
Additions	
Donations	388
Derecognition	-17
Total gains or (losses) for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in the fair value	-1,462
Total gains or (losses) for the period included in Other Comprehensive Income and Expenditure resulting from changes in the fair value	17,226
Depreciation charge	-589
Closing balance	<u>31,478</u>

£1.5m of losses arising from changes in the fair value of surplus assets have been recognised in the Surplus or Deficit on the Provision of Services within the 'Non Distributed Costs' line and £17.2m of gains were recognised in Other Comprehensive Income and Expenditure within the '(Surplus)/deficit arising on revaluation of non current assets' line .

Quantitative Information about Fair Value Measurement of Surplus Assets using Significant Unobservable Inputs - Level 3

	Fair Value as at 31/03/16 £000's	Unobservable input	Quantitative Information	Sensitivity
Residential Developments	14,587	1) Estimated revenue streams 2) Estimated construction costs 3) Estimated profit margins	1) £54,000 - £400,000 per unit 2) £110.00 - £130.00 per square foot 3) 20%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Non-residential institutions	7,086	1) Estimated rent 2) Estimated yield	1) £4.00 - £15.00 per square foot 2) 5% - 12%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Over 55 sheltered housing	3,997	1) Estimated land value 2) Planning uplift	1) £543,750 - £2,625,000 per hectare 2) 25%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Industrial development/commercial development/amenity land/educational land/woodland	3,790	Estimated land value	£11,000 - £1,475,000 per hectare	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Residential dwellings	2,018	1) Estimated sales value 2) Discount rate (lifelong tenancy)	1) £150,000 - £450,000 per unit 2) 40%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Total	31,478			

Valuation Process for Surplus Assets

The fair value of the council's surplus assets is measured at least every four years in line with your revaluation policy for PPE. All valuations are carried out by appointed external valuers in accordance with the professional standards of the Royal Institution of Chartered Surveyors and reviewed internally by finance officers.

Highest & Best Use of Surplus Assets

In estimating the fair value of the council's surplus assets, the highest and best use of 19 of the 64 assets is their current use. Of the remaining 45 assets, 34 are vacant, 5 are under construction for highest and best use, 5 have alternative uses as a result of existing lease arrangements and 1 is held for highways expansion.

Contractual Liabilities

We are contractually committed to make the following payments over £10m in future years:

	2015-16 £000
LED Conversion	33,958
Broadband Contract 2	11,231

Note 16 - Investment Property

Accounting Policy

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.

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2015-16 £000's	2014-15 £000's
Rental income from Investment Property	696	604
Direct operating expenses arising from Investment Property	-262	-49
Net gain/(loss)	434	555

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

Note 16 - Investment Property

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

	2015-16 £000's	2014-15 £000's
Balance at start of the year	34,151	33956
Additions:		
• Purchases	3,235	
• Construction		
• Subsequent expenditure		
Disposals	-76	-145
Net gains/losses from fair value adjustments	10,096	-983
Transfers:		
• to/from Inventories		
• to/from Property, Plant & Equipment	1,243	1,323
Other Changes		
Balance at end of the year	48,649	34,151

Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy as at 31 March 2016 (excluding in year additions) are as follows:

<i>Recurring fair value measurements using:</i>	Level 2 inputs £000's	Level 3 inputs £000's	Fair value as at 31 March 2016 £000's	Level 2 Valuation Technique	Level 3 Valuation Technique
Residential developments	20,740	3,110	23,850	<i>Market approach</i>	<i>Market approach</i>
Offices	8,344		8,344	<i>Income approach</i>	
Industrial development/commercial development/amenity land	2,335	3,167	5,502	<i>Market approach</i>	<i>Market approach</i>
Residential dwellings		2,366	2,366		<i>Market approach</i>
Non-residential institutions		2,310	2,310		<i>Income approach</i>
Age related assisted living	1,646		1,646	<i>Market approach</i>	
Ransom Strip	1,000		1,000	<i>Market approach</i>	
Golf Course	338		338	<i>Income approach</i>	
Commercial Property	47		47	<i>Income approach</i>	
Agricultural Land		11	11		<i>Income approach</i>
	34,450	10,964	45,414		

NB The council does not have any Level 1 valuations

Note 16 - Investment Property

Reconciliation of Fair Value Measurements (using Significant Unobservable Inputs) Categorised within Level 3 of the Fair Value Hierarchy

The movements during the year of level 3 investment property held at fair value, are analysed below:

	2015-16 £000's
Opening balance	8,075
Transfers into Level 3	
Transfers out of Level 3	
Additions	
Disposals	
Total gains or (losses) for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in the fair value	<u>2,889</u>
Closing balance	<u>10,964</u>

£2.9m of gains arising from changes in the fair value of the investment property have been recognised in the 'Surplus or Deficit on the Provision of Services - Financing and Investment Income and Expenditure' line.

Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs - Level 3

	Fair Value as at 31/03/16 £000's	Unobservable input	Quantitative Information	Sensitivity
Residential Developments	3,110	1) Estimated revenue streams 2) Estimated construction costs 3) Estimated profit margins	1) £90,000 - £400,000 per unit 2) £129,000 per square foot 3) 20%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Industrial development/commercial development/amenity land	3,167	Estimated land value	£20,000 - £2,100,000 per hectare	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Residential Dwellings	2,366	1) Estimated sales value 2) Discount rate (access issues and lifelong tenancy)	1) £87,000 - £400,000 per unit 2) 25% and 40%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Non-residential institutions	2,310	1) Estimated rent 2) Estimated yield	1) £5.00 - £15.00 per square foot 2) 5% - 12%	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Agricultural Land	11	1) Limited rental growth 2) Estimated yield	1) N/A 2) 5%	Due to the low fair value of this category a significant change in unobservable inputs would not result in a significantly lower or higher fair value
Total	10,964			

Valuation Process for Investment Properties

The fair value of the council's investment property is measured annually at each reporting date. All valuations are carried out by appointed external valuers in accordance with the professional standards of the Royal Institution of Chartered Surveyors and reviewed internally by finance officers.

Highest & Best Use of Investment Properties

In estimating the fair value of the council's investment properties, the highest and best use of 43 of the 53 properties is their current use. Of the remaining 10 properties, 6 are held for capital appreciation as investments and 4 have alternative uses as a result of existing lease arrangements.

Note 17. 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 Academy schools 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.

Note 17 - Capital Expenditure and Financing and Note 18 - PFI and Similar Contracts

	2015-16 £000's	Restated 2014-15 £000's
Opening Capital financing requirement	1,382,856	1,435,263
Capital investment		
Property, Plant and Equipment	134,183	121,539
Revenue expenditure funded from capital under statute	97,544	74,602
Long Term Debtors	16,475	21,979
Other	7,113	3,771
	<u>1,638,171</u>	<u>1,657,154</u>
Sources of finance		
Capital receipts	-16,874	-18,601
Government grants and other contributions	-193,670	-176,407
Direct revenue contributions	-14,857	-13,978
(MRP/loans fund principal)	-64,511	-65,312
	<u>1,348,259</u>	<u>1,382,856</u>
Closing Capital Financing Requirement	1,348,259	1,382,856
Movement	-34,597	-52,407
	2015-16 £000's	2014-15 £000's
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	0	-2,519
Increase in underlying need to borrow (unsupported by Government financial assistance)	-38,339	-49,888
Assets acquired under PFI contracts	3,742	
Increase/(decrease) in Capital Financing Requirement	-34,597	-52,407

Note 18. 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.

Note 18. PFI and Similar Contracts

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
- lifecycle replacement costs - recognised as additions to Property, Plant and Equipment.

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	3 BSF Schools	Excellent Homes for All	TOTAL
							£'000
As at 31 March 2015	104,791	3,164	9,528	84,959	36,278	0	238,720
Additions	961	50	238	363	199	3,743	5,554
Transfers in						360	360
Revaluations	17,850	431	0	0	7,464	16	25,761
Depreciation	-3,801	-117	-238	-2,062	-1,071	0	-7,289
As at 31 March 2016	119,801	3,528	9,528	83,260	42,870	4,119	263,106

The Excellent Homes for All PFI has been added to the balance sheet in 2015-16. More detail on this new PFI contract is provided on page 64.

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	Excellent Homes for All	TOTAL
							£'000
As at 31 March 2015	71,587	8,725	13,355	55,112	60,135	0	208,914
Additions						3,743	3,743
Liability repaid	-1,581	-245	-402	-1,094	-1,311	-74	-4,707
As at 31 March 2016	70,006	8,480	12,953	54,018	58,824	3,669	207,950

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.

Note 18 - PFI and Similar Contracts

Details of payments to be made under PFI contracts

6 schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	1,739	6,127	3,195	950	12,011
Within 2-5 years	7,687	23,054	13,600	5,081	49,422
Within 6-10 years	12,197	24,692	19,002	9,668	65,559
Within 11-15 years	17,986	18,650	21,499	11,338	69,473
Within 16-20 years	30,396	8,817	24,311	7,374	70,898
Within 21-25 years	0	0	0	0	0

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.

Swanscombe Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
					£'000
Within 1 year	167	1,245	708	695	2,815
Within 2-5 years	1,583	4,618	3,030	1,616	10,847
Within 6-10 years	4,320	3,887	4,295	1,822	14,324
Within 11-15 years	2,410	501	1,370	264	4,545

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	500	1,002	1,542	140	3,184
Within 2-5 years	1,026	3,730	6,619	2,681	14,056
Within 6-10 years	2,335	4,035	9,401	3,036	18,807
Within 11-15 years	4,379	2,904	10,846	1,462	19,591
Within 16-20 years	4,715	831	4,795	544	10,885

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	1,120	3,836	0	415	5,371
Within 2-5 years	4,816	14,568	0	2,100	21,484
Within 6-10 years	7,791	16,089	0	2,975	26,855
Within 11-15 years	11,989	12,736	0	2,130	26,855
Within 16-20 years	16,038	8,040	0	2,777	26,855
Within 21-25 years	12,265	1,676	0	382	14,323

No indexation is applied to the Better Homes, Active Lives PFI contract.

Note 18 - PFI and Similar Contracts

3 BSF Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
	£'000				
Within 1 year	1,257	5,466	2,029	536	9,288
Within 2-5 years	6,681	20,536	8,634	1,837	37,688
Within 6-10 years	10,366	21,788	12,064	5,442	49,660
Within 11-15 years	13,779	16,461	13,649	9,403	53,292
Within 16-20 years	26,740	8,170	13,226	3,626	51,762
Within 21-25 years	0	0	0	0	0

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.

Excellent Homes for All

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
	£'000				
Within 1 year	107	158	64	2	331
Within 2-5 years	456	584	256	25	1,321
Within 6-10 years	620	614	320	97	1,651
Within 11-15 years	668	480	320	182	1,650
Within 16-20 years	788	325	320	218	1,651
Within 21-25 years	1,030	141	288	192	1,651

No indexation is applied to the Excellent Homes for All PFI contract.

TOTAL for all PFI Contracts

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL
	£'000				
Within 1 year - short term	4,890	17,834	7,538	2,738	33,000
Within 2-5 years	22,249	67,090	32,139	13,340	134,818
Within 6-10 years	37,629	71,105	45,082	23,040	176,856
Within 11-15 years	51,211	51,732	47,684	24,779	175,406
Within 16-20 years	78,677	26,183	42,652	14,539	162,051
Within 21-25 years	13,294	1,817	288	574	15,973
Total	207,950	235,761	175,383	79,010	698,104

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). From September 2009 Ellington School for Girls merged with Hereson Boys school to become Ellington and Hereson School, which is also a Trust. The school has now been renamed the Royal Harbour Academy.

Note 18 - PFI and Similar Contracts

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.

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 2015-16 the Council made payments of £3.91m 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 £4.02m for 2016-17 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 2016-17 the Council is committed to making payments estimated at £2.77m 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 (£2.69m was paid in 2015-16). 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 2015-16 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.

Excellent Homes for All PFI

In June 2014 the Council signed a PFI contract with Galliford Try PLC who will provide 238 units of specialist accommodation on seven sites across Kent. There will be 218 units of Extra Care accommodation, 9 units for people with mental health problems and 11 move-on apartments. Galliford Try has partnered with West Kent Housing Association to help manage the facilities. The construction work is underway and two buildings were completed towards the end of 2015-16 and are fully operational. The operational assets, and the corresponding lease liability have been recognised on the balance sheet for the first time in 2015-16. During the year the Council made unitary charge payments of £104k to the contractor but will pay more next year as each building is completed and becomes operational. The contract runs until 2040/41.

Note 19 - Heritage Assets

Note 19. 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
<u>Cost or Valuation</u>						
At 1 April 2014	1,213	3,290	2,515	100	16	7,134
Additions				19		19
Donations				19		19
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		144	58		1	203
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2015	1,213	3,434	2,573	138	17	7,375
<u>Cost or Valuation</u>						
At 1 April 2015	1,213	3,434	2,573	138	17	7,375
Additions						
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		288				288
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2016	1,213	3,722	2,573	138	17	7,663

Note 19 - 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.

A grade II listed **Statue of Queen Victoria** is situated outside of the Adult Education Centre, Gravesend.

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 £1545k, currently on loan to Folkestone Town Council but still 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, valued at £595k.

The Antony Gormley Boulders Sculpture, the sculptors' first professional commission, valued at £700k. 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.

Contemporary collection of c. 200 artworks (6 out of 7 collections) in storage in Sessions House, valued at £273k.

KCC Sessions House collection, valued at £68k.

Glass Screen by Chris Ofili valued at £400k. Translucent glazed screen lit from below, by Chris Ofili (2003), welcoming you to Folkestone Library.

Kent History Tree & Leaves valued at £141k. The "History Tree" at the Kent History and Library Centre was installed in September 2013, created by Anne Schwegmann-Fielding in collaboration with Michael Condrón. 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 19 - Heritage Assets

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 - £706k

Knatchbull/Brabourne Manuscripts. £1,367k. Family and estate papers relating to the Knatchbull/Brabourne family comprising of accounts, correspondence, legal papers and manorial records.

Rare Books collection, valued at £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, find spots, historic buildings and historic gardens. It also includes paper records of archaeological, historic building and historic landscape reports. The County aerial photograph series is now located in the Kent History centre.

Archaeological & historical artefacts

Kent County Council has accepted ownership of the majority of the **HS1 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 half at Kent Commercial Services, Aylesford, half in a store at Dover Eastern Docks, a small number of items in Invicta House, Maidstone and waterlogged wood in Chatham Historic Dockyard. During 2014-15 in order to keep the HS1 archive together in one ownership KCC has also acquired the finds from the Anglo-Saxon cemetery excavations at Saltwood Tunnel which have been declared as treasure under the Treasure Act 1996 and valued at £37.5k. The finds are currently stored at the British Museum but will be moved to Kent in 2016.

KCC owns approximately 2,900 objects of social history, archaeological and geological, prints and drawings and other material housed at **Sevenoaks Kaleidoscope Museum**. A marble **roman bust & portrait**, found at Lullingstone Villa, dating back to 2nd Century AD are valued 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 Library**, remnants of a fire at the library in 2004, including prize cups, watches, signs & plaques, pots, printing plates, weights & measures.

Folkestone library museum collection includes around 10,000 artefacts and archival material relating to the history of Folkestone. It includes around 500 artworks housed at Folkestone library, one at Sandgate Library, and up to 10 at Sessions House. The museum includes archaeology, social, military and civil history and includes collections in store and on display in the History Resource Centre. During 14/15 the collection was placed on a 5 year loan to Folkestone Town Council.

KCC owns **Scientific Calibration Equipment** dating back to the 1800s in the display cases.

Civic Regalia

KCC's silver collection is valued at £17k. This includes The Chairman's Plate, The Silver Salver, The Silver Gilt Cup and The 500 Squadron Silver collection.

Note 20. 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 20 - 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 2016	31 Mar 2015
	£'000	£'000
Not later than one year	5,380	9,416
Later than one year and not later than five years	13,042	14,828
Later than five years	17,847	16,485
	36,269	40,729

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 £16.6m over the remaining 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 2016	31 Mar 2015
	£'000	£'000
Minimum lease payments	6,404	10,031
Contingent rents	74	161
Sublease payments receivable	-757	-757
	5,721	9,435

Note 21 - Usable Reserves

Note 21. 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	Net	Balance	Purpose of Reserve
	1 April	Movement	31 March	
	2015	in year	2016	
	£'000	£'000	£'000	
Usable Capital Receipts	-23,229	-300	-23,529	Proceeds of fixed assets and loan repayments available to meet future Capital Expenditure
General Fund	-34,725	-2,488	-37,213	Resources available to meet future unforeseen events
Capital Grants unapplied	-87,760	36,433	-51,327	See note below
Earmarked Reserves*	-168,276	3,762	-164,514	See Note 23
Schools Reserve*	-54,009	7,648	-46,361	See over page
Surplus on Trading Accounts*	-2,949	2,370	-579	Commercial Services and Oakwood House
Total	-370,948	47,425	-323,523	

Capital grants unapplied of £51.327m as at 31 March 2016 include schools capital reserves of £61k. This has increased from the -£552k held by schools as at 31 March 2015. The remainder reflects Government grants and contributions received in year for projects in progress.

Note 21 - Usable Reserves and Note 22 - Unusable Reserves

School Reserves

At 31 March 2016 funds held in school revenue reserves stood at £46,361k. These reserves are detailed in the table below.

	Balance at 1 April 2015 £'000	Movement £'000	Balance at 31 Mar 2016 £'000
School delegated revenue budget reserves - committed	-9,849	-625	-10,474
School delegated revenue budget reserves - uncommitted	-32,289	3,504	-28,785
Unallocated Schools budget	-11,569	4,718	-6,851
Community Focused Extended School Reserves	-302	51	-251
	<u>-54,009</u>	<u>7,648</u>	<u>-46,361</u>

Note 22. 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 2015 £'000	Net Movement in year £'000	Balance 31 March 2016 £'000	Purpose of Reserve
Revaluation Reserve	-349,263	-166,850	-516,113	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-551,563	-90,890	-642,453	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	18,099	2,059	20,158	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-13,496	-1,104	-14,600	Movement between the I & E and amount required by regulation to be credited to the General Fund
Pensions Reserves				
- KCC	1,344,583	-132,281	1,212,302	Balancing account to allow inclusion of Pensions
- DSO	2,070	-269	1,801	Liability in Balance Sheet
Available for Sale Financial Instruments	297	311	608	
Accumulated Absences Account	10,021	1	10,022	This absorbs the differences on the General Fund from accruing for untaken annual leave

Note 22 - Unusable Reserves

Reserve	Balance	Net	Balance	Purpose of Reserve
	1 April	Movement	31 March	
	2015	in year	2016	
	£'000	£'000	£'000	
Post Employment Account	6,094	524	6,618	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future years
Total	466,842	-388,499	78,343	

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.

	2015-16	2014-15
	£'000	£'000
Balance as at 1st April	-349,263	-243,709
Upward revaluation of assets	-207,013	-158,372
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	19,149	36,721
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-187,864	-121,651
Difference between fair value depreciation and historical cost depreciation	11,918	6,902
Accumulated gains on assets sold or scrapped	9,096	9,195
Amount written off to the Capital Adjustment Account	21,014	16,097
Balance at 31 March	-516,113	-349,263

Note 22 - 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.

	2015-16	2014-15
	£'000	Restated £'000
Balance at 1 April	-551,563	-497,190
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non-current assets	138,967	136,483
- Revaluation losses on Property, Plant and Equipment and Assets Held for Sale	-23,731	-19,760
- Income in relation to donated assets	-26,341	-19
- Amortisation of intangible assets	2,222	1,914
- Revenue expenditure funded from capital under statute	101,143	74,914
- 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	31,199	38,207
	223,459	231,739
Adjusting amounts written out of the Revaluation Reserve	-21,014	-16,096
Net written out amount of the cost of non-current assets consumed in the year	-349,118	-281,547
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	-16,874	-18,601

Note 22 - Unusable Reserves

	2015-16	2014-15
	£'000	£'000
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-137,590	-110,764
- Application of grants to capital financing from the Capital Grants Unapplied Account	-56,658	-62,344
- Statutory provision for the financing of capital investment charged against the General Fund	-64,511	-65,312
- Capital expenditure charged against the General Fund	-14,857	-13,978
	-290,490	-270,999
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	-9,992	983
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	-400	
Write down of long term debtors	7,548	
Balance at 31 March	-642,452	-551,563

Note 22 - 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.

	2015-16	2014-15
	£'000	£'000
Balance at 1 April	18,099	16,933
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
	3,009	2,116
Balance at 31 March	20,158	18,099

Note 22 - 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.

	2015-16	2014-15
	£'000	£'000
Balance at 1 April	1,346,653	1,029,203
Remeasurement of the net defined liability/(asset)	-195,936	270,199
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	133,376	117,822
Employer's pensions contributions and direct payments to pensioners payable in the year	-69,990	-70,571
Balance at 31 March	1,214,103	1,346,653

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.

	2015-16	2014-15
	£'000	£'000
Balance at 1 April	-13,496	-7,854
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	-1,104	-5,642
Balance at 31 March	-14,600	-13,496

Note 22 - Unusable Reserves

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.

	2015-16	2014-15
	£'000	£'000
Balance at 1 April	10,021	10,525
Settlement or cancellation of accrual made at the end of the preceding year	-10,021	-10,525
Amounts accrued at the end of the current year	10,022	10,021
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	1	-504
Balance at 31 March	10,022	10,021

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.

	2015-16	2014-15
	£'000	£'000
Balance at 1 April	6,094	7,583
Settlement or cancellation of accrual made at the end of the preceding year	-3,104	-3,918
Amounts accrued at the end of the current year	3,628	2,429
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	524	-1,489
Balance at 31 March	6,618	6,094

Note 22 - Unusable Reserves

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

	2015-16	2014-15
	£'000	£'000
Balance at 1 April	297	-26
Upward revaluation of investments	-866	-437
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Service	1,177	760
	311	323
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	608	297

Note 23 - Earmarked Reserves

Note 23. Earmarked Reserves

A thorough review of our Reserves was carried out as part of the 2015-16 budget setting process. A similar process was undertaken as part of the 2016-17 budget setting process and as a result a further draw down of reserves is planned for 2016-17. 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 2015 or 31 March 2016, the sum of which are shown in the tables on pages 85 and 86.

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.

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.

Excellent Homes for All 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 Excellent Homes for All PFI scheme.

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 23 - Earmarked Reserves

Responding to Government Deficit Reduction Reserve

This reserve is to support further transformation of services in order for the Council to be able to set future budgets that reflect continuing demand for services within reducing government funding levels.

Corporate Reserve for Social Care funding issues

This reserve is to cover the several new and ongoing issues within Social Care, including Better Care Fund, Care Act and Deprivation of Liberty Safeguards, where we are at risk that funding levels are insufficient.

Payments Reserve

This reserve provides funding for a proportion of unreceipted orders between KCC and suppliers and potential future iProc obligations relating to previous years. The need for and level of the reserve will be reviewed each year.

Council Tax Equalisation Reserve

The reserve will be called upon each year to smooth the impact of the Council Tax increases 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 recent and future years, this reserve was 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.

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 continued to work together to agree jointly appropriate areas for investment which were 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 and Family Drug & Alcohol Courts 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.

External Funding Pump Priming reserve

This reserve is to provide a pump priming facility for externally funded projects whilst the new project bids are being prepared and to assist in providing match funding for partnership projects.

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.

Note 23 - Earmarked Reserves

Safety Camera Partnership 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.

Modernisation of the Council (formerly Workforce Reduction) reserve

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

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 Solutions 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 future year's budget

The approved medium term plan for 2016-19 includes support from central reserves from the residual underspending in 2014-15 and from a review of reserve balances which includes the Reserve for projects previously classified as capital but now considered to be revenue, the Economic Downtown reserve and the Supporting People reserve. These funds have been transferred to the reserve to be drawdown over the medium term in line with the approved budget proposals.

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.

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.

Note 23 - Earmarked Reserves

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.

Kent Lane Rental Scheme Reserve

This is a scheme, approved by the Department of Transport, where companies, such as utility companies, pay to rent lanes on the most critical/busiest roads of our network, whilst they undertake works. The Council will retain revenues obtained from operating the scheme to meet the costs incurred in operating the scheme, with any surplus revenue used for initiatives associated with the objectives of the scheme. A board, including representatives from each utility area and from Kent County Council, oversee the administration of the surplus revenues in this reserve.

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.

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 2016-17 or future years as initiatives are completed. All balances on these reserves are below £0.5m.

Note 23 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2015	Movement	Balance at 31 Mar 2016
	£'000	£'000	£'000
VPE reserve	-11,928	-1,000	-12,928
Special funds	-688	123	-565
Kings Hill development smoothing reserve	-7,016	2,000	-5,016
Swanscombe School PFI equalisation reserve	-1,075	260	-815
Six schools PFI	-373	-226	-599
Three schools PFI	-7,086	-1,577	-8,663
Excellent Homes for All PFI	0	-1,048	-1,048
Westview/Westbrook PFI equalisation reserve	-2,880	-280	-3,160
Better Homes Active Lives PFI equalisation reserve	-3,014	-100	-3,114
Reserve for projects previously classified as capital - now revenue	-1,322	1,322	0
Economic Downturn reserve	-5,108	5,108	0
Responding to Government Deficit Reduction reserve	-11,463	2,873	-8,590
Corporate Reserve for Social Care Funding Issues	-3,972	-1,580	-5,552
Payments reserve	-2,980	-1,000	-3,980
Council Tax Equalisation reserve	-11,205	-750	-11,955
Corporate Restructuring reserve	-4,224	4,036	-188
Supporting People reserve	-1,729	1,729	0
NHS Support for Social Care reserve	-679	679	0
Drug & Alcohol Treatment reserve	-4,134	3,934	-200
Public Health reserve	-2,073	85	-1,988
Environmental initiatives reserve	-1,796	1,201	-595
External Funding Pump Priming reserve	0	-505	-505
Rolling budget reserve	-12,924	-2,661	-15,585
Emergency Conditions reserve	-1,983	0	-1,983
Safety Camera Partnership reserve	-881	-275	-1,156
Elections reserve	-570	-531	-1,101
Dilapidations reserve	-4,576	838	-3,738
Modernisation of the Council (formerly Workforce Reduction) reserve	-8,708	-1,857	-10,565
IT Asset Maintenance reserve	-5,439	-2,245	-7,684
Finance Business Solutions reserve	-1,049	644	-405
Earmarked reserve to support future year's budget	-5,900	-4,955	-10,855
Prudential Equalisation reserve	-8,840	0	-8,840
Dedicated Schools Grant - Central Expenditure	-10,375	1,825	-8,550
Turner Contemporary Investment reserve	-1,351	195	-1,156
Kent Lane Rental Scheme reserve	-641	-821	-1,462
Public Inquiries reserve	-648	97	-551
Other	-3,382	1,316	-2,066
Total	-152,012	6,854	-145,158
Insurance Reserve			
KCC	-8,435	-2,470	-10,905
	-160,447	4,384	-156,063
Commercial Services Earmarked Reserves	-2,848	-622	-3,470
EKO	-4,981	0	-4,981
Total Earmarked Reserves	-168,276	3,762	-164,514

Note 23 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2014	Movement	Balance at 31 Mar 2015
	£'000	£'000	£'000
VPE reserve	-11,080	-848	-11,928
Special funds	-2,546	1,858	-688
Kings Hill development smoothing reserve	-6,596	-420	-7,016
Swanscombe School PFI equalisation reserve	-1,359	284	-1,075
Six schools PFI	-221	-152	-373
Three schools PFI	-5,847	-1,239	-7,086
Westview/Westbrook PFI equalisation reserve	-2,632	-248	-2,880
Better Homes Active Lives PFI equalisation reserve	-2,914	-100	-3,014
Reserve for projects previously classified as capital - now revenue	-1,345	23	-1,322
Economic Downturn reserve	-19,086	13,978	-5,108
Responding to Government Deficit Reduction reserve	0	-11,463	-11,463
Corporate Reserve for Social Care Funding Issues	0	-3,972	-3,972
Payments reserve	0	-2,980	-2,980
Council Tax Equalisation reserve	-10,537	-668	-11,205
Corporate Restructuring reserve	-6,959	2,735	-4,224
Supporting People reserve	-1,943	214	-1,729
NHS Support for Social Care reserve	-5,054	4,375	-679
Drug & Alcohol Treatment reserve	-4,134	0	-4,134
Public Health reserve	-2,906	833	-2,073
Environmental initiatives reserve	-1,928	132	-1,796
Rolling budget reserve	-10,919	-2,005	-12,924
Emergency Conditions reserve	0	-1,983	-1,983
Flood Repairs reserve	-3,344	2,845	-499
Safety Camera Partnership reserve	-605	-276	-881
Elections reserve	0	-570	-570
Dilapidations reserve	-4,186	-390	-4,576
Workforce Reduction reserve	-7,213	-1,495	-8,708
KPSN Re-procurement reserve	-568	553	-15
IT Asset Maintenance reserve	-4,892	-547	-5,439
Finance Business Solutions reserve	-1,029	-20	-1,049
Earmarked reserve to support future year's budget	-4,000	-1,900	-5,900
Prudential Equalisation reserve	-8,993	153	-8,840
Dedicated Schools Grant - Central Expenditure	-9,926	-449	-10,375
Turner Contemporary Investment reserve	-1,545	194	-1,351
Kent Lane Rental Scheme reserve	-98	-543	-641
Public Inquiries reserve	-858	210	-648
Other	-2,803	-65	-2,868
Total	-148,066	-3,946	-152,012
Insurance Reserve			
KCC	-5,622	-2,813	-8,435
	-153,688	-6,759	-160,447
Commercial Services Earmarked Reserves	-2,128	-720	-2,848
EKO	-4,981		-4,981
Total Earmarked Reserves	-160,797	-7,479	-168,276

Note 24 - Provisions

Note 24. 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	Accumulat- ed Absences	Other Provisions	Total
	£'000	£'000	£'000	£'000	£'000
Short Term					
Balance at 1 April 2015	-4,939	-4,611	-10,021	-2,738	-22,309
Additional Provisions made in 2015-16	-2,812	-3,290	-6,756	-1,970	-14,828
Amounts used in 2015-16	3,398	4,547	6,755	1,393	16,093
Unused amounts reversed in 2015-16		131		1,007	1,138
Balance at 31 March 2016	-4,353	-3,223	-10,022	-2,308	-19,906
Long Term					
Balance at 1 April 2015	-9,848	-2,991	0	-679	-13,518
Additional/Reduction in Provisions made in 2015-16	536	-791			-255
Amounts used in 2015-16				209	209
Unused amounts reversed in 2015-16				380	380
Balance at 31 March 2016	-9,312	-3,782	0	-90	-13,184
Total Provisions at 31 March 2016	-13,665	-7,005	-10,022	-2,398	-33,090

Note 24 - Provisions and Note 25 - Debtors

Insurance

Included within the insurance provision is £980k 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 2016. It will not be discharged until a cash settlement is made or an employee takes their settlement, or the liability has ceased.

Other Provisions

All other provisions are individually insignificant.

Note 25 - Amounts owed to the Council by debtors

	At 31 March 2016 £000's	At 31 March 2015 £000's
Long Term debtors:		
Medway Council (transferred debtor)	38,511	40,116
Public bodies	675	967
Other	50,735	45,817
	89,921	86,900
Other debtors:		
Government Departments	26,449	21,424
Other Local Authorities	4,316	2,188
NHS Bodies	144	452
General debtors	120,194	127,907
Payments in advance	16,634	16,159
EKO	466	425
	168,203	168,555

Capital short term debtors amounting to £1.5m are included in the Accounts at 31 March 2016 (£3.4m in 2014-15). These relate to grants and external funding towards capital expenditure incurred in 2015-16 which had not been received by 31 March 2016.

Note 26 - Creditors and Note 27 - Cash and Cash Equivalents

Note 26. Amounts owed by the Council to creditors

	At 31 March 2016 £000's	At 31 March 2015 £000's
Central government bodies	11,108	9,819
Other local authorities	4,607	2,254
NHS bodies	1,752	2,480
General creditors	190,908	193,821
Receipts in advance	19,286	16,520
Deferred income	634	547
Kent and Essex Inshore Fisheries & Conservation Authority	1,030	1,296
EKO	23	39
	229,348	226,776

Creditors due after 1 year 47 5,341

Capital creditors amounting to £24m are included in the Accounts at 31 March 2016 (£20m in 2014-15).

Note 27. 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 2016 £000's	At 31 March 2015 £000's
Bank current accounts	1,760	1,711
Call accounts (same day access funds)	49,709	101,060
Total Cash and Cash Equivalents	51,469	102,771

Note 28. Cash Flow - Non Cash Adjustments

	2015-16	2014-15
	£'000	£'000
Adjustment to net surplus or deficit on the provision of services for non cash movements		
Movement in pension liability	-63,386	-47,251
Carrying amount of non-current assets sold	-31,199	-38,206
Amortisation of fixed assets	-2,222	-1,914
Depreciation of fixed assets	-138,967	-136,200
Impairment & downward valuations	23,731	19,477
Increase/(decrease) debtors	-7,344	3,049
(Increase)/decrease creditors	9,446	8,353
Increase/(decrease) stock	321	-172
Movement on investment properties	9,992	-983
REFCUS	-101,143	-74,914
Other non-cash items charged to the net surplus/deficit on the Provision of Services	2,222	10,691
	-298,549	-258,070
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	6,646	7,123
Capital grants applied	187,536	141,919
	194,182	149,042
	-104,367	-109,028

Note 29. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2015-16	2014-15
	£'000	£'000
Interest received	-7,529	-5,200
Interest paid	73,807	77,296
Employee Costs	834,302	849,956
Income from Council Tax	-608,324	-584,767
Government Grants	-1,364,074	-1,418,734

Notes 30 and 31 - Cash Flow - Investing and Financing Activities

Note 30. Cash Flow Statement - Investing Activities

	2015-16	2014-15
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	252,551	163,187
Purchase of short-term and long-term investments	654,927	1,337,008
Other payments for investing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-6,228	-7,336
Proceeds from short-term and long-term investments	-631,589	-1,322,989
Other receipts from investing activities	-164,199	-133,425
Net cash flows	105,462	36,445

Note 31. Cash Flow Statement - Financing Activities

	2015-16	2014-15
	£'000	£'000
Cash receipts of short- and long-term borrowing	-26,500	0
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	0	0
Repayments of short- and long-term borrowing	2,341	23,068
Other payments for financing activities	31,001	26,193
	0	0
Net cash flows from financing activities	6,842	49,261

Note 32 - Amounts Reported for Resource Allocation Decisions

Note 32. 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 2016				
	Education & Young People	Social Care, Health & Wellbeing	Growth, Environment & Transport	Strategic & Corporate Services	Total
	£000's	£000's	£000's	£000's	£000's
Fees, charges & other income	-114,515	-133,082	-39,823	-89,267	-376,687
Government Grants	-782,654	-113,590	-3,216	-7,144	-906,604
Total Income	-897,169	-246,672	-43,039	-96,411	-1,283,291
Employee expenses	553,632	149,102	49,021	71,087	822,842
Other operating expenses	376,556	548,037	161,595	217,159	1,303,347
Support Service recharges	20,868	29,696	3,213	26,527	80,304
Total operating expenses	951,056	726,835	213,829	314,773	2,206,493
Net Cost of Services	53,887	480,163	170,790	218,362	923,202

Reconciliation of Net Cost of Services in Comprehensive Income & Expenditure Statement

	£000's
Cost of Services in service analysis	923,202
Add services not included in main analysis	
Add amounts not reported to management	262,133
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-225,330
Net Cost of Services in Comprehensive Income & Expenditure Statement	960,005

Note 32 - Amounts Reported for Resource Allocation Decisions

Reconciliation to Subjective Analysis	Year ended 31 March 2016				
	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	-376,687		114	28,630	-176,687
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants	-906,604		32,452		
Total Income	-1,283,291	0	32,566	28,630	-176,687
Employee expenses	822,842		20,345		
Other service expenses	1,303,347		118,134	-253,225	176,687
Support Service recharges	80,304				
Depreciation, amortisation and impairment			116,754		
IAS 19 Adjustments					
Interest payments					
Precepts & Levies				-735	
Gain or Loss on Disposal of Fixed Assets			-25,666		
Total operating expenses	2,206,493	0	229,567	-253,960	176,687
Surplus or deficit on the provision of services	923,202	0	262,133	-225,330	0
Reconciliation to Subjective Analysis		Net Cost of Services	Corporate Amounts	Total	
		£000's	£000's	£000's	
Fees, charges & other service income		-524,630		-524,630	
Surplus or deficit on associates and joint ventures				0	
Interest and Investment Income			-28,630	-28,630	
Income from council tax		0	-608,324	-608,324	
Government grants		-874,152	-379,636	-1,253,788	
Total Income		-1,398,782	-1,016,590	-2,415,372	
Employee expenses		843,187		843,187	
Other service expenses		1,344,943		1,344,943	
Support Service recharges		80,304		80,304	
Depreciation, amortisation and impairment		116,754		116,754	
IAS 19 Adjustments		0		0	
Interest payments			73,549	73,549	
Precepts & Levies		-735	735	0	
Gain or Loss on Disposal of Fixed Assets		-25,666	25,666	0	
Total operating expenses		2,358,787	99,950	2,458,737	
Surplus or deficit on the provision of services		960,005	-916,640	43,365	

Note 32 - Amounts Reported for Resource Allocation Decisions

	Restated Year ended 31 March 2015				
	Education & Young People	Social Care, Health & Wellbeing	Growth, Environment & Transport	Strategic & Corporate Services	Total
	£000's	£000's	£000's	£000's	£000's
Fees, charges & other income	-95,996	-126,275	-39,699	-68,604	-330,574
Government Grants	-809,552	-75,779	-3,992	-9,415	-898,738
Total Income	-905,548	-202,054	-43,691	-78,019	-1,229,312
Employee expenses	565,965	142,441	51,111	76,079	835,596
Other operating expenses	373,927	513,522	166,615	236,725	1,290,789
Support Service recharges	22,920	14,589	3,351	5,585	46,445
Total operating expenses	962,812	670,552	221,077	318,389	2,172,830
Net Cost of Services	57,264	468,498	177,386	240,370	943,518

Reconciliation of Net Cost of Services in Comprehensive Income & Expenditure Statement

	£000's
Cost of Services in service analysis	943,518
Add services not included in main analysis	
Add amounts not reported to management	228,728
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-246,311
Net Cost of Services in Comprehensive Income & Expenditure Statement	925,935

Reconciliation to Subjective Analysis	Restated Year ended 31 March 2015				
	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	-330,574		-389	15,710	-141,604
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax			5,641		
Government grants	-898,738		29,112	0	
Total Income	-1,229,312	0	34,364	15,710	-141,604

Note 32 - Amounts Reported for Resource Allocation Decisions

Employee expenses	835,596		3,784		
Other service expenses	1,290,789		100,225	-260,249	141,604
Support Service recharges	46,445				
Depreciation, amortisation and impairment			118,637		
IAS 19 Adjustments			3,804		
Interest payments					
Precepts & Levies				-728	
Gain or Loss on Disposal of Fixed Assets			-32,086	-1,044	
Total operating expenses	2,172,830	0	194,364	-262,021	141,604

Surplus or deficit on the provision of services	943,518	0	228,728	-246,311	0
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Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total
	£000's	£000's	£000's
Fees, charges & other service income	-456,857		-456,857
Surplus or deficit on associates and joint ventures			0
Interest and Investment Income		-15,709	-15,709
Income from council tax	5,641	-584,767	-579,126
Government grants	-869,626	-407,505	-1,277,131
Total Income	-1,320,842	-1,007,981	-2,328,823
Employee expenses	839,380		839,380
Other service expenses	1,272,369		1,272,369
Support Service recharges	46,445		46,445
Depreciation, amortisation and impairment	118,637		118,637
IAS 19 Adjustments	3,804	0	3,804
Interest payments		77,188	77,188
Precepts & Levies	-728	728	0
Gain or Loss on Disposal of Fixed Assets	-33,130	32,086	-1,044
Total operating expenses	2,246,777	110,002	2,356,779
Surplus or deficit on the provision of services	925,935	-897,979	27,956

Note 33 - Trading Operations

Note 33. Trading Operations

The results of the various trading operations for 2015-16 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover	Expenditure	Surplus/ Deficit(-)	Surplus/ Deficit(-)
	£'000	£'000	2015-16	2014-15
			£'000	£'000
Kent County Supplies and Furniture Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	56,079	52,891	3,188	3,603
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	259,760	258,602	1,158	2,057
Transport Services Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport	885	871	14	-135
Total surplus	316,724	312,364	4,360	5,525

The trading surplus excludes the wholly owned subsidiaries. Information on these can be found in Note 41 on page 116.

Note 34 - Audit Costs and Note 35 - Dedicated Schools Grant

Note 34. Audit Costs

In 2015-16 the following fees were paid relating to external audit and inspection :

	2015-16	2014-15
	£'000	£'000
Fees payable to Grant Thornton for external audit services carried out by the appointed auditor	156	208
Fees payable in respect of other services provided by the appointed auditor	76	23
	232	231

Note 35. 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 2015-16 are as follows:

	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2015-16 before Academy recoupment			1,073,753
Academy figure recouped for 2015-16			396,860
Total DSG after Academy recoupment for 2015-16			676,893
Brought forward from 2014-15			19,241
Carry Forward to 2016-17 agreed in advance			0
Agreed initial budget distribution in 2015-16	141,882	554,252	696,134
In year adjustments	-29,270	30,203	933
Final budgeted distribution in 2015-16	112,612	584,455	697,067
Less actual central expenditure	99,781		
Less Actual ISB deployed to schools		584,082	
Plus Local Council contribution for 2015-16	0	0	0
Carry Forward to 2016-17	12,831	373	13,204 *

Notes *

The total carry forward to 2016-17 of £13,204k represents a carry forward of £8,549k on the centrally retained DSG budget and £4,655k on the schools' unallocated budget. The schools unallocated reserve now stands at over £4.6m, 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 2017-18.

Note 36. 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 significant influence 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 37 on pages 99 to 105 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 £2.706m and cash held by the Pension fund on behalf of KCC is £0.645m.

Payments to other local authorities and health bodies, excluding precepts, totalled £67.7m.

Receipts from other local authorities and health bodies totalled £61.3m.

Entities Controlled or Significantly Influenced by the Council:

Details of Kent County Council's subsidiary companies are provided in Note 41.

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 £2m. CST made purchases from KCC amounting to £2.8m.

CSK sales to KCC amounted to £21.2m. CSK made purchases from KCC amounting to £0.7m.

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 2015-16.

Note 36 - Related Party Transactions and Note 37 - Pension Costs

Kent County Council also has an interest in the following companies:

Active companies with less than 50% control

Payments made in 15-16

	£
Digital Contac Ltd	535
Groundwork Kent and Medway	-
The Individual Learning Co Ltd	-
The North Kent Architecture Centre Ltd	-
Kent Tourism Alliance Ltd became Visit Kent Ltd from 21.3.08	377,018
Locate in Kent Ltd (as amended on 5/5/2000)	722,917
Trading Stds South East Ltd	59,731
Business Support Kent Community Interest	31,962
East Kent Spatial Development Company	-
Goetec Ltd	20,318
Kent PFI Holdings Company 1 Ltd	9,711,186
TRICS Consortium Ltd	3,070
TRN	-
Shearwater Systems	260,000
Vortex Exhaust Technology Ltd	-
Aylesham & District Community Workshop Trust	1,591
Michelson Diagnostics Ltd	53,664
Ancon Technology	225,000

Active companies with greater than 50% control

Produced in Kent (PINK) Ltd	88,031
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Dormant

Kentish Fare Ltd - Transferred to Produced in Kent (PINK) Ltd	-
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Dissolved

Invicta Services Ltd	-
Kent Cultural Trading Ltd	-

Note 37. Pension Costs

Note 37a - 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 2015-16 Kent County Council paid £38.1m (£35.8m in 2014-15), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 15.5% (14.1% in 2014-15) 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 2015-16 these amounted to £4.6m (£4.6m in 2014-15), representing 1.9% (1.7% in 2014-15) 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 liabilities 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.

Note 37 - Pensions Costs

In 2015-16 Kent County Council paid £0.18m (£0.18m in 2014-15), to the NHS Pension Scheme in respect of public health pension costs, which represented 14.3% (14% in 2014-15) of employees pensionable pay.

Note 37b. 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 scheme:

- The Local Government Pension Scheme, administered locally by Kent County Council – this is a funded defined benefit career average revalued earnings 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 Finance 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	
	2015-16	2014-15
	£000's	£000's
Comprehensive Income and Expenditure Statement		
Cost of Services:		
• Current service cost	-98,597	-80,442
• Past service costs	-4,104	-4,218
• (Gain)/loss from settlements	13,758	11,640
• Administration expenses	-1,392	-1,355
Financing and Investment Income and Expenditure		
• Net interest expenses	-43,041	-43,447
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	-133,376	-117,822

Note 37 - Pensions Costs

	2015-16	2014-15
	£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)	-44,531	121,326
• Actuarial gains and losses arising on changes in demographic assumptions	0	0
• Actuarial gains and losses arising on changes in financial assumptions	235,753	-395,971
• Other	4,714	4,446
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	195,936	-270,199
Movement in Reserves statement		
• Reversal of net charges made for retirements benefits in accordance with IAS19	133,376	117,822
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	-69,990	-70,571

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 2015-16 Kent County Council paid an employer's contribution of £70.0m (£70.6m in 2014-15) into the Pension Fund, representing 20% (20% in 2014-15) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2015-16 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 2015-16 (zero in 2014-15). The capital value of payments agreed in earlier years is £121m (£127m in 2014-15).

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	
	2015-16	2014-15
Present value of the defined benefit obligation	3,169,434	3,298,603
Fair value of plan assets	-2,016,782	-2,018,268
Sub-total	1,152,652	1,280,335
Other movements in the liability/(asset)	61,451	66,318
Net liability arising from defined benefit obligation	1,214,103	1,346,653

Note 37 - Pensions Costs

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

	Local Government Pension Scheme	
	£'000	
	2015-16	2014-15
Opening fair value of scheme assets	2,018,268	1,808,316
Pensions Reserve - Adj to opening bal (re Commercial Services)	0	30,448
Interest income	66,258	80,441
Remeasurement gains/(losses)		
• Return on plan assets (excluding the amount included in the net interest expenses)	-44,531	123,366
• Other	0	0
Contributions from employer	74,605	76,942
Contributions from employees into the scheme	21,893	20,751
Benefits paid	-108,493	-108,967
Other	-11,218	-13,029
Closing fair value of scheme assets	2,016,782	2,018,268

The actual return on scheme assets in the year was £21,727k (2014-15 : £200,336k)

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

	Liabilities: Local Government Pension Scheme	
	£'000	
	2015-16	2014-15
Opening balance at 1 April	3,364,921	2,837,519
Pensions Reserve - Adj to opening bal (re Commercial Services)	0	43,554
Current service cost	98,597	82,550
Interest cost	109,299	124,453
Contribution from scheme participants	21,893	20,751
Remeasurement gains/(losses):		
• Actuarial gains and losses arising on changes in demographic assumptions	0	0
• Actuarial gains and losses arising on changes in financial assumptions	-235,753	383,848
• Other	-4,714	-4,446
Past service costs	4,104	4,252
Benefits paid	-103,878	-104,269
Liabilities extinguished on settlements	-23,584	-23,291
Closing balance at 31 March	3,230,885	3,364,921

Note 37 - Pensions Costs

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets	Fair value of scheme assets
	2015-16	2014-15
	£'000	£'000
Cash and cash equivalents	51,928	54,225
Equity instruments: <i>By industry type</i>		
• Consumer	220,169	212,186
• Manufacturing	171,708	113,034
• Energy and utilities	54,088	97,169
• Financial institutions	135,191	214,169
• Health and care	68,337	53,542
• Information technology	86,015	71,390
• Telecommunication services	30,485	0
• Miscellaneous/Unclassified	9,276	0
Sub-total equity	775,269	761,490
Bonds: <i>By sector</i>		
• Corporate		
• Government	0	20,740
• Collateralised		
• Consumer	0	17,848
• Financial services	1,590	47,593
• Health and care	0	5,949
• Information technology	0	17,847
• Energy and utilities	0	29,746
• Corporate Fixed Interest Pooled Funds	0	103,118
• Miscellaneous/Unclassified	133,711	0
Sub-total bonds	135,301	242,841
Property: <i>By type</i>		
• Retail	105,673	97,169
• Offices	48,621	47,593
• Industrial	38,794	33,712
Sub-total property	193,088	178,474
Private equity:		
• UK	3,435	2,403
• Overseas	21,765	15,994
Sub-total private equity	25,200	18,397
Other investment funds:		
• Infrastructure	22,845	21,866
• Property	99,875	69,407
• Equity Pooled Funds	622,288	550,363
Sub-total other investment funds	745,008	641,636
Derivatives		
Forward currency contracts	3,345	0
Target Return Portfolio	87,643	85,983
Total assets	2,016,782	1,983,046

Note 37 - Pensions Costs

The decrease in pension deficit during the year has arisen principally due to the technical decrease 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 increased from 0.1% to 0.4% 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 2015 levels then the pensions deficit would have been £235,852,000 more at £1,449,955,000.

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 2017 is £66,512k, 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	
	2015-16	2014-15
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	22.9	22.8 years
Women	25.3	25.2 years
Longevity at 65 for future pensioners:		
Men	25.2	25.1 years
Women	27.7	27.6 years
Rate of inflation	3.2%	3.2%
Rate of increase in Consumer Price Index	2.3%	2.4%
Rate of increase in salaries	3.6%	3.7%
Rate of increase in pensions	2.3%	2.4%
Rate for discounting scheme liabilities	3.6%	3.3%
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 sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases 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	Decrease in Assumption
	£'000	£'000
Adjustment to discount rate (increase or decrease by 0.1%)	3,175,797	3,289,532
Adjustment to long term salary increase (increase or decrease by 0.1%)	3,237,877	3,226,431
Adjustment to pension increase and deferred revaluation (increase or decrease by 0.1%)	3,284,470	3,180,738
Adjustment to mortality age rate assumption (increase or decrease in 1 year)	<u>3,331,897</u>	<u>3,135,456</u>

Highways ex Direct Works DLO Pension Fund

The Balance Sheet includes £1.8m to reflect the unfunded liability of the Highways (ex Direct Works DLO) Pensions Fund as calculated by the actuary in March 2016 in accordance with IAS19.

Commercial Services

The Balance Sheet includes the assets and liabilities for Commercial Services, a wholly-owned subsidiary of KCC. Commercial Services has closed resolution body status which allows them to treat the pension as a defined contribution pension scheme with the Council keeping the assets and liabilities on its Balance Sheet.

Note 38. 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 (plus accrued interest) 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.

Financial assets

Financial assets are held under the following three classifications:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale financial assets – assets that have a quoted market price
- unquoted equity investments held at cost because it is impracticable to determine fair value

Loans and Receivables

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.

Available-for-Sale Financial Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Note 38 - Financial Instruments

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 (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, 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. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

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 18
- 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

Available for sale financial assets (those that are quoted in an active market) comprising of:

- money market funds
- 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
- corporate bonds
- 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

Note 38 - Financial Instruments

Financial Instrument Balances

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

	Long Term		Current	
	31 Mar 2016	31 Mar 2015	31 Mar 2016	31 Mar 2015
	£000's	£000's	£000's	£000's
Investments				
Loans and receivables			87,838	76,325
Available-for-sale financial assets	119,321	110,613	40,127	34,039
Unquoted equity investment at cost	11,461	8,087		
Total investments	130,782	118,700	127,965	110,364
Debtors				
Loans and receivables	89,921	86,900		
Financial assets carried at contract amounts			150,570	144,613
Total included in Debtors	89,921	86,900	150,570	144,613
Cash and Cash Equivalents				
Cash equivalents at amortised cost			7,049	101,060
Cash equivalents available for sale			42,660	
Cash and Bank Accounts			1,760	1,711
Total Cash and Cash Equivalents	0	0	51,469	102,771
Borrowings				
Financial liabilities at amortised cost	959,991	965,932	32,943	31,760
Total Borrowing	959,991	965,932	32,943	31,760
Other Liabilities				
PFI and Finance Lease Liabilities	206,420	207,767	5,016	4,777
Total other long-term liabilities	206,420	207,767	5,016	4,777
Creditors				
Financial liabilities carried at contract amounts	47	5,341	209,560	209,709
Total Creditors	47	5,341	209,560	209,709

Unquoted Equity Instruments Measured at Cost (where fair value cannot be reliably measured)

The Council has a shareholding in Commercial Services Trading Ltd (representing 100% of the company's capital). The shares are carried at cost of £4m and have not been valued as a fair value cannot be measured reliably. There are no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no current intention to dispose of the shareholding.

The Council is a minority interest shareholder in a number of companies. These shares are carried at cost of £7.4m and have not been valued as a fair value cannot be measured reliably. Many of the companies invested in have no reliably trading history as they have only recently been formed. There are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no current intention to dispose of the shares held in these companies.

Note 38 - 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

	2015-16		
	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	£000's	£000's
Interest expense - Debt	-52,988		-52,988
Losses on derecognition	-950		-950
Impairment losses			0
	-53,938	0	-53,938
Interest expense - Finance leases	-19,831		-19,831
Interest expense - PFI	-116		-116
Interest payable and similar charges	-73,885	0	-73,885

	2015-16		
	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	£000's	£000's
Interest income		6,502	6,502
Reduction in Impairment losses		335	335
Interest and investment income	0	6,837	6,837
Available-for-sale investments - Losses on revaluation Amounts recycled to I&E Account after impairment		311	311
Loss arising on revaluation of financial assets	0	311	311
Net gain/(loss) for the year	-73,885	7,148	-66,737

Fair Value of Financial Assets

Some of the Council's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Note 38 - Financial Instruments

Financial assets measured at fair value

Recurring fair value measurements	Input Level in fair value hierarchy	Valuation technique used to measure fair value	As at 31 Mar 2016 £'000
Available for sale:			
Money market funds	Level 1	Unadjusted quoted prices in active markets for identical shares	42,671
Bond, equity and property funds	Level 1	Unadjusted quoted prices in active markets for identical shares	30,866
Covered bonds	Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly	88,888
Certificates of Deposit	Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly	40,134
			202,559

The Fair Values of Financial Assets and Financial Liabilities that are not Measured at Fair Value (but for which Fair Value Disclosures are Required)

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets held by the authority are classified as loans and receivables and long-term debtors and creditors and are carried in the Balance Sheet at amortised cost. The fair values calculated are as follows:

Financial Liabilities	31 March 2016	
	Carrying Amount	Fair Value
	£'000	£'000
Financial liabilities held at amortised cost		
PWLB loans	544,799	677,857
Long-term LOBO Loans	446,325	680,835
Other Long-term loans	1,500	1,500
PFI and finance lease liabilities	211,437	271,070
Total	1,204,061	1,631,262

The fair value of borrowings 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 prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders above current market rates.

Note 38 - Financial Instruments

31 March 2016

Financial Assets	Carrying	Fair Value
	Amount	
	£'000	£'000
Loans and receivables		
- short term investments	87,692	87,692
- cash and cash equivalents	7,050	7,050
Long-term debtors	89,921	95,167
Total	184,663	189,909

The fair value of long term debtors is higher than the carrying amount due to the expected interest rates used to amortise soft loans being higher than the current interest rates.

Short-term debtors and long and short term creditors are carried at cost as this is a fair approximation of their value.

Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value

31 March 2016

Recurring fair value measurements using:	Quoted	Other	Significant	Total
	prices in	significant	un-	
	active	observable	observable	
	markets for	inputs (Level	inputs (Level	
	identical	2)	3)	
	assets			
	(Level 1)			
	£'000	£'000	£'000	£'000
Financial Liabilities				
Financial liabilities held at amortised cost:				
• Long-term PWLB loans		677,857		677,857
• Long-term LOBO Loans		680,835		680,835
PFI and finance lease liabilities			271,070	271,070
Total	0	1,358,692	271,070	1,629,762
Financial Assets				
Loans and receivables:				
• Soft loans to third parties			39,207	39,207
• Other loans and receivables (describe)				0
Total	0	0	39,207	39,207

The fair value for financial liabilities and financial assets included in level 2 and Level 3 in the table above have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2016 using the following methods and assumptions:

- PWLB loans have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans
- LOBO loans have been increased by the value of the embedded options. Lender's options to increase the interest rates of the loans have been valued according to the proprietary model for Bermudan cancellable swaps. Borrower's options have been valued at zero on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

Note 38 - Financial Instruments and Note 39 - Nature and Extent of Risks Arising from Financial Instruments

- PFI and finance lease liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements)
- Soft loans have been valued by discounting the contractual payments at the market rate of interest for a similar loan

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

Financial Assets	Financial Liabilities
• no early repayment or impairment is recognised	• no early repayment or impairment is recognised
• estimated ranges of interest rates at 31 March 2016 based on new lending rates for equivalent loans at that date	• estimated ranges of interest rates at 31 March 2016 based on new lending rates for equivalent loans at that date
• the fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount. For trade receivables this equates to the invoiced or billed amount.	• The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount.

Note 39. 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.

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 such measurables as interest rates and stock market movements.

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-.

Note 39 - Nature and Extent of Risks Arising from Financial Instruments

Limits are placed on the amount of money that can be invested with a single counterparty. For 2015-16 these limits were: DMO £450m, UK banks and building societies £40m with a group limit of £40m, Australian and Canadian banks £20m with a country limit of £40m. 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 2016 that this was likely to crystallise.

The credit quality of £88.4m of the Council's holdings of covered bonds is enhanced by collateral held in the form of residential mortgages. The collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments

The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating:

Credit Rating	31 Mar 2016	31 Mar 2015
	£000's	£000's
AAA	131,077	93,661
AA-	750	85,000
A	128,600	117,510
A-	1,300	0
Unrated Pooled Funds/Equity	41,461	26,854
Total Investments	303,188	323,025

All deposits outstanding as at 31 March 2016 met the Council's credit rating criteria on 31 March 2016.

The above analysis excludes the estimated carrying value after impairment of the Council's Icelandic Bank investment of £3.785m.

Credit Risk: Receivables

The Council does not generally allow credit for its debtors, as such £1.582m of the £2.170m balance is one month past its due date for payment. The past due amount can be analysed by age as follows:

	31 Mar 2016	31 Mar 2015
	£000's	£000's
One to three months	739	122
Three to six months	524	70
Six months to one year	74	325
More than one year	245	89
	1,582	606

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 2016 was £32.4m.

Note 39 - Nature and Extent of Risks Arising from Financial Instruments

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 2016	31 Mar 2015
Years	£000's	£000's
Not over 1	32,334	31,000
Over 1 but not over 2	32,334	32,001
Over 2 but not over 5	56,835	67,002
Over 5 but not over 10	100,003	97,003
Over 10 but not over 20	102,474	126,474
Over 20 but not over 30	119,000	119,000
Over 30 but not over 40	104,800	109,800
Over 40	140,600	181,100
Uncertain date *	291,200	220,700
Total	979,580	984,080

* The Council has £291.2m 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.

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 40% on external debt that can be subject to variable interest rates. At 31 March 2016, 70.3% of the debt portfolio was held in fixed rate instruments, and 29.7% in variable rate instruments (LOBO loans within option periods).

Note 39 - Nature and Extent of Risks Arising from Financial Instruments and Note 40 - Contingent Liabilities

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	<u>£000's</u>
Increase in interest payable on variable rate borrowings	2,912
Increase in interest receivable on variable rate investments	-1,381
Increase in government grant receivable for financing costs	<u> </u>
Impact on Provision of Services (surplus)	<u>1,531</u>
Decrease in fair value of fixed rate investment assets	<u>-433</u>
Impact on Other Comprehensive Income and Expenditure	<u>-433</u>
Decrease in fair value of fixed rate borrowings / liabilities*	<u>-128,612</u>

*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 £25m. A 5% fall in commercial property prices would result in a £1.25m 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 £0.255m 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 40. 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. They are factored into the consideration of an adequate level of reserves.

Employment

There are seven claims relating to discrimination and breach of contract in employment. Of these, five are limited to unfair dismissal, one is a discrimination and breach of contract case and one is a detriment case. 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 £163k 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.

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 162 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 five such cases of which legal costs for four of these are expected to exceed £50k in total. The remaining case is in relation to disputes over rental agreements, the claims are significant and range from £25k to £350k.

Criminal Cases

There are three criminal cases and the costs for all three cases could exceed £10k.

Asylum, Ordinary Residence & Judicial review cases

There are 10 judicial review cases of age assessment, all of these cases the costs are likely to exceed £10k. There are seven Ordinary Residence claims which if successful would be in excess of £10k. There are two judicial review cases and for both of these cases the costs are likely to exceed £10k.

Court of Protection

There are matters of Court of Protection in relation to persons who are deemed to lack mental capacity within the meaning of the Mental Health Act 2005. There is a wide discretion for the Court in such litigation and individual costs may exceed £10k.

Note 41. 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 wholly owned subsidiaries and jointly controlled entities. An assessment of the transactions between the Council and the subsidiaries and the jointly controlled entities is conducted each year. The majority of the transactions (largely with Commercial Services Kent) are between the Council and the subsidiary which would mean if preparing group accounts the transactions between the two parties would be eliminated. As there would be no major impact on our accounts we are not preparing group accounts.

Subsidiary Undertakings

Kent Top Temps Limited (KTT) is a subsidiary of Kent County Trading Limited, wholly owned by Kent County Council (KCC). It commenced trading on the 4th 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 KTT and transferred its operations to two other associated subsidiaries within the group. KTT also operated buses for contract and private hire trading as Kent Top Travel. This operation was closed in October 2013 and the Company has subsequently ceased trading.

In 2014-15 its net assets were £1.2m and in 2015-16 its net assets are £1.3m.

Commercial Services Trading Limited (CS Trading) is a subsidiary of Kent County Trading Limited, 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 MOT's servicing, accident repair, body shop work and vehicle restoration and the Lumina brand, which offers a brokerage service to small private businesses.

CS Trading had a turnover in 2015-16 of £18.0m (2014-15 £19.1m) with a net profit of £0.2m before tax (2014-15 £0.4m). In 2014-15 its net assets were £2.2m and in 2015-16 its net assets are £2.3m. A loan of £1.95m has been provided by KCC Commercial Services to Commercial Services Trading Limited during the year on which interest is charged at commercial rates.

Commercial Services Kent Limited (CS Kent) is a subsidiary of Kent County Trading Limited, 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 KTT, CS Trading 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 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 Limited also provides waste management services to KCC across a number of municipal waste collection and transfer centres in Kent and print and design services for both KCC and some other public sector bodies.

CS Kent had a turnover in 2015-16 of £53.4m (2014-15 £55.1m) with a net profit of £0.2m before tax (2014-15 £0.5m). In 2014-15 its net assets were £0.4m and in 2015-16 its net assets are £0.6m. A loan of £7.95m has been provided by Kent County Council to CS Kent during the year on which interest is charged at commercial rates.

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).

Note 41 - Subsidiary Note, Note 42 - Events after the Balance Sheet and Note 43 - Other Notes

The powers used are the 'well-being powers' provided to local authorities in Part 1 of the Local Government Act 2000. In 2015-16, in the draft, unaudited EKOLLP accounts, the net assets of the joint arrangement are £14.2m with an operating loss before members remuneration and profit shares available for discretionary division among members of £0.23m.

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 2015-16. This situation is reviewed on an annual basis.

Copies of these accounts can be acquired through Companies House with none being qualified.

Note 42. 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 2016, up to the date when these accounts were authorised, that require any adjustment to these accounts.

Note 43. 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 119-145.

Pension Fund Accounts

The following financial statements are taken from the Kent County Council Pension Fund's Annual Report and Accounts 2016 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: 03000 413291.

Description of the Fund

General

The Kent Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Kent County Council (KCC) for the purpose of providing pensions and other benefits for the pensionable employees of KCC, Medway Council, the district councils in Kent and a range of other scheduled and admitted bodies within the county area. The Pension Fund is a reporting entity and KCC as the Administering Authority is required to include the Fund's accounts as a note in its Report and Accounts. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The LGPS is a contributory defined benefit pension scheme.

The Scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009

The Fund is overseen by the Kent County Council Superannuation Fund Committee (the Scheme manager). The Local Pension Board which was established in 2015 assists the Scheme manager to ensure the effective and efficient governance and administration of the Scheme.

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. Employers in the Fund include Scheduled Bodies which are Local Authorities and similar entities whose staff are automatically entitled to be members of the Scheme; 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 entities or private contractors undertaking a local authority function following a specific business transfer to the private sector.

There are 352 employers actively participating in the Fund and the profile of members is as detailed below:

	Contributors		Pensioners		Deferred pensioners	
	31Mar 2016	31Mar 2015	31Mar 2016	31Mar 2015	31Mar 2016	31Mar 2015
Kent County Council	22,363	22,706	19,716	19,135	22,792	22,581
Other Employers	27,453	25,962	17,544	16,782	19,684	18,953
Total	49,816	48,668	37,260	35,917	42,476	41,534

Funding

The 2013 valuation certified a common contribution rate of 20% of pensionable pay to be paid by each employer participating in the Kent Pension Fund. In addition to this, each employer 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.

Pension Fund Accounts

Benefits

Pension benefits under the LGPS are based on the following:

	Service pre April 2008	Membership from 1 April 2008 to 31 March 2014	Membership from 1 April 2014
Pension	1/80 x final pensionable salary	1/60 x final pensionable salary	1/49 (or 1/98 if opted for 50/50 section) x career average revalued 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.	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 is 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

Pension Fund Accounts

Fund Account for the year ended 31 March

	Notes	2015-16 £000's	2014-15 £000's
Dealings with members, employers and others directly involved in the Fund			
Contributions	5	220,961	217,714
Transfers In from other pension funds	6	3,405	4,463
		224,366	222,177
Benefits	7	-210,281	-207,356
Payments to and on account of leavers	8	-6,033	-70,002
		-216,314	-277,358
Net additions from dealings with Members		8,052	-55,181
Management Expenses	9	-17,835	-16,464
Returns on Investments			
Investment Income	10	113,337	94,639
Taxes on Income		-5,160	-4,062
Profits and losses on disposal of investments and changes in the market value of investments	13a	-39,891	382,846
Net Return on Investments		68,286	473,423
Net increase in the Net Assets Available for benefits during the year		58,503	401,778

Net Assets Statement as at 31 March

	Notes	2016 £000's	2015 £000's
Investment Assets		4,512,339	4,426,242
Investment Cash and Cash Equivalents		70,117	101,593
Investment Liabilities		-5,300	-9,503
Net Investment Assets	13	4,577,156	4,518,332
Current Assets	21	35,356	35,814
Current Liabilities	22	-14,972	-15,109
Net Assets available to fund benefits at the period end		4,597,540	4,539,037

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) is disclosed in note 20 to the accounts.

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2015-16 financial year and its position at 31 March 2016.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 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 Deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipt basis and are included in 'transfers in'. 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. Property related income mainly comprises of rental income. This is recognised when it becomes due.

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. Tax is therefore only applicable to dividend income from equity investments. 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, and overheads 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 and cash 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 2015. 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 2016.
- Debtors / receivables being short duration receivables with no stated interest rate are measured at original invoice amount.

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 and cash equivalents managed by fund managers and cash equivalents managed by Kent County Council are included in investments. All other cash is included in Current Assets.

Notes to the Pension Fund Account

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 2016 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).

m) Contingent Assets and Liabilities and Contractual Commitments

A contingent asset/liability arises where an event has taken place that gives the Fund a possible right/obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund. Contingent assets/liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an inflow/outflow of resources will be required or the amount of the right/obligation cannot be measured reliably. Contingent assets/liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

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 £0.65m. A 0.5% increase in assumed earning inflation would increase the value of liabilities by approx. £0.010m, and a one year adjustment to the mortality age rating assumptions would reduce the liability by approx. £0.23m.
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 £115m. 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 2016, up to the date when these accounts were authorised, that require any adjustment to these accounts.

Notes to the Pension Fund Account

5. Contributions Receivable

	2015-16 £000's	2014-15 £000's
By Category		
Employers	170,651	168,363
Members	50,310	49,351
	220,961	217,714
By authority		
Kent County Council	90,676	89,453
Scheduled Bodies	116,874	115,489
Admitted Bodies	13,411	12,772
	220,961	217,714
By type		
Employees - normal contributions	50,310	49,351
Employers - normal contributions	106,877	104,414
Employers - deficit recovery contributions	58,326	58,390
Employers - augmentation contributions	5,448	5,559
	220,961	217,714

6. Transfers in from other pension funds

	2015-16 £000's	2014-15 £000's
Individual	3,405	4,463
Group	0	0
	3,405	4,463

7. Benefits Payable

	2015-16 £000's	2014-15 £000's
By Category		
Pensions	171,890	165,653
Retirement Commutation and lump sum benefits	34,383	37,811
Death benefits	4,008	3,892
	210,281	207,356
By authority		
Kent County Council	100,596	99,564
Scheduled Bodies	99,045	96,233
Admitted Bodies	10,640	11,559
	210,281	207,356

8. Payments to and on account of leavers

	2015-16 £000's	2014-15 £000's
Group transfers	993	64,392
Individual transfers	4,099	5,193
Payments for members joining state scheme	247	138
Refunds of contributions	694	279
	6,033	70,002

The Group Transfer refers to a payment of £0.993m made to the London Pension Fund Authority in respect of the Valuation Tribunal Service group transfer effective from 1 July 2015. Group transfers in 2014-15 included a transfer of £63.7m to the Greater Manchester Pension Fund (GMPF) in respect of the Probation Service effective from 1 June 2015.

Notes to the Pension Fund Account

9. Management Expenses

	Notes	2015-16 £000's	2014-15 £000's
Administration costs		2,413	2,607
Governance and oversight costs		324	384
Investment management expenses	12	15,098	13,473
		17,835	16,464

10. Summary of Income from Investments

	Notes	2015-16		2014-15	
		£000's	%	£000's	%
Fixed Interest Securities		14,074	12.4	14,359	15.2
Equities		53,053	46.9	46,726	49.4
Pooled Investments		12,684	11.2	12,567	13.3
Private Equity / Infrastructure		10,586	9.3	-2,240	-2.4
Property	11	16,999	15.0	16,249	17.2
Pooled Property Investments		5,369	4.7	5,941	6.3
Cash and cash equivalents		227	0.2	710	0.7
Stock Lending		345	0.3	327	0.3
Total		113,337	100.0	94,639	100.0

11. Property Income and Expenditure

	2015-16 £000's	2014-15 £000's
Rental Income from Investment Properties	21,692	19,622
Direct Operating Expenses	-4,693	-3,373
Net operating income from Property	16,999	16,249

12. Investment Expenses

	2015-16 £000's	2014-15 £000's
Investment Managers Fees	14,459	13,319
Transaction Costs	502	See Note
Custody fees	137	154
Total	15,098	13,473

The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments.

In November 2015 with the change in the Fund's Custodians, there was a change in the accounting for transaction costs. Prior to that, the transaction costs were included in the value of Purchase/ Sales of investments and were not accounted for separately. Transaction costs for 2015-16 reflected above therefore do not include £489,495 (incurred prior to November 2015) that have been included in purchase and sale figures. The total transaction costs for the year amounted to £1m (2014-15: £1.3m)

13. Investments

	Market Value as at 31 March 16 £000's	Market Value as at 31 March 15 £000's
Investment Assets		
Fixed Interest Securities	310,896	313,962
Equities	1,732,669	1,744,779
Pooled Investments	1,664,750	1,695,987
Private Equity/Infrastructure	114,699	96,958
Property	438,105	407,182
Pooled Property Investments	226,697	156,019
Derivative contracts		
- Forward Currency contracts	7,607	0
Investment Cash and cash equivalents	70,117	101,593
Investment Income due	12,702	11,355
Amounts receivable for sales	4,214	0
Total Investment Assets	4,582,456	4,527,835
Investment Liabilities		
Amounts payable for purchases	-5,300	-1,510
Derivative contracts		
- Forward Currency contracts	0	-7,993
Total Investment Liabilities	-5,300	-9,503
Net Investment Assets	4,577,156	4,518,332

Notes to the Pension Fund Account

13a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 15 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 16 £000's
Fixed Interest Securities	313,962	36,555	-38,392	-1,229	310,896
Equities	1,744,779	386,150	-340,372	-57,888	1,732,669
Pooled Investments	1,695,987	156,700	-154,068	-33,869	1,664,750
Private Equity/Infrastructure	96,958	20,456	-17,655	14,940	114,699
Property	407,182	21,291	-26,926	36,558	438,105
Pooled Property Investments	156,019	66,782	-7,792	11,688	226,697
	4,414,887	687,934	-585,205	-29,800	4,487,816
Derivative contracts					
- Forward Currency contracts	-7,993	6,446,800	-6,421,109	-10,091	7,607
	4,406,894	7,134,734	-7,006,314	-39,891	4,495,423
Other Investment balances					
- Investment Cash and cash equivalents	101,593				70,117
- Amounts receivable for sales	0				4,214
- Amounts payable for purchases	-1,510				-5,300
- Investment Income due	11,355				12,702
Net Investment Assets	4,518,332			-39,891	4,577,156

	Market Value as at 31 March 14 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 15 £000's
Fixed Interest Securities	291,458	28,172	-29,226	23,558	313,962
Equities	1,518,121	380,031	-318,474	165,101	1,744,779
Pooled Investments	1,734,423	221,788	-408,467	148,243	1,695,987
Private Equity/Infrastructure	73,486	25,817	-12,629	10,284	96,958
Property	282,117	88,359	-7,648	44,354	407,182
Pooled Property Investments	111,803	69,751	-40,386	14,851	156,019
	4,011,408	813,918	-816,830	406,391	4,414,887
Derivative contracts					
- Forward Currency contracts	-694	6,116,731	-6,100,485	-23,545	-7,993
	4,010,714	6,930,649	-6,917,315	382,846	4,406,894
Other Investment balances					
- Investment Cash and cash equivalents	85,470				101,593
- Amounts receivable for sales	5,853				0
- Amounts payable for purchases	0				-1,510
- Investment Income due	10,637				11,355
Net Investment Assets	4,112,674			382,846	4,518,332

Until October 2015 Transaction costs were 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 in this financial year that are included in the purchases and sales amounted to £489,495 (2014-15: £1,331.6k). 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.

Notes to the Pension Fund Account

14. Analysis of Investments (excluding cash and derivative contracts)

	Market Value as at 31 March 16 £'000's	Market Value as at 31 March 15 £'000's
FIXED INTEREST SECURITIES		
UK		
Corporate Quoted	19,926	25,500
OVERSEAS		
Public Sector Quoted	39,923	47,418
Corporate Quoted	251,047	241,044
	310,896	313,962
EQUITIES		
UK		
Quoted	782,037	825,228
OVERSEAS		
Quoted	950,632	919,551
	1,732,669	1,744,779
POOLED FUNDS		
UK		
Fixed Income Unit Trusts	228,876	237,773
Unit Trusts	557,991	593,127
OVERSEAS		
Unit Trusts	877,883	865,087
	1,664,750	1,695,987
PROPERTY		
UK		
Property Unit Trusts		
UK	438,105	407,182
Overseas	223,526	151,285
OVERSEAS		
Overseas	3,171	4,734
	664,802	563,201
Private Equity Funds		
UK		
UK	8,232	5,593
Overseas	53,921	37,651
Infrastructure		
UK	0	5,543
Overseas	52,546	48,171
	114,699	96,958
TOTAL	4,487,816	4,414,887

Notes to the Pension Fund Account

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	GBP	1,673	USD	2,378	19	
Up to one month	GBP	18,515	EUR	23,778		-340
Up to one month	GBP	129,035	USD	179,822	3,926	
Up to one month	GBP	127,597	USD	177,640	4,006	
Up to one month	USD	217	GBP	154		-4
					7,951	-344
Net forward currency contracts at 31 March 2016						7,607
Prior year comparative						
Open forward currency contracts at 31 March 2015					192	-8,185
Net forward currency contracts at 31 March 2015						-7,993

14b. Property Holdings

	Year ending 31 March 16 £000's	Year ending 31 March 15 £000's
Opening Balance	407,182	282,116
Additions	21,291	88,360
Disposals	-26,926	-7,648
Net increase in market value	36,558	44,354
Closing Balance	438,105	407,182

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the fund is not under contractual obligation to purchase, construct or develop these properties.

The future minimum lease payments receivable by the fund are as follows:

	Year ending 31 March 16 £000's	Year ending 31 March 15 £000's
Within one year	22,210	20,132
Between one and five years	70,679	63,677
Later than five years	79,254	84,150
	172,143	167,959

Notes to the Pension Fund Account

15. Investments analysed by Fund Manager

	Market Value as at 31 March 2016		Market Value as at 31 Mar 2015	
	£000's	%	£000's	%
Baillie Gifford	910,953	19.9	871,881	19.3
DTZ	486,979	10.6	459,706	10.2
Fidelity	106,854	2.3	64,352	1.4
Goldman Sachs	327,612	7.2	324,910	7.2
HarbourVest	53,921	1.2	37,651	0.8
Henderson	0	0.0	5,543	0.1
Impax	33,067	0.7	31,579	0.7
Kames	60,644	1.3	40,278	0.9
M&G	244,275	5.3	216,945	4.8
Partners Group	52,546	1.2	48,171	1.1
BMO (Pyrford)	199,931	4.4	196,588	4.4
Sarasin	164,354	3.6	173,843	3.8
Schroders	1,165,045	25.5	1,221,200	27.0
State Street Global Advisors	521,371	11.4	559,679	12.4
YFM	8,233	0.2	5,593	0.1
Kent County Council Investment Team	19,248	0.4	44,331	1.0
Woodford Investments	222,123	4.8	216,082	4.8
	4,577,156	100	4,518,332	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 2016	
	£000's	%
	(of asset class)	
Pooled Funds		
UK		
UK Fixed Income Unit Trusts		
SISF Strategic Bond GBP Hedged	228,876	29.1
UK Equity Unit Trusts		
MPF UK Equity Index Sub-Fund	313,020	39.8
CF Woodford Equity Income Fund	222,123	28.2
Overseas		
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	199,931	22.8
M&G Global Dividend Fund	231,689	26.4
MPF International Equity Index Sub-Fund	208,351	23.7
Schroder GAV Unit Trust	204,844	23.3
Property Unit Trusts		
Fidelity	106,854	47.1
Kames	60,144	26.5
M&G Residential Property Fund	12,536	5.5

Notes to the Pension Fund Account

31 March 2016

Asset Class / Investments		£000's	%
		(of asset class)	
Private Equity and infrastructure funds			
Private Equity			
UK			
Chandos Fund (YFM)		4,325	7.0
YFM Equity Partners 2015		3,907	6.3
Overseas			
HIPEP VI- Cayman		25,101	40.4
HarbourVest Partners IX		28,820	46.4
Infrastructure			
Overseas			
Partners Group Global Infrastructure 2009		37,561	71.5
Partners Group Direct Infrastructure 2011		14,986	28.5
Property			
Location	Type of Property		
3-5 Charing Cross Road, London	Office	24,488	5.6
Drury House, London	Office	39,149	8.9
49/59 Battersea Park Road, London	Industrial	30,161	6.9
Lakeside Village, Doncaster	Mixed Use	32,290	7.4
151-161 Kensington High Street	Retail	26,087	6.0
The Sanctuary	Office	22,837	5.2
Colingdale Retail Park	Retail	24,454	5.6
Suncourt House, London	Office	22,840	5.2

Notes to the Pension Fund Account

Asset Class / Investments	31 March 2015	
	£000's	% (of asset class)
Pooled Funds		
UK Fixed Income Unit Trusts		
Schroder Institutional Stlg Broadmarket 'X' Acc	126,356	15.2
SISF Strategic Bond GBP Hedged	111,417	13.4
UK Unit Trusts		
MPF UK Equity Index Sub-Fund	352,052	42.4
CF Woodford Equity Income Fund	216,082	26.0
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	196,588	22.7
M&G Global Dividend Fund	216,945	25.1
MPF International Equity Index Sub-Fund	207,627	24.0
Schroder GAV Unit Trust	212,347	24.5
Property Unit Trusts		
L & G Leisure	9,158	5.9
Fidelity	64,352	41.2
Kames	39,663	25.4
Hercules	10,456	6.7
IPIF	9,172	5.9
Lothbury	9,584	6.1

Asset Class / Investments	31 March 2015	
	£000's	% (of asset class)
Private Equity and infrastructure funds		
Private Equity		
UK		
Chandos Fund (YFM)	3,589	8.3
Overseas		
HIPEP VI- Cayman	17,439	40.3
HarbourVest Partners IX	20,212	46.7
Infrastructure		
UK		
Henderson Secondary PFI Fund I	5,543	10.3
Overseas		
Partners Group Global Infrastructure 2009	36,680	68.3
Partners Group Direct Infrastructure 2011	11,490	21.4
Property		
Location	Type of Property	
3-5 Charing Cross Road, London	Office	23,483 5.8
Drury House, London	Office	34,885 8.6
49/59 Battersea Park Road, London	Industrial	23,989 5.9
Lakeside Village, Doncaster	Mixed Use	31,405 7.7
151-161 Kensington High Street	Retail	24,250 6.0
The Sanctuary	Office	22,740 5.6
Colingdale Retail Park	Retail	22,683 5.6

Notes to the Pension Fund Account

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	31 March 16	
	Market Value £000's	Collateral Value £000's
Equities	69,555	74,333
Bonds	2,880	3,077
	72,435	77,410

Loan Type	31 March 15	
	Market Value £000's	Collateral Value £000's
Equities	100,690	106,730
Bonds	10,824	11,523
	111,514	118,253

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 16			31 March 15		
	Designated as fair value through profit and loss £000's	Loans and receivables £000's	Financial liabilities at amortised cost £000's	Designated as fair value through profit and loss £000's	Loans and receivables £000's	Financial liabilities at amortised cost £000's
Financial Assets						
Fixed Interest Securities	310,896			313,962		
Equities	1,732,669			1,744,779		
Pooled Investments	1,664,750			1,695,987		
Property Pooled Investments	226,697			156,019		
Private Equity/Infrastructure	114,699			96,958		
Derivative contracts	7,607			0		
Cash & Cash equivalents		78,013			102,622	
Other Investment Balances	16,916			11,355		
Debtors/ Receivables		27,460			34,785	
	4,074,234	105,473	0	4,019,060	137,407	0
Financial Liabilities						
Derivative contracts	0			-7,993		
Other Investment balances	-5,300			-1,510		
Creditors			-14,972			-15,109
	-5,300	0	-14,972	-9,503	0	-15,109
Total	4,068,934	105,473	-14,972	4,009,557	137,407	-15,109

Notes to the Pension Fund Account

17b. Net Gains and Losses on Financial Instruments

	31 March 16	31 March 15
	£000's	£000's
Financial assets		
Fair value through profit and loss	-76,449	338,492
Total	-76,449	338,492

17c. 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 and are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. 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. Assurances over the valuation are gained from the independent audit of the accounts.

These valuations are prepared by the Fund Managers in accordance with generally accepted accounting principles and the requirements of the law where these companies are incorporated. Valuations are usually undertaken periodically by the Fund Managers, and cash flow adjustments are used to roll forward the valuations where the latest valuation information is not available at the time of reporting.

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.

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£000's	£000's	£000's	£000's
Financial Assets				
Financial assets at fair value through profit and loss	3,732,838	226,697	114,699	4,074,234
Loans and Receivables		105,473		105,473
Total Financial Assets	3,732,838	332,170	114,699	4,179,707
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-5,300			-5,300
Financial Liabilities at amortised costs		-14,972		-14,972
Total Financial Liabilities	-5,300	-14,972	0	-20,272

Notes to the Pension Fund Account

Values at 31 March 2015	Quoted	Using	With	Total
	market price	observable	significant	
	Level 1	Level 2	Level 3	
	£000's	£000's	£000's	£000's
Financial Assets				
Financial assets at fair value through profit and loss	3,766,083	156,019	96,958	4,019,060
Loans and Receivables		137,407		137,407
Total Financial Assets	3,766,083	293,426	96,958	4,156,467
Financial Liabilities				
Financial liabilities at fair value through profit and loss	-9,503	0	0	-9,503
Financial Liabilities at amortised costs		-15,109		-15,109
Total Financial Liabilities	-9,503	-15,109	0	-24,612

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 (i.e. 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.

Notes to the Pension Fund Account

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 2016-17 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Equities	3.70%
Overseas Equities	7.00%
Global Pooled Equities inc UK	6.40%
Bonds	3.60%
Property	14.60%
Alternatives	0.30%

The potential price changes disclosed above are based on predicted volatilities calculated based on our experience of market 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 16 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	78,013	0.00	78,013	78,013
Investment portfolio assets:				
UK Equities	782,037	3.70	810,972	753,102
Overseas Equities	950,632	7.00	1,017,176	915,459
Global Pooled Equities inc UK	1,435,874	6.40	1,527,770	1,382,747
Bonds incl Fixed Income Funds	539,772	3.60	559,204	519,800
Property Pooled Funds	226,697	14.60	259,795	218,309
Private Equity	62,153	0.30	62,339	59,853
Infrastructure Funds	52,546	0.30	52,704	50,602
Net derivative assets	7,607	0.00	7,607	7,607
Investment income due	12,702	0.00	12,702	12,702
Amounts receivable for sales	4,214	0.00	4,214	4,214
Amounts payable for purchases	-5,300	0.00	-5,300	-5,300
Total	4,146,947		4,387,196	3,997,108

Notes to the Pension Fund Account

Asset Type	Value as at 31 March 15 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	102,622	0.00	102,622	102,622
Investment portfolio assets:				
UK Equities	825,228	3.70	855,761	794,695
Overseas Equities	919,551	7.00	983,920	885,528
Global Pooled Equities inc UK	1,458,214	6.40	1,551,540	1,404,260
Bonds incl Fixed Income Funds	551,735	3.60	571,597	531,321
Property Pooled Funds	156,019	14.60	178,798	150,246
Private Equity	43,244	0.30	43,374	41,644
Infrastructure Funds	53,714	0.30	53,875	51,727
Net derivative assets	-7,993	0.00	-7,993	-7,993
Investment income due	11,355	0.00	11,355	11,355
Amounts receivable for sales	0	0.00	0	0
Amounts payable for purchases	-1,510	0.00	-1,510	-1,510
Total	4,112,179		4,343,339	3,963,894

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 2016 and 31 March 2015 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair

Asset Type	31 March 16 £000	31 March 15 £000
Cash and cash equivalents	70,117	101,593
Cash Balances	7,896	1,029
Fixed Interest Securities		
- Directly held securities	310,896	313,962
- Pooled Funds	228,876	237,773
Total	617,785	654,357

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:

Notes to the Pension Fund Account

Asset Type	Carrying amount as at 31 March 16	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
		£000's	£000's
Cash and cash equivalents	70,117	701	-701
Cash Balances	7,896	79	-79
Fixed Interest Securities			
- Directly held securities	310,896	-3,109	3,109
- Pooled Funds	228,876	-2,289	2,289
Total change in assets available	617,785	-4,618	4,618

Asset Type	Carrying amount as at 31 March 15	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
		£000's	£000's
Cash and cash equivalents	101,593	1,016	-1,016
Cash Balances	1,029	10	-10
Fixed Interest Securities			
- Directly held securities	313,962	-3,140	3,140
- Pooled Funds	237,773	-2,378	2,378
Total change in assets available	654,357	-4,492	4,492

Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect interest income received on those balances.

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 (£251m) 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 2016 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 16	Asset value as at 31 March 15
	£000's	£000's
Overseas Equities	950,632	919,551
Overseas Pooled Funds	877,883	865,087
Overseas Bonds	39,923	47,418
Overseas Private Equity, Infrastructure and Property funds	109,638	90,556
Non GBP Cash	8,302	18,731
Total overseas assets	1,986,378	1,941,343

Notes to the Pension Fund Account

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 2016-17 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 16	Change to net assets available to pay benefits +5.8%	Change to net assets available to pay benefits -5.8%
	£000's	£000's	£000's
Overseas Equities	950,632	1,005,769	895,495
Overseas Pooled Funds	877,883	928,800	826,966
Overseas Bonds	39,923	42,239	37,607
Overseas Private Equity, Infrastructure and Property funds	109,638	115,997	103,279
Non GBP Cash	8,302	8,784	7,820
Total change in assets available	1,986,378	2,101,589	1,871,167

Currency exposure - asset type	Asset value as at 31 March 15	Change to net assets available to pay benefits +5.8%	Change to net assets available to pay benefits -5.8%
	£000's	£000's	£000's
Overseas Equities	919,551	972,885	866,217
Overseas Pooled Funds	865,087	915,262	814,912
Overseas Bonds	47,418	50,168	44,668
Overseas Private Equity, Infrastructure and Property funds	90,556	95,808	85,304
Non GBP Cash	18,731	19,817	17,645
Total change in assets available	1,941,343	2,053,940	1,828,746

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.

Notes to the Pension Fund Account

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 16 £000's	Balance as at 31 March 15 £000's
Money Market Funds			
JP Morgan Sterling Liquidity Fund	AAAm	0	23,330
Northern Trust Sterling Fund	AAAm	44,059	0
SSGA Liquidity Fund	AAAm	228	0
Blackrock Sterling Government Liquidity Fund	AAAm	0	133
Aberdeen Sterling Liquidity Fund	AAAm	22	0
Goldman Sachs Liquid Reserve Government Fund	AAAm	5,015	15,101
Aviva Investors Sterling Liquidity Fund	AAAm	6,921	14,346
Deutsche Managed Sterling Fund	AAAm	584	30
HSBC Global Liquidity Fund	AAAm	1,709	41
LGIM Liquidity Fund	AAAm	4,732	14,944
Insight Sterling Liquidity Fund	AAAm	2,613	4,753
		65,883	72,678
Bank Deposit Accounts			
HSBC BIBCA	AA-	2,430	10,021
NatWest SIBA	BBB+	8	0
		2,438	10,021
	Rating	Balance as at 31 March 16 £000's	Balance as at 31 March 15 £000's
Bank Current Accounts			
Natwest Current Account	BBB+	50	44
Natwest Current Account - Euro	BBB+	3,883	95
Natwest Current Account - USD	BBB+	9	0
JP Morgan Chase - Current Account	A+	0	18,894
Northern Trust - Current Account	AA-	4,463	0
Barclays - DTZ client monies account	A	1,287	890
		9,692	19,923
Total		78,013	102,622

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 2016 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, represented 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
Rate of return on investments (discount rate)	6.0% p.a.
Rate of general pay increases	2.7% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):	2.7% p.a.

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.

Notes to the Pension Fund Account

The actuarial present value of promised retirement benefits as at 31 March 2016 was £7,479.8m (31 March 2015: £7,676.6m). The Fair Value of the Scheme assets at Bid Value being £4,597.5m (31 March 2015: £4,539.0m) the Fund has a net liability of £2,882.3m as at 31 March 2016 (31 March 2015: £3,137.6m). 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 61.46% 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 2013 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	4.2%
Inflation/Pensions increase rate	2.4%
Discount rate	3.7%

21. Current Assets

	31 March 2016 £000's	31 March 2015 £000's
Debtors		
- Contributions due - Employees	2,860	4,003
- Contributions due - Employers	17,092	20,415
- Sundry debtors	5,257	4,998
Total External Debtors	25,209	29,416
Amounts due from Kent County Council	2,251	5,369
Cash	7,896	1,029
	<u>35,356</u>	<u>35,814</u>
Analysis of External Debtors		
Other Local Authorities	19,462	24,994
Other Entities and individuals	5,747	4,422
	<u>25,209</u>	<u>29,416</u>

22. Current Liabilities

	31 March 2016 £000's	31 March 2015 £000's
Creditors		
- Benefits Payable	7,789	6,345
- Sundry Creditors	4,288	5,499
Total External Creditors	12,077	11,844
Owing to Kent County Council	2,895	3,265
Total	<u>14,972</u>	<u>15,109</u>
Analysis of External Creditors		
Central Government Bodies	0	0
Other Local Authorities	7,431	5,700
Other Entities and individuals	4,646	6,144
Total	<u>12,077</u>	<u>11,844</u>

Notes to the Pension Fund Account

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.

	Prudential		Standard Life		Equitable Life	
	2015-16 £000's	2014-15 £000's	2015-16 £000's	2014-15 £000's	2015-16 £000's	2014-15 £000's
Value at 1 April	6,235	6,016	2,061	1,967	782	862
Value at 31 March	6,371	6,235	2,049	2,061	628	782
Contributions paid	1,237	1,245	175	153	2	3

24. Related Party Transactions

The Pension Fund is required to disclose material transactions with related parties, not disclosed elsewhere, in a note to the financial statements. During the year each member of the Kent County Council Superannuation Fund Committee is required to declare their interests at each meeting. None of the members of the Committee or senior officers undertook any material transactions with the Kent Pension Fund.

	2015-16 £000's	2014-15 £000's
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed:	66,968	66,014
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		
Charges from Kent County Council to the Kent Pension Fund in respect of pension administration, governance arrangements, investment monitoring, legal and other services.	2,706	2,889
Year end balance due from Kent County Council arising out of transactions between Kent County Council and the Pension Fund	-645	2,103

Key management personnel

The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2015-16 were the Corporate Director of Finance and Procurement, the Head of Financial Services, the Treasury and Investments Manager and the Pensions Manager. Details of officers' remuneration and members' allowances can be found in the accounts of Kent County Council under notes 6 and 7.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2016 totalled £61.9m (31 March 2015: £107.3m)

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

29 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.

Opinion on the Authority Financial statements

We have audited the financial statements of Kent County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16.

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

Respective responsibilities of the 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 2015-16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law 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 Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

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

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

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Paul Hughes

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

Grant Thornton House

Melton Street

Euston Square

London NW1 2EP

21 July 2016

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Kent County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015-16.

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

Respective responsibilities of the 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 2015-16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund 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

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 pension 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 pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund 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 financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 and applicable law.

Opinion on financial statements

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Emily Hill
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

21 July 2016

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 2015-16. 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.

Annual Governance Statement

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 2016 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) Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a Vision for the local area
- (ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles
- (iii) Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behavior
- (iv) Taking informed and transparent decisions which are subject to effective scrutiny, and managing risk
- (v) Developing the capacity and capability of members and officers to be effective
- (vi) Engaging with local people and other stakeholders to ensure robust public accountability.

The Council's governance environment is consistent with the six core principles of the CIPFA/SOLACE framework. For each principle we have described the Council's relevant governance mechanism and associated sources of assurance:

Principle	Description of Governance Mechanism	Assurances Received
<p>1. Focusing on the purpose of the Council and on outcomes for the community and implementing a Vision for the local area :</p> <p>Exercising strategic leadership by developing and clearly communicating the Council's purpose and vision, and its intended outcomes for citizens and service users.</p> <p>Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning.</p> <p>Ensuring the Council makes best use of resources, and that tax payers and service users receive excellent value for money.</p>	<ul style="list-style-type: none"> • Develop and promote our purpose and vision to be used as a basis for corporate and service planning • Regularly review our vision for the local area and its impact on our governance and financial arrangements • Ensure that partnerships work to a common vision which all parties understand/agree • Publish annual reports communicating our activities and achievements, financial position and performance • Measure quality of service, and ensure availability of information needed to effectively review our service quality • Put in place effective procedures to identify and address failures in service delivery, including complaints and consultation mechanisms for our service users • Measure value for money, and ensure that we have the information needed to review value for money and performance effectively • Measure of the environmental impact of our policies, plans and decisions 	<p>A quarterly performance report is published showing how our services are performing against key performance indicators.</p> <p>Externally reported data; Government Single Data list; and CIPFA benchmarking.</p> <p>Strategic and service data published online to enable residents to hold the Council to account.</p> <p>Internal Audit Plan linked to the overall objectives of the Council and the risks to their achievement.</p> <p>Employment appraisals linked to the Council's strategic objectives.</p>

Annual Governance Statement

Principle	Description of Governance Mechanism	Assurances Received
		<p>Results of consultations e.g. Review of KCC Funded Bus Services, Mobile Library Service, Street Lighting, Post 16 Transport Policy for 2016/17, Tonbridge Gateway, various school expansions/closures and many others set out on a dedicated web page.</p> <p>Attendance of staff and managers at engagement sessions.</p> <p>Staff and managers accessing information on KNet.</p> <p>The KCC Annual Complaints, Comments and Compliments Report is presented to Governance & Audit Committee each year.</p> <p>The Kent Environment Board, chaired by the Corporate Director Growth Environment & Transport, consists of representatives from all Directorates. This group receives regular updates on progress on the delivery of KCC's commitments in the Kent Environment Strategy. The group also shares, disseminates and promotes improvements in performance to ensure KCC's compliance with ISO14001. Information available on KNet.</p> <p>Various policies, procedures and other documentation are available on KNet :</p> <p>Vision for Kent 2012-2022; Increasing Opportunities, Improving Outcomes: Kent County Council's Strategic Statement 2015-2020, Medium Term Financial Plan, Environmental Policy, Equality Impact Assessments Policy and Guidance, Comment, Complaints and Compliments Policy, Whistle Blowing Policy.</p>

Annual Governance Statement

Principle	Description of Governance Mechanism	Assurances Received
<p>2.Members and officers working together to achieve a common purpose with clearly defined functions and roles</p> <p>Ensuring effective leadership throughout the Council and being clear about executive, non-executive and scrutiny functions/roles</p> <p>Ensuring that a constructive working relationship exists between Council Members and officers, and that the responsibilities of members and officers are carried out to a high standard</p> <p>Ensuring relationships between the Council and the public are clear so that each knows what to expect of each other</p>	<ul style="list-style-type: none"> • A clear statement of the respective roles and responsibilities of our executive, individual executive members, and the Scrutiny function, and our approach towards putting this into practice • A clear statement of the respective roles and responsibilities of our non-executive Members, Members generally, and our senior officers • A scheme of delegation and reserved powers within our Constitution, including a formal schedule of matters specifically reserved for collective decision of the Council, taking account of relevant legislation, to be monitored and revised as required • Making the Corporate Management Team responsible and accountable to the Council for all aspects of operational management • Protocols ensuring that the Leader and Chief Officers negotiate their respective roles and that a shared understanding of roles and objectives is maintained • Making the Section 151 Officer responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control • Making the Monitoring Officer responsible to the Council for ensuring that agreed procedures are followed, and for ensuring compliance with all applicable statutes and regulations • Protocols to ensure effective communication between members and officers • Set out terms and conditions for remuneration of Members and officers, and an effective structure for managing the process, including an independent remuneration panel, and effective mechanisms for monitoring performance and service delivery • Ensuring that our vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated • When working in partnership, ensuring that our Members are clear about their roles and responsibilities, both individually and collectively in relation to the partnership and to the Council, that there is clarity about the legal status of the partnership, and that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions 	<p>Regular performance reporting to Cabinet Committees provides an overview for Members of Council performance against target levels.</p> <p>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.</p> <p>Regular reviews of the Constitution (including the Code of Corporate Governance) by the Monitoring Officer and Selection & Member Services Committee / full Council.</p> <p>The Selection and Member Services Committee monitors and recommends changes to the Constitution to Council.</p> <p>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 Councils objectives.</p> <p>The Head of Internal Audit has given adequate assurance for risk management and internal control and assurance for the Governance Framework.</p> <p>County Council receives the Report from the Independent Member Remuneration Panel, established under the Local Authorities Regulations 2003, and annually considers the panel's proposed Members Allowances Scheme.</p>

Annual Governance Statement

Principle	Description of Governance Mechanism	Assurances Received
		<p>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 Children’s Services and Lead Member for Children’s Services as outlined in the Constitution.</p> <p>The Director of Public Health is responsible for ensuring that the County Council exercises its statutory public health functions as outlined in the Constitution.</p> <p>Kent County Council has published its Strategic Statement, “Increasing Opportunities, Improving Outcomes”, which sets out the 5 year vision from 2015 to 2020, to improve the outcomes for the people of Kent. The strategic and supporting outcomes were agreed by County Council in March 2015, and these included a commitment to all elected Members to deliver an Annual Report to County Council on progress towards the outcomes, over the lifetime of the five year vision.</p> <p>It is anticipated that the first Annual Report will be delivered to County Council on the 20th October 2016.</p>
<p>3. Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behavior</p> <p>Ensuring Council members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance</p>	<ul style="list-style-type: none"> • Ensure that our leadership sets a tone for the organisation by creating a climate of openness, accountability, integrity, support and respect • Ensure that standards of conduct and personal behavior expected of our Members and officers, or work between our Members and officers, and between the Council, its partners and the community are defined and communicated through codes of conduct and protocols • Put in place arrangements to ensure that our Members and officers are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders, and put in place appropriate processes to ensure that they continue to operate in practice 	<p>Monitoring Officer reports to the Corporate Management Team and Corporate Board.</p> <p>Standards Committee minutes and decisions are available on KCC’s website.</p> <p>Minutes and decisions of all committees are observed by the Monitoring and/or Head of Democratic Services.</p>

Annual Governance Statement

Principle	Description of Governance Mechanism	Assurances Received
<p>Ensuring that organisational values are put into practice and are effective</p>	<ul style="list-style-type: none"> • Maintain shared values including leadership values for both the Members and officers reflecting public expectations, and communicate these with our Members, officers, the community and partners • Put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice • Develop and maintain an effective ethical standards regime to ensure that high standards of conduct are embedded in our culture • Use our shared values to act as a guide for decision making, and as a basis for developing positive and trusting relationships within the Council • In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behavior both individually and collectively 	<p>Annual Performance Review for staff explicitly links to achievement of objectives, and demonstration of relevant values and behaviours.</p> <p>KCC's Equalities Policy is available on the intranet.</p> <p>Equalities Impact Assessments carried out for the 2015-16 and 2016-17 budget proposals were undertaken without legal challenge.</p> <p>The Member training and development programme provides focus on, and assurance of, appropriate skills and capability.</p> <p>The numbers of staff grievances and appeals is low, especially given the amount of change happening within the organisation.</p> <p>The Kent Code (the code of conduct for all employees) is available on the Council's intranet.</p> <p>The Council's Whistle Blowing Policy is available on the Council's intranet.</p> <p>The Council's Preventing Bribery Policy is available on the Council's intranet.</p>
<p>4. Taking informed and transparent decisions which are subject to scrutiny and managing risk :</p> <p>Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny</p>	<ul style="list-style-type: none"> • Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances our performance overall, and that of any organization for which it is responsible • Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based • Put in place arrangements to safeguard Members and officers against conflicts of interest, and put in place appropriate processes to ensure that they continue to operate in practice 	<p>The Council has a Scrutiny Committee and a Health Overview and Scrutiny Committee with membership from the non-executive Members.</p> <p>Key decisions, and other significant decisions, are published in the Council's Forthcoming Executive Decision (FED) list.</p>

Annual Governance Statement

Principle	Description of Governance Mechanism	Assurances Received
<p>Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs</p> <p>Ensuring that an effective risk management system is in place</p> <p>Using legal powers to the full benefit of citizens and communities in the local area</p>	<ul style="list-style-type: none"> • Develop and maintain an effective Governance & Audit Committee which is independent of the executive and scrutiny functions • Ensure that effective, transparent and accessible arrangements are in place for dealing with complaints • Ensure that those making decisions for the Council or its partnerships are provided with information that is fit for purpose (relevant, timely, and giving clear explanations of technical issues and their implications) • Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately • Ensure that risk management is embedded within our culture, with Members and officers at all levels recognizing that risk management is part of their role • Ensure that arrangements are in place for whistleblowing to which officers and all those contracting with the Council have access • Recognise the limits of lawful action and observe both the specific requirements or legislation and the general responsibilities placed on local authorities by public law 	<p>The Kent Code of Member conduct sets out the Member's obligations in relation to the registration and declaration of Disclosable Pecuniary Interests and other significant interests.</p> <p>The Kent Code (the code of conduct for all employees) , which is available on the intranet, sets out the staff's obligation to declare any interests, or commitments, which may conflict with KCC's interests.</p> <p>The Governance & Audit Committee, which has a membership of non-executive Members, meets regularly, independently of the scrutiny functions.</p> <p>The complaints procedure is available on KCC's website.</p> <p>Delegations are set out in the Council's Constitution. There is an Executive Scheme of Delegations in place.</p> <p>The Council's Risk Management Policy & Strategy is reviewed annually by the Governance & Audit Committee.</p> <p>The Corporate Risk Register is reviewed by Corporate Board quarterly. Progress against mitigating actions for corporate risks is monitored and reported to Cabinet as part of the Quarterly Performance Report.</p> <p>The Corporate Risk Register is underpinned by Directorate and Divisional (or service) risk registers that are also reviewed quarterly.</p> <p>The authority's Whistleblowing Policy is available on the Intranet.</p> <p>The Council's Preventing Bribery Policy is available on the Council's intranet.</p>

Annual Governance Statement

Principle	Description of Governance Mechanism	Assurances Received
<p>5. Developing the capacity and capability of Members and officers to be effective</p> <p>Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles</p> <p>Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as groups</p> <p>Encouraging new talent for membership of the Council so that best use can be made of individuals' skills and resources in balancing</p>	<ul style="list-style-type: none"> • Provide induction programmes tailored to individual needs, and regular opportunities for Members and officers to update their knowledge • Ensure that statutory officers have the skills, resources and support necessary to perform their roles effectively, and that these roles are understood throughout the Council • Assess the skills required by our Members and officers, and make a commitment to develop those skills to enable roles to be carried out effectively • Develop skills on a continuing basis to improve performance, including the ability to scrutinize and challenge and to recognize when outside expert advice is needed • Ensure the effective arrangements are in place for reviewing the performance of our executive, and of individual Members, and addressing any training or development needs • Ensure that there are effective arrangements designed to encourage individuals from all sections of the community to engage with, contribute to, and participate in the work of the Council, including putting themselves forward for election as Members of the Council • Ensure that career structures are in place for Members and officers, to encourage participation and development 	<p>The Kent Code of Member Conduct states that all Members undertake such training and development as the Council, the Standards Committee or the Member's own Group may recommend from time to time</p> <p>There is a Member training and development programme which provides focus on, and assurance of, appropriate skills and capability. Member PDP's are in place.</p> <p>Data Protection, Information Governance and PREVENT training is now mandatory for all staff. Completion of this training is closely monitored and regularly reported.</p> <p>This training is also available to elected Members.</p> <p>A tailored Staff Induction programme is available for all new staff and existing staff who wish to update their knowledge.</p> <p>Annual Performance Review for staff explicitly links to achievement of objectives and identifies where knowledge and skills need to be updated.</p> <p>During 2015-16 Managers completed a succession planning exercise. Managers will regularly review their successions plans to ensure continued service delivery. Succession planning tools are now available for managers on Knet.</p> <p>The majority of public meetings are webcast and available on the KCC's website.</p>

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Principle	Description of Governance Mechanism	Assurances Received
		<p>Meetings of the Commissioning Advisory Board have taken place throughout the year. This board provides non-executive member engagement and advice on the analyse and plan stages of the strategic commissioning cycle.</p> <p>Kent Council Leaders, consisting of the Leaders of all 12 District Councils and Medway Council, meets regularly to discuss strategic issues.</p> <p>The use of Task & Finish Groups, within the Growth, Environment and Transport Directorate, have been successful in providing a forum for officers and Members to work together on specific issues.</p>
<p>6. Engaging with local people and other stakeholders to ensure robust public accountability :</p> <p>Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships</p> <p>Taking an active and planned approach to dialogue with, and accountability to, the public to ensure effective/appropriate service delivery whether directly by the Council, in partnership or by commissioning</p> <p>Making best use of human resources by taking an active and planned approach to meet responsibility to staff</p>	<ul style="list-style-type: none"> • Making sure that the Council, all staff, and the community are clear about to whom the Council is accountable and for what • Consider those institutional stakeholders to whom the Council is accountable and assess the effectiveness of relationships and any changes required • Ensure clear channels of communication with all sections of the community and other stakeholders, with monitoring arrangements to ensure that they operate effectively • Hold meetings in public unless there are justifiable reasons for confidentiality • Ensure that there are arrangements enabling the Council to engage effectively with all sections of the community, recognising different priorities and establishing explicit processes for dealing with competing demands • Having a clear policy on what issues the Council will meaningfully consult on or engage with the public and service users about, including a feedback mechanism to demonstrate what has changed as a result 	<p>The Vision for Kent 2012-2022 is available on KCC's website.</p> <p>Annual Business Plans have been produced, and are available on KCC's website.</p> <p>Increasing Opportunities, Improving Outcomes: Kent County Council's Strategic Statement 2015-2020 is available on the internet and KNet. An annual report is produced providing information on the performance of the Council during the previous year.</p> <p>The staff Whistleblowing procedure is available on the authority's intranet.</p> <p>Kent Council Leaders, consisting of the Leaders of all 12 District Councils and Medway Council, meets regularly to discuss strategic issues.</p>

Annual Governance Statement

Principle	Description of Governance Mechanism	Assurances Received
	<ul style="list-style-type: none"> • Publish an annual performance plan giving information on our vision, strategy, plans and financial statements as well as information about outcomes, achievements and the satisfaction of service users • Ensure that the Council is open and accessible to the community, service users and its staff, ensuring a commitment to openness and transparency in all dealings, including partnerships, subject only to specific circumstances where confidentiality is justified • Develop and maintain a clear policy on how our staff and their representatives are consulted and involved in decision making 	<p>The Petitions procedure is available for the public to access.</p> <p>The list of Forthcoming Executive Decisions is available for the public to access.</p> <p>Kent County Council's Constitution is available for the public to access on KCC's website.</p> <p>A quarterly performance report is published on the KCC's website, and is available for the public to access.</p> <p>The authority's Data Protection Act Policy and procedures, the Freedom of Information Act Policy and procedures and the Environmental Information Regulations are all available on KCC's website for the public to access.</p> <p>Results of consultations e.g. Review of KCC Funded Bus Services, Mobile Library Service, Street Lighting, Post 16 Transport Policy for 2016-17, Tonbridge Gateway, various school expansions/closures and many others set out on a dedicated web page</p>

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 2014-15 AGS. They also detail any new issues that have arisen since 1 April 2015, 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 2014/15 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.

Annual Governance Statement

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 functions 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 scope and findings of work that it has performed and taking into account the individual strengths and areas for development identified, that substantial assurance can be given in relation to corporate governance, risk management and internal control arrangements.

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 pattern of generally robust core support systems, with a number of exemplar areas identified. No incidences of material external or internal fraud or corruption have been detected or reported. Areas for further improvement have also been highlighted; more particularly the need to maintain controls and sustain improvements in transformational change programmes, ensure risk management is embedded within lower levels of the Council, that non-financial data quality is consistently maintained and that local controls in remote establishments are always properly applied and enforced.

The Council has been receptive to the addressing issues raised by Internal Audit and implementing agreed actions. This has been independently confirmed from the results of formal follow up work undertaken by the unit.

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 control still need to be enhanced have been identified; the following sets these out and also provides an update on actions taken during the past year.

Strategic Commissioning Approach

Following the completion of the Facing the Challenge programme, it was identified that there was a need to further embed the strategic commissioning approach as business as usual. During the year work progressed on the development of new executive member governance arrangements that fit better with the strategic commissioning cycle. This included the creation of a Strategic Commissioning Board, through a merger of the Transformation Advisory Group and the Procurement Board, and the creation of a Budget & Performance Board, through a merger of existing Budget Programme Board and Performance & Evaluation Board. The new governance arrangements began on 1st April 2016.

As part of the above agenda Kent County Council published its Strategic Statement, "*Increasing Opportunities, Improving Outcomes*", in March 2015, following formal County Council approval. The report that was presented to County Council included a commitment to all elected members to deliver an Annual Report on progress towards the outcomes, over the lifetime of the five year vision. It is anticipated that the first Annual Report will be presented to the County Council on the 20th October 2016

Devolution

KCC is working with Kent District Councils and Medway Unitary Authority to explore the potential opportunities and benefits from the Governments devolution agenda, including the agreement of devolution deals transferring some element of funding and responsibilities from central to local control, and the implications of Cities and Local Government Devolution Act 2016 (which includes the potential for local government reorganisation).

The Governments current position that for areas to receive a devolution deal they must accept a Mayoral Combined Authority for their area, including the introduction of a directly elected Mayor, does not have the support of the majority of Kent Leaders. As such, the County Council at both officer and member level, both bilaterally and through representative bodies such as the LGA and CCN is engaging ministers and civil servants to lobby for changes to the Governments position to place Kent in a better position to agree on a devolution deal.

The County Council is also exploring all opportunities for devolution outside of the scope of the devolution deal making process, including the potential for greater local authority leadership role in the National Health Service to support health and social care integration; the design of the scheme to allow for 100% business rate retention and utilising new transport powers, such as bus franchising and the creation of sub-national transport board (where the Secretary of State agrees).

Running parallel to the national devolution debate, KCC is also currently engaged in discussions with Districts at a sub-county level (North, East and West Kent) about greater devolution, co-commissioning and shared decision-making across county and district services as part of efforts to integrate public services and deliver greater value for money to the Kent taxpayer.

A paper will be taken to County Council for it to discuss and debate the implications and the potential ways forward. Further updates will be brought forward as necessary.

Financial climate

The reduced funding available to the Council over the next 3 years, allied to continued increase in demand for our services, and the cost pressures (including the impact of the National Living Wage) on services, will present the Council with a huge financial challenge. The certainty of Government Grant for the next two years, as offered by the 'four-year settlement' does at least provide a clear planning framework, and we are making good progress on considering options for balancing the next two years budgets. That work continues, and senior officers and Members are well aware of the enormity of the task.

Health and Social Care

Numbers of UASC arriving in Kent

The unprecedented and very significant number of Unaccompanied Asylum Seeking Children (UASC) arriving in Kent during 2015 has meant that on occasions the council has struggled to meet its statutory responsibilities to these children. Significant additional resource has been needed to provide sufficient accommodation and staff to address this and there has been close working with central government and other local authorities on the longer term national solution to this international issue.

As a County Council we have a number of the key statutory responsibilities that are set out in the Children Act. We are required to comply with that legislation and are mindful of the potential implications of non-compliance, even in circumstances where resources are stretched due to unprecedented events and circumstances. SCHWB DMT, chaired by Andrew Ireland as DCS, will continue to monitor this and manage and escalate issues as necessary.

Social Welfare Case Law - Informed Consent

In recent times, there have been a number of significant decisions by the courts which present challenges for all Local Authorities. Again, it is important for the council to reflect on the implications of non-compliance with statutory obligations or of ignoring the lessons that can be learned from the case law.

Our legal team are working closely with the Social Care teams to ensure that we are responding to these issues.

Annual Governance Statement

Impact of pressure in the health sector

Both increasing demand and the health organisations' long term work on managing this has required greater input from social care as integration continues to be developed. Work is ongoing and includes ensuring that the council's specific responsibilities and areas of expertise are understood and make a key contribution to this. Work is currently ongoing regarding the Strategic Transformation Plan and closer working with the health sector.

Mental Capacity Act and Deprivation of Liberty

A judgement by the Supreme Court in 2014 has meant that procedures for Deprivation of Liberty Safeguards, where the party is not present at the hearing, have changed. The risk here is around failure to complete DoLS applications in a timely manner which could lead to people not being subject to appropriate restrictions. The risk also includes legal challenge to the authority and the possible imposition of a financial penalty. Alongside this, the significantly increased number of DOLS assessments needed due to the 2014 Cheshire West judgement has continued.

Cases have been adequately triaged, using a defined process, but there is a substantial number that remain outside the statutory timescales. Additional funding has been agreed by KCC and by central government but the backlog is continuing, due to increased demand. This situation will be monitored regularly via the Social Care Health and Wellbeing Directorate Management Team, with appropriate escalation to CMT/Corporate Board as necessary.

We will, over the coming year, take appropriate action to address all of these matters. 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

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.

Derivatives

A derivative is a contract that derives its value from the performance of an underlying entity. Common derivatives include forwards, futures, options and swaps.

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.

Fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Page 21 of the accounts provides clarification of level 2 and 3 inputs.

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.

Local Authority Accounting Panel

The Local Authority Accounting Panel issues LAAP Bulletins to assist practitioners with the application of the requirements of the Code of Practice on Local Authority Accounting, Service Reporting Code of Practice and the Prudential Code.

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.

Glossary of terms

Non Delegated

Spend on Education Services which is not delegated to schools.

Precept

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

Public Works Loans Board

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

Related party transaction

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

Revenue expenditure

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

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.

Unusable reserves

Those reserves that the Council is not able to utilise to provide a service.

Usable capital receipts

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

By: John Simmonds, Cabinet Member for Finance &
Business Support
Andy Wood, Corporate Director of Finance and
Procurement

To: Governance and Audit Committee – 21st July 2016

Subject: **External Audit Update July 2016**

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 as at 1st July 2016
 - Emerging issues and developments relevant to the County Council

Recommendation

3. Members are asked to note the report.

Robert Patterson
Head of Internal Audit
Ext: 416554

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Audit and Governance Committee
Kent County Council
Progress Report and Update
Year ended 31 March 2016

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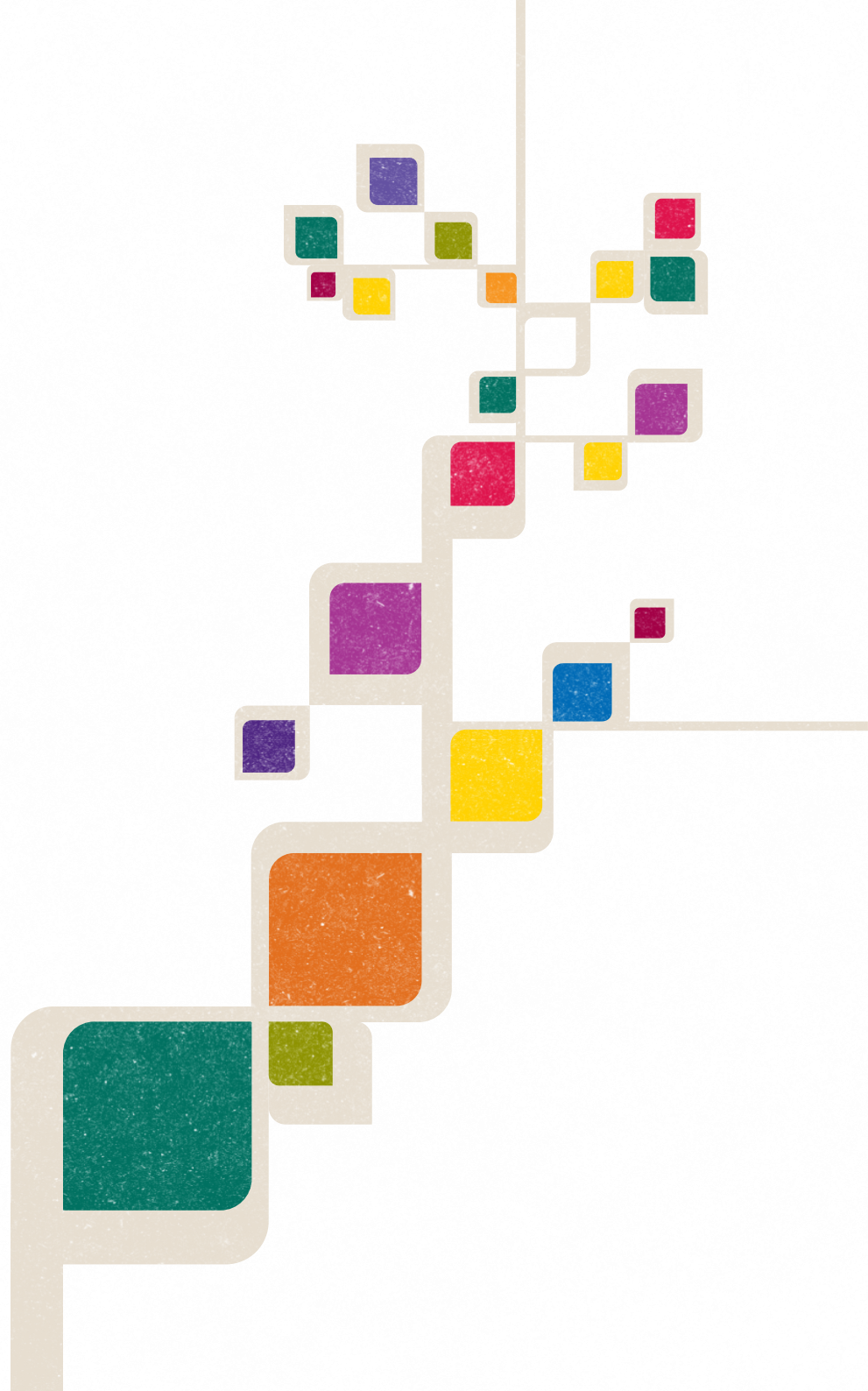
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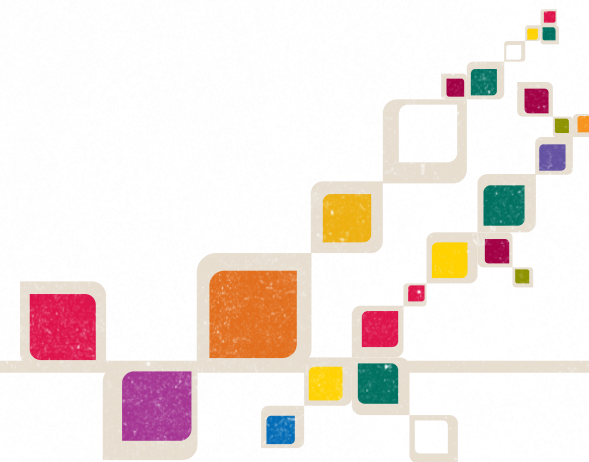
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.



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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.

Members of the Audit and Governance 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. Here you can download copies of our publications:

- Reforging local government: Summary findings of financial health checks and governance reviews:
<http://www.grantthornton.co.uk/en/insights/reforging-local-government/>
- Partnership working in Mental health:
<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/partnership-working-in-mental-health.pdf>
- Innovation in public financial management:
www.grantthornton.co.uk/en/insights/making-devolution-work/
- 2016 Transparency Report:
www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf
- Better Together: Building a successful joint venture company:
<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

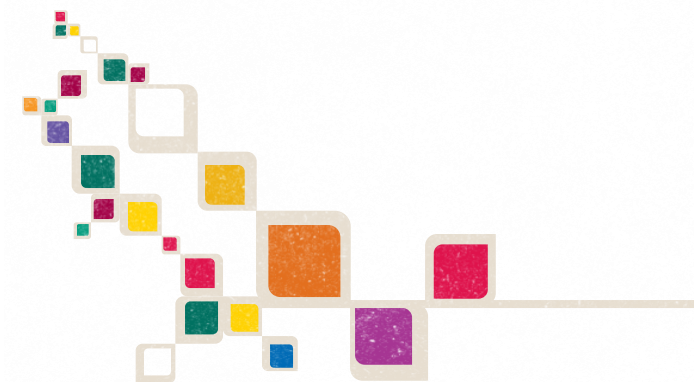
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



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Progress at 21 July 2016



 **Progress against plan**
On track

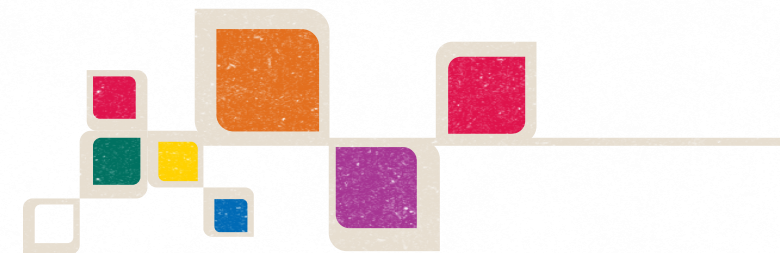
 **Opinion and VfM conclusion**
Plan to complete our work by the 21 July 2016

 **Outputs delivered**
Fee letter, Progress Reports, delivered to plan

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2015/16 work	Completed	Comments
<p>Fee Letter We issued the 'Planned fee letter for 2015/16 in April 2015.</p>	Yes on 23 April 2015	We have also recently issued the fee letter for 2016/17, with no change to the fee proposed. This is reported to this meeting of the Audit and Governance Committee.
<p>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 2015-16 financial statements.</p> <p>We also inform you of any subsequent changes to our audit approach.</p>	27 April 2016	This was presented to the Audit and Governance Committee in April.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's 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 	December 2015 to March 2016	<p>No issues were identified during our work that require reporting to the Audit and Governance Committee .</p> <p>As part of our formal communication between auditors and the council's Audit and Governance Committee, as 'those charged with governance' we prepare a specific report which covers some important areas of the auditor risk assessment where we are required to make inquiries of management and the Audit and Governance Committee under auditing standards.</p>

Progress at 21 June 2016



2015/16 work	Completed	Comments
<p>Final accounts audit Including:</p> <ul style="list-style-type: none"> • Audit of the 2015-16 financial statements • proposed opinion on the Council's accounts 	<p><i>Planned to be completed 21 July 2016</i></p>	<p>We are planning to complete our audit by 21 July 2016. We received unaudited accounts on 3 June 2016 and commenced the audit on 6 June 2016</p>
<p>Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	<p><i>Field work in March – June , formal conclusion reported by 21 July 2016</i></p>	<p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report. We will include our conclusion as part of our report on your financial statements which we will give on 21 July 2016</p>

Local Government Accounting and other issues

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IFRS 13 'Fair value measurement

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local Authorities need to:

- review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.



Highways Network Asset

CIPFA announced at the recent Local Government Accounting Conferences some key messages with regards to changes in accounting for the Highways Network Asset form 2016/17. These included:

- Transport Infrastructure Assets will now be referred to as single asset, the Highways Network Asset (HNA)
- this will be measured at Depreciated Replacement Cost (DRC) using the Modern Equivalent Asset (MEA) basis of valuation from 1 April 2016 and will be applied prospectively rather than requiring a full retrospective restatement
- the new requirements only apply to authorities with assets meeting the definition of a single HNA asset

CIPFA's expects that the transport infrastructure assets held by district councils/ non-highways authorities will be scoped out of the new requirements as assets are unlikely to form a single interconnected network. However, district councils will need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets are not part of an interconnected network.

The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which is available from your Engagement Lead and Engagement Manager and will provide further briefings as further details become available requirements.



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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 – 21st July 2016

Subject: **External Audit – Annual Findings Report 2015/16**

Classification: Unrestricted

Summary: This paper sets the context to the External Auditor’s Annual Audit Findings report.

NOTE – THE EXTERNAL AUDIT REPORT WILL BE TABLED ON THE DAY OF THE MEETING 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 2015/16 financial statements.
2. The report includes the key messages arising from the audit work undertaken to address the risks identified in the Audit Plan presented to this Committee in April 2016. It also includes the results of the work undertaken to assess the Council’s arrangements to secure value for money and financial resilience.

Process

3. The 2015/16 financial statements (except for the Annual Governance Statement) were provided to Grant Thornton for audit during June 2016. The audit of the financial statements started shortly afterwards and the work was substantially complete by early July 2016.
4. Members will have the opportunity to ask questions about the audits and reports to help inform their decision before formally approving the 2015/16 financial statements.

Recommendations

5. Members of the Governance and Audit Committee are asked to:
 - take note of any adjustments to the accounts of the Council
 - Note the conclusions on value for money and the Council’s financial resilience:
 - agree the draft management response to the action plan, subject to any further verbal updates (Appendix A).

Robert Patterson
Head of Internal Audit (Ext: 416554)

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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 – 21st July 2016

Subject: **External Audit – Pension Fund Audit Findings Report 2015/16**

Classification: Unrestricted

Summary: This paper sets the context to the External Auditor's Annual Pension Fund Audit Findings 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 2015/16 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 2016.

Process

3. The 2015/16 Pension Fund financial statements were provided to Grant Thornton for audit in mid June 2016 and the audit of the financial statements progressed shortly after. with completion by early July 2016.
4. Members will have the opportunity to ask questions about the audit and report to help inform their decision before formally approving the 2015/16 financial statements.

Recommendations

5. Members of the Governance and Audit Committee are asked to:
 - agree the findings in the report:

Robert Patterson
Head of Internal Audit (Ext: 416554)

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The Audit Findings Report for Kent Superannuation Fund

Year ended 31 March 2016

21 July 2016

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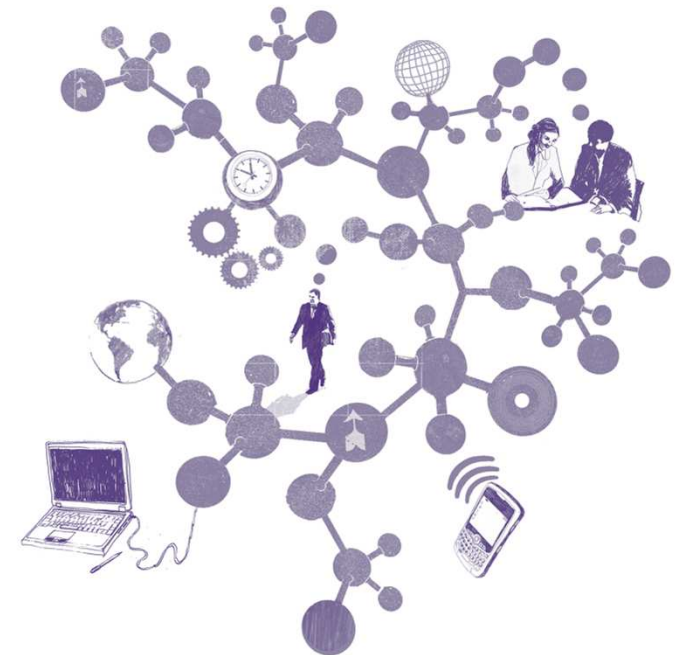
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The Governance and Audit Committee
Kent County Council
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21 July 2016

Dear Members of the Governance and Audit Committee

Audit Findings for Kent Superannuation Fund for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of the Kent Superannuation Fund, the Governance and Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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

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

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

Yours sincerely

Emily Hill
Engagement Lead

Chartered Accountants

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Appendices

- A Audit opinion
- B Audit opinion on the annual report

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of the Kent Superannuation Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2016. 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, and the Local Audit and Accountability Act 2014 ('the Act').

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

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Narrative Report and the Pension Fund Annual Report.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 27 April 2016.

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

- review of the final version of the financial statements
- review of the final version of the Annual Report
- completion of our final internal reviews
- obtaining and reviewing the management letter of representation and
- 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 commencement of our work, in accordance with the agreed timetable.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B). We have also included our anticipated opinion on the Annual Report at Appendix C.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Fund's reported net assets position in the draft financial statements. The draft financial statements for the year ended 31 March 2016 recorded net assets of £4,597,540k and the audited financial statements record the same outcome.

There were no significant issues arising from our work. The draft financial statements provided to audit were of a high quality and supported by good working papers. The finance team responded promptly and knowledgeably to audit requests and queries. We have however recommended a small number of adjustments to improve disclosure and the presentation of the financial statements, further details of which can be seen within section two of this report.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

Controls

Roles and responsibilities

The Fund'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 Fund.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention. Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Director of Finance and Treasury and Investment Manager.

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 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

Materiality

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

As we reported in our audit plan, we determined overall materiality to be £45,390k (being 1% of net assets from the prior year audited accounts). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £2,269k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to public interest in these disclosures.	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Pension Fund and the related party.
Cash and cash equivalents	The balance of cash and cash equivalents is usually material, and as the majority of your transactions affect the balance it is therefore considered to be material by nature also.	Any errors identified by testing in excess of £500k will be considered as to whether they would affect the users understanding of the financial statements.

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(UK&I)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.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA(UK&I)240 and the nature of the revenue streams at Kent Superannuation Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited due to clear separation of duties between the Fund, fund managers and the custodian; and • the culture and ethical frameworks of local authorities, including Kent County Council as the administering authority, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any material issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA(UK&I)240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Provide summary of work performed, e.g.</p> <ul style="list-style-type: none"> • review of entity-level controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Level 3 Investments – Valuation is incorrect</p> <p>Under ISA(UK&I)315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<ul style="list-style-type: none"> We carried out walkthrough tests of the controls identified in the cycle. Tested a sample of private equity investments valuations by obtaining and reviewing the latest audited accounts for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period. Reviewed the qualifications of fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. Reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments. 	<p>Our audit work has not identified any issues around the valuation of the Level 3 Investments reported at year end.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment purchases and sales	Investment activity not valid. (Occurrence) Investment valuation not correct. (Valuation gross)	We have undertaken the following work in relation to this risk <ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Fund's own records and sought explanations for variances. 	Our audit work has not identified any significant issues in relation to the risk identified.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Fund's own records and sought explanations for variances For direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert. 	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 risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct (Occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over occurrence, completeness and accuracy of contributions. • Undertook a monthly trend analysis over the contributions received during the year to gain assurance over the completeness of contributions included within the accounts. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over completeness, accuracy and occurrence of benefit payments. • Undertook a monthly trend analysis over the pension payments made during the year to gain assurance over the completeness of benefits paid included within the accounts. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained. 	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 risk	Work completed	Assurance gained & issues arising
<p>Member Data</p>	<p>Member data not correct. (Rights and Obligations)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over annual/monthly reconciliations and verifications with individual members. • Sample tested changes to member data for new member, leavers and new pensioners made during the year to source documentation. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>


Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>The financial statements include policies for recognition of the following:</p> <ul style="list-style-type: none"> • Investment income • Contribution income • Transfers in to the scheme <p>Revenue for the first two categories is recognised on an accruals basis, whilst for the third category it is recognised on a cash basis, with the exception of bulk transfers, which are accounted for on an accruals basis in accordance with the terms of the transfer agreement.</p>	<p>Review of your policies for revenue recognition confirms they are in line with the requirements of the CIPFA Code of Practice and cover all the expected areas in accordance with the Fund's activities.</p> <p>Our testing has confirmed that these policies have been correctly and consistently applied.</p>	 Green
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • Valuation of private equity, property and infrastructure investments • Present value of future retirement benefits 	<p>Our review of your key judgements disclosed in the draft financial statements has confirmed they are complete in accordance with our understanding of the Fund. Our testing has confirmed that the accounting policies in relation to these areas are in accordance with the CIPFA Code of Practice and have been correctly and consistently applied.</p>	 Green
Going concern	<p>Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed officers' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.</p>	 Green

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Assessment

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

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

 **Green** - Accounting

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies		We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. The Fund's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

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

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

● **Green** - Accounting

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Governance and Audit Committee and have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from your fund managers and custodian for investment balances and from your bank for your cash balances (outside of the cash held by your fund managers). All of these requests have been returned with positive confirmation
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material errors or omissions but we have requested management to make some minor amendments to further improve the clarity of the information included within the financial statements.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. We have not identified any issues we wish to report.

Internal controls

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

Our audit included consideration of internal controls 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. We considered and walked through the internal controls for Investment Purchases and Sales, Investment Valuations – Levels 2 and 3, Contributions, Benefits Payable, and Member Data as set out on pages 11 to 13 within this report.

The controls were found to be operating effectively and we have no matters to report to the Governance and Audit Committee.

Adjusted and unadjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There were no adjusted or unadjusted misstatements identified as a result of our procedures.

Misclassifications and disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	Several	Note 15a – Single investments 5% or more by value of their asset class, and Note 16 – Stock Lending	The draft financial statements did not include prior year comparatives for both of these notes, which have now been included within the final version of the accounts.
2 Disclosure	n/a	Note 17c – Valuation of Financial Instruments carried at Fair Value	This note did not provide sufficient information around how the Fund's Level 3 Investments are valued, which has been enhanced in the final version of the accounts.
3 Disclosure	n/a	Description of the Fund; Note 2 – Accounting Policies; Note 4 – Events after the Balance Sheet Date Note 8 – Payments to and on account of leavers Note 18 – Nature and Extent of Risks	Various minor amendments have been made to enhance the clarity of the final version of the accounts.

Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

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

Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	30,568	30,568
Total audit fees (excluding VAT)	30,568	30,568

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

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	Nil

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 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing (ISA) (UK&I) 260, as well as other ISA(UK&I)s, 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

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

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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendix A: Audit opinion

We anticipate we will provide the Fund with an unqualified audit report .

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

We have audited the pension fund financial statements of Kent County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

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

Respective responsibilities of the 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund 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 pension 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 pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund 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 financial statements: present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities, and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Emily Hill
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

XX July 2016

Appendix B: Proposed audit opinion on the annual report

We anticipate we will provide the Fund with an unqualified audit report

FINAL WORDING TO BE CONFIRMED

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By: Roger Gough, Cabinet Member for Education and Health Reform
Patrick Leeson, Corporate Director of Education and Young People's Services

To: Governance and Audit Committee – 21st July 2016

Subject: SCHOOLS AUDIT ANNUAL REPORT

Classification: Unrestricted

Summary: The Annual Report summarises the Schools Financial Services (SFS) compliance programme and other activities undertaken during 2015-16 which enables 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.

FOR ASSURANCE

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 2015-16 DfE Schools Financial Value Standard (SFVS) Assurance Statement, the following work strands have been completed:

Compliance programme - 2015-16 was the fourth year of a five year compliance programme which has been agreed with Internal Audit as a suitable approach in line with audit methodology that meets the definition of an “adequate system of audit”. The first year of the programme Deloitte completed 50 visits, SFS completed 100 visits in 2013-14 and 101 visits in 2014-15. In 2015-16 four Pupil Referral Units (PRU's) had their first compliance visit and 96 maintained schools were visited. Within the five year programme every school and PRU will have at least one visit. The visits are determined on a risk basis with schools presenting a higher financial risk having more than one visit over the five year period. The 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 an annual self-assessment completed by schools.

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. There

is a follow up process and where necessary further visits are undertaken in schools to check that high risk controls have been put in place. An evaluation of our compliance process is sent to schools to further engage them and to inform SFS of any developments that could enhance the programme.

The questions are reviewed annually to ensure updated controls are included and high risk areas are adequately covered. During 2015-16 there were more in-depth checks for procurement, corporate cards, bank accounts and petty cash. This has resulted in more recommendations to schools in these areas. Schools have been reminded of these controls using a variety of communications including E Bulletins and Finance Information Groups and training programmes have also been updated.

The compliance programme has been audited annually by Internal Audit. In 2014-15 the Audit Opinion was Adequate and in 2015-16 this had improved to a Substantial Opinion with the only comment being to review the number of compliance visits undertaken annually due to the reducing number of maintained schools.

Schools Financial Value Standard – Schools complete an annual self- assessment which is agreed by governors and is sent to SFS as part of schools’ statutory returns. This document is referred to when conducting a compliance visit and the report and any recommendations referred back to the schools own self-assessment.

Review and feedback 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 into the corporate accounts. Appropriate feedback is provided to schools on their three year budget plan, half year accounts and six and nine monthly monitoring.

Provision of financial support – As part of our traded services, 36.9% of schools have purchased a regular contract in 2015-16 where experienced SFS staff work with the schools, generally on the school site. A further 20.7% have purchased ad hoc support and 98.5% of schools purchased a core finance package offering phone and e mail 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 Information Groups for bursars and other finance staff. During 2015-16 there were over 190 training courses and five Finance Information Groups attended by over 2400 delegates from Kent Maintained schools and academies.

Themed audits undertaken by Internal Audit - Alongside the work completed by SFS, Internal Audit undertake themed audits in schools. In 2015-16 the audit sampled 20 schools covering Income and Payroll.

3. Summary of Findings

Alongside the compliance programme, themed audits, analysis of returns, training programme and traded activities with schools, Schools Financial Services regularly liaise and work with other colleagues who support schools, including the Area Education Officers and School Improvement Officers to ensure KCC have a complete picture of a school to support the Headteacher, finance staff and governors to ensure the school is financially well managed.

The compliance programme consists of 104 questions covering governance & leadership, financial planning, budgetary control and monitoring, payroll, procurement, corporate cards, bank accounts, petty cash, income, assets, data protection, School Development Plan and health and safety.

The table attached details the number of high and medium recommendations within each category of the compliance programme for 2013-14, 2014-15 and 2015-16 for maintained schools.

4. Opinion

It is considered that the comprehensive compliance programme and themed audits undertaken, the statutory information analysed, training programme, traded work completed in schools and the schools' own self assessments of the SFVS provide 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 (03000 416353)

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Schools Financial Services Compliance Comparison 2013-14 to 2015-16

	2013-14	2014-15	2015-16
Total schools tested:	100	101	96 <small>Excludes four PRU's</small>
Total questions within each compliance visit	109	106	104
If process/procedure not in place:			
Total number of HIGH recommendations	61	61	58
Total number of MEDIUM recommendations	48	45	46
Total number of processes/procedures tested in all schools	10900	10706	9984
Total number of processes/procedures not in place for all schools tested	1875	1201	1082
Average % processes/procedures NOT in place	17%	11%	10%

	2013-14				2014-15				2015-16			
	Total Questions Per School	Total Questions	Processes Not in Place	%	Total Questions Per School	Total Questions	Processes Not in Place	%	Total Questions Per School	Total Questions	Processes Not in Place	%
High recommendations by Category												
Governance & Leadership	8	800	151	18.88%	7	707	59	8.35%	6	576	28	4.86%
School Development Plan	2	200	3	1.50%	2	202	2	0.99%	2	192	1	0.52%
Financial Planning and Monitoring	12	1200	178	14.83%	12	1212	102	8.42%	11	1056	88	8.33%
Payroll	7	700	172	24.57%	7	707	106	14.99%	7	672	95	14.14%
Procurement	7	700	123	17.57%	7	707	92	13.01%	7	672	108	16.07%
Corporate Cards	4	400	74	18.50%	4	404	56	13.86%	4	384	83	21.61%
Bank Account and Petty Cash	5	500	52	10.40%	5	505	23	4.55%	5	480	46	9.58%
Income	5	500	52	10.40%	5	505	23	4.55%	5	480	21	4.38%
Assets and Loans	5	500	136	27.20%	6	606	83	13.70%	5	480	76	15.83%
Data Protection	5	500	39	7.80%	5	505	13	2.57%	5	480	4	0.83%
Health & Safety	1	100	22	22.00%	1	101	26	25.74%	1	96	23	23.96%
	61	6100	1002		61	6161	585		58	5568	573	

Medium recommendations by category												
Governance & Leadership	11	1100	218	19.82%	9	909	138	15.18%	10	960	119	12.40%
School Development Plan	1	100	30	30.00%	1	101	20	19.80%	1	96	15	15.63%
Financial Planning and Monitoring	8	800	132	16.50%	7	707	77	10.89%	7	672	78	11.61%
Payroll	4	400	60	15.00%	4	404	30	7.43%	3	288	27	9.38%
Procurement	7	700	164	23.43%	7	707	120	16.97%	7	672	94	13.99%
Corporate Cards	1	100	20	20.00%	1	101	7	6.93%	1	96	7	7.29%
Bank Account and Petty Cash	5	500	52	10.40%	5	505	27	5.35%	5	480	41	8.54%
Income	3	300	26	8.67%	3	303	13	4.29%	3	288	11	3.82%
Assets and Loans	2	200	24	12.00%	2	202	31	15.35%	3	288	36	12.50%
Data Protection	1	100	6	6.00%	1	101	0	0.00%	1	96	2	2.08%
Health & Safety	5	500	141	28.20%	5	505	153	30.30%	5	480	79	16.46%
	48	4800	873		45	4545	616		46	4416	509	

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By: Robert Patterson, Head of Internal Audit

To: Governance and Audit Committee – 21st July 2016

Subject: **Internal Audit Annual Report and Opinion for 2015/16**

Classification: Unrestricted

Summary: This annual report summarises the overall outcomes and themes from internal audit and counter fraud work for 2015/16 and the resultant annual opinion towards the Council's systems of governance, risk management and internal control. It also provides a commentary on the performance of the internal audit and counter fraud unit in delivering this work.

FOR ASSURANCE

1. Introduction and Background

1.1 Public Sector Internal Audit Standards (PSIAS) 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. (AGS) This report must:

- Include an opinion on the overall adequacy and effectiveness of organisations control environment
- Present a summary of work that supports the opinion
- Provide a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme (QAIP)

1.2 As such this paper and the attached enclosures provides the year end conclusions in relation to audit and counter fraud outcomes during 2015/16, including the patterns that emerge of strengths and areas for development.

1.3 There are four key determinants to our internal audit opinion, being :



1.4 This report considers each of these elements and the resultant over-arching opinion. It also provides summary strengths and areas for development to be considered by top level management and Members.

2. Outcomes from internal audit and counter fraud work

2.1 The annual report from the internal audit and counter fraud unit is enclosed in Appendix D. Appendix A maps the outcomes from the 59 substantive internal audits that have been completed or are at final reporting stage. This has involved audit reviews embracing £2.7 billion of combined KCC turnover. In addition we have undertaken 18 establishment audits (some of which were unannounced visits). 'Establishments' are remote sites such as children's centres, youth hubs and residential units.

2.2 Overall in 2015/16, 42% (40% in 2014/15) of systems or functions have been judged with Substantial assurance or better, conversely 19 % (19% in 2014/15) of systems have been given a Limited assurance.

2.3 In relation to the 18 establishment audits undertaken during the year (and excluded from Appendix A) only 2 have received a Substantial assurance opinion, with common findings around deficient cash, stock and asset controls as well as incidences of poor adherence to mandatory staff training.

2.4 There have been no incidences of material fraud, irregularities or corruption discovered or reported. In total 120 suspected financial irregularities were reported to us during the year and 104 have been concluded. The potential value of these irregularities at the time they were reported was £1.46 million¹ (this was skewed by a number of potential RGF grant frauds). After investigation and closure the actual (potentially recoverable) losses totalled over £108,700 and a further £64,300 of losses were prevented.

2.5 One of the disappointments has been the delay in getting the DCLG grant funded Kent Intelligence Network (KIN) up and running. The biggest obstacles have been around getting agreement from 15 local authorities to the legal data sharing protocols (which is still on-going) and which are a fundamental pre-requisite to any data matching. We currently anticipate this being resolved in the next four weeks, with system matching going live by September 2016.

3. Governance 'health check'

3.1 In previous years attempts have been made to map audit and counter fraud work against the 6 core principles of the CIPFA / SOLACE governance framework. This has led to less than satisfactory outcomes as our audit coverage is not a good fit with the CIPFA / SOLACE governance definitions.

3.2 For 2015/16 we have piloted a more robust 'Governance Health Check' where we have mapped audit outcomes and emerging themes against 10 key areas, being:

- Change, and realising our plans
- Performance
- Underpinning IT and Data Quality
- Risk
- Policies and procedures and their application

¹ This figure is based on the total amount of funds at risk at the time of the initial allegation.

- Legislative compliance
- Financial and non-financial resources
- Commissioning, Procurement and Contract Management
- Governance at Directorate levels
- Other underpinning quality assurance measures

3.3 A full report has been presented to the Head of Paid Service, Section 151 officer and the Director of Governance and Law. The summary outcomes from this work are shown in Appendix B. We have concluded an overall Substantial opinion from this health check but with a small number of areas where Adequate assurance was gained. The only area receiving a 'weak' opinion related to aspects of contract management, which is one of 3 elements feeding into the judgment on 'commissioning, procurement and contract management'.

4. Annual Governance Returns

4.1 As in previous years we have also independently reviewed the annual governance returns supplied from Directorates and Departments across the Council to the Director of Governance and Law. These returns provide evidence of the standards of internal control and risk management within these departments and are critical to the Council's declarations in the annual governance statement. Overall we found no material errors or issues from these self-assessments and have provided a Substantial opinion to them.

5. Follow Ups

5.1 Critical to good governance is the organisation's ability to implement high and medium risk management actions to address audit issues once they have been agreed. Following our follow up review during January 2016, when it emerged that only 58% of such agreed actions had been implemented by the agreed date (and no progress had been made in one in four actions), a new follow up system has been introduced whereby departments / Directorates provided us with self-assessments that are then subject to test checking. The notion of the new system has been to re-enforce the accountability of departments to implement their agreed actions.

5.2 We have received returns from all departments and Directorates followed by relevant test checking on a risk basis, which generally confirmed the accuracy of the self-assessments.

5.3 The current distribution for the implementation of agreed actions is shown below:

Priority	Due for implementation by June 2016	Implemented	In progress	Not Implemented	Superseded
High	27	14	8	2	3
Medium	70	49	19	0	2
Total (%)	97	63 (65%)	27 (28%)	2 (2%)	5 (5%)

5.4 The results of this work show an improvement from the last follow ups exercise in January 2016, with 65% of actions now implemented by the due date. Although the number of actions with no progress had dramatically fallen, there are still nearly a third of actions that have failed to meet the agreed deadlines.

6. Overall Internal Audit Opinion

6.1 Combining together the outcomes from the four key areas detailed in 1.3 above we have concluded a **Substantial assurance opinion** in relation to corporate governance, risk management and internal control.

6.2 From the totality of our work the following strengths and areas for development underlie these outcomes:

Strengths

- The 42% of services and functions that have been given a Substantial opinion or better
- A continuing pattern of general robustness of key financial systems, with two financial systems (treasury management and capital finance) receiving the highest assurance rating
- Substantial assurance over underlying Directorate risk management systems and cultures
- Positive assurance over non-financial safeguarding controls in children's services
- Positive outcomes from the operation of selected financial systems in schools and the financial support and review services utilised to support them
- Improvements in the performance of implementing agreed actions following issues emerging from audits
- Three quarters of services or functions were judged to have good prospects for future improvement

Areas for development:

- The 19% of services or functions that have been given a Limited opinion
- Shortfalls in the way the Council monitors and manages the contracts that it awards in some areas
- The need to enhance controls in selected change programmes in order to ensure planned benefits are deliverable and sustainable
- Elements of adult safeguarding (noting that corrective action is now taking place)
- Methods of awarding and controlling grants
- Consistent application of policies and procedures across the Council
- The continuing need for consistent and robust devolved financial and non-financial controls in establishments

6.3 In relation to issues of consistency of approach, there is also a theme within the more recent audits of grants, officers expenses and consultations that warrants a review of the Council's risk appetite in these areas (and perhaps beyond). Generally there are published policies and guidance that managers and staff should follow. There is some limited central monitoring of adherence to these, through spot checks, sampling, and intelligence gathering, but it is unlikely to be good value for money to introduce more controls as the costs would outweigh the benefits. Consequently it would be appropriate to review the existing risk appetite in these areas, and amend any guidance, systems and processes accordingly, along with clarifying the consequences of non-compliance. This concept is currently being 'tested' in the responses to both the officers expenses and grants audits.

- 6.4 The majority of the areas for development have already been reported to G&A Committee during the year
- 6.5 The formal wording for the relevant declaration into the Annual Governance Statement is shown in Appendix C.

7. Our quality standards and accreditation

- 7.1 In relation to the competencies of internal audit and counter fraud underpinning this opinion, the Committee will be aware that in March 2015 the unit was independently quality assessed against Public Sector Internal Audit Standards by the Institute of Internal Auditors (IIA) and given the highest level of grading, with full compliance against 52 of the 56 international standards and with partial compliance for the remainder.
- 7.2 In June of this year we commissioned a follow up review by the IIA and have progressed to have full compliance in 55 of the 56 standards with partial compliance in only one remaining area.

8. Recommendations

- 8.1 Members are asked to note the internal audit and counter fraud outcomes derived from the 2015/16 work and the resultant 'Substantial' opinion to the Annual Governance Statement relating to the County Council's governance, risk management and internal control arrangements.

Appendices

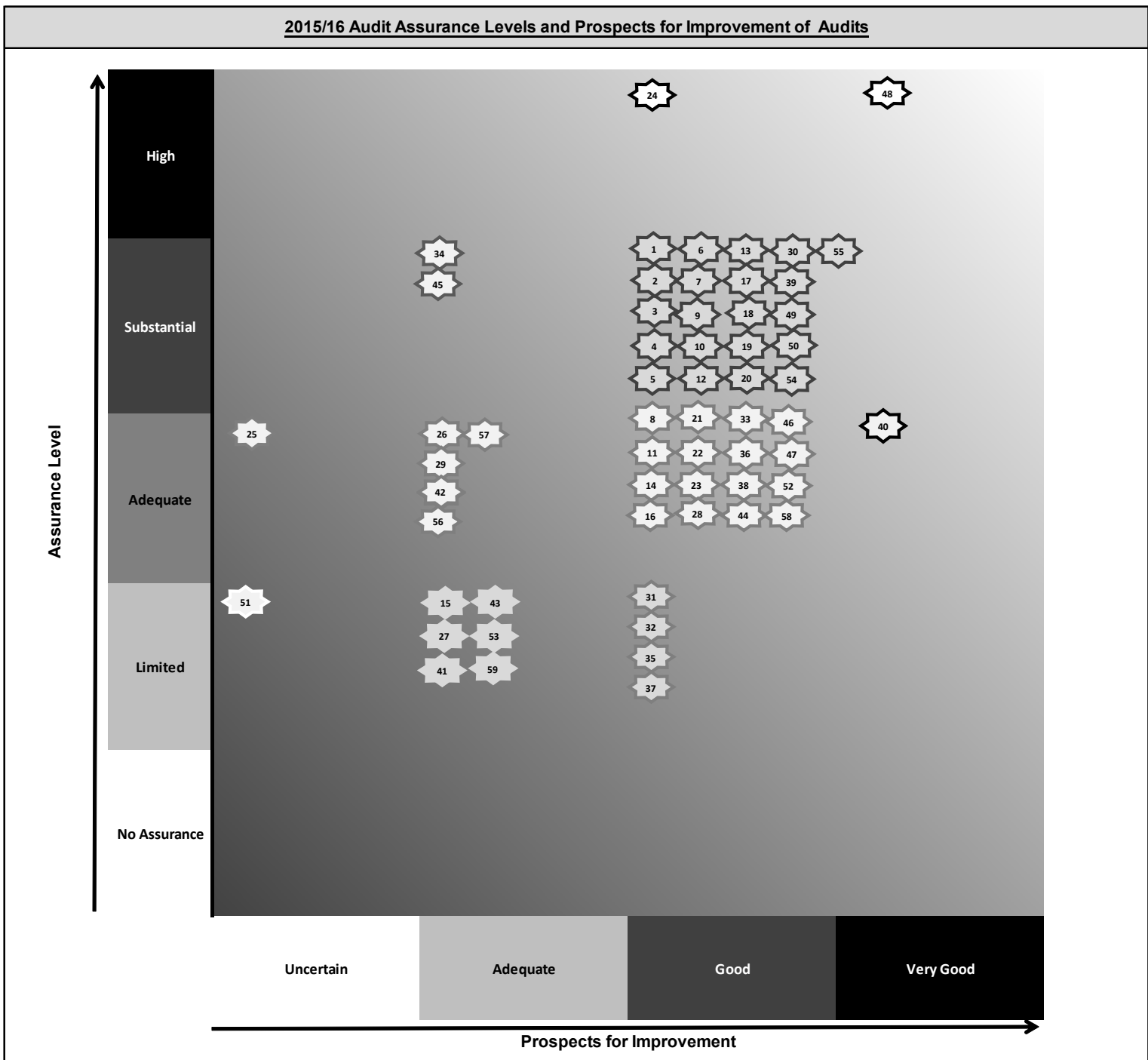
- Appendix A Distribution of internal audit judgements 2015/16
- Appendix B Overall diagrammatic results from the 2015/16 Governance Health check
- Appendix C Annual Governance Statement 2015/16 – Internal Audit Opinion
- Appendix D Internal Audit and Counter Fraud Annual Report

Robert Patterson, Head of Internal Audit

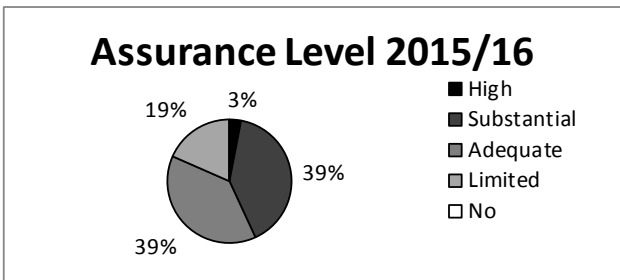
03000 416554, Robert.Patterson@kent.gov.uk

June 2016

Appendix A – 2015/16 Audit Assurance Levels and Prospects for Improvement



Assurance Level	No	%
High	2	3%
Substantial	23	39%
Adequate	23	39%
Limited	11	19%
No	0	0%



Audit Opinion September G&A Committee

No	Audit	Judgement	Prospects for Improvement
1	Community, Learning and Skills	Substantial	Good
2	Capital Projects - Schools Build	Substantial	Good
3	Transparency Code Compliance	Substantial	Good
4	Pensions Payroll	Substantial	Good
5	IT Oracle	Substantial	Good
6	Business Continuity Planning	Substantial	Good
7	KCC Payroll - Follow up	Substantial	Good
8	Debt Recovery	Adequate	Good
9	Learning and Development	Substantial	Good
10	Safeguarding SCS	Substantial	Good
11	Foster Care (Follow up)	Adequate	Good
12	Household Waste & Recycling Contract Management	Substantial	Good
13	Client Financial Affairs (Follow up)	Substantial	Good
14	Home Care Contract	Adequate	Good

Audit Opinion January G&A Committee

No	Audit	Judgement	Prospects for Improvement
15	Consultancy & Partnership Contract Arrangements	Limited	Adequate
16	Programme Management & Corporate Assurance	Adequate	Good
17	New Ways of Working Follow-up	Substantial	Good
18	ICT Data Centres	Substantial	Good
19	ICT Change Control	Substantial	Good
20	Data Quality - HR Oracle	Substantial	Good
21	Looked After Children (LAC) Finances	Adequate	Good
22	Recruitment Controls & DBS Checks	Adequate	Good
23	Payment Processes	Adequate	Good
24	Treasury Management	High	Good
25	Better Care Fund	Adequate	Uncertain
26	OP Residential & Nursing Contract re-lets	Adequate	Adequate
27	Total Facilities Management - Contract Management	Limited	Good
28	Sexual Health	Adequate	Good

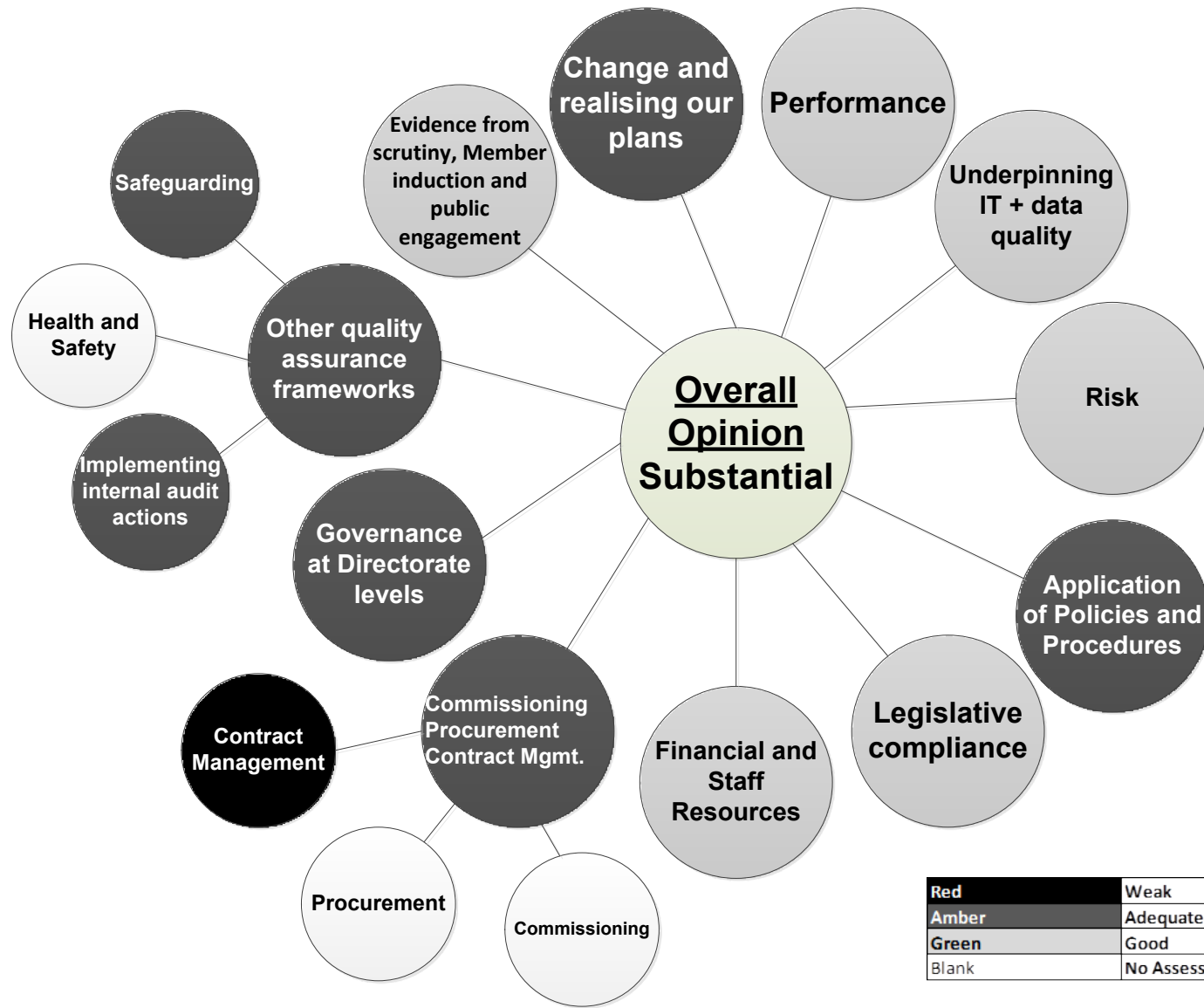
Audit Opinion April G&A Committee

No	Audit	Judgement	Prospects for Improvement
29	Public Health	Adequate	Adequate
30	Information Governance Toolkit	Substantial	Good
31	I.T Third Party Contracts	Limited	Good
32	Leaving Care	Limited	Good
33	Regional Growth Fund	Adequate	Good
34	Risk Management	Substantial	Adequate
35	Recruitment and Retention Incentives	Limited	Good
36	Settlements Agreements	Adequate	Good
37	Grants	Limited	Good
38	Financial Assesments Follow Up	Adequate	Good
39	Pension Contributions	Substantial	Good
40	Pension Scheme Administration	Adequate	Very Good
41	TFM Helpdesk	Limited	Adequate
42	Contract Extensions and Variations	Adequate	Adequate
43	Contract Management Themed Review	Limited	Adequate
44	SEN Assessments and Funding	Adequate	Good
45	Schools Financial Services	Substantial	Adequate
46	Payroll and Income in Schools	Adequate	Good
47	Section 17	Adequate	Good
48	Capital Finance	High	Very Good

Audit Opinion July G&A Committee

No	Audit	Judgement	Prospects for Improvement
49	LEP & LGF	Substantial	Good
50	Family Placements	Substantial	Good
51	DoLS	Limited	Uncertain
52	Kent Resilience Team	Adequate	Good
53	Safeugarding Adults	Limited	Adequate
54	KMPT	Substantial	Good
55	Performance Management & KPI's	Substantial	Good
56	Consultations	Adequate	Adequate
57	Transport	Adequate	Adequate
58	Insurance	Adequate	Good
59	Officers Expenses Follow-up	Limited	Adequate
	Corporate Governance	Substantial	N/A
	AGS	Substantial	N/A

Appendix B – Internal Audit Governance Health Check Review 2015/16



Red	Weak
Amber	Adequate
Green	Good
Blank	No Assessment

Appendix C

Annual Governance Statement 2014/15

Judgement and wording from Internal Audit and Counter Fraud Unit

Internal Audit has concluded, overall, based on the scope and findings of work that it has performed and taking into account the individual strengths and areas for development identified, that substantial assurance can be given in relation to corporate governance, risk management and internal control arrangements.

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 pattern of generally robust core support systems, with a number of exemplar areas identified. No incidences of material external or internal fraud or corruption have been detected or reported. Areas for further improvement have also been highlighted; more particularly the need to maintain controls and sustain improvements in transformational change programmes, ensure contract management is consistently effective and that policies and procedures are applied and enforced across the Council including its remote establishments

The Council has been receptive to addressing issues raised by Internal Audit and has improved its performance in implementing agreed actions. This has been independently confirmed from the results of formal follow up work undertaken by the unit.



Kent County Council

Internal Audit and Counter Fraud Annual Report

July 2016

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1 Introduction and Purpose

- 1.1. This annual report details cumulative internal audit and counter fraud outcomes for 2015/16. As well as providing the substantive evidence underlying our opinion to the Annual Governance Statement it also highlights key issues, patterns, strengths and areas for development in respect of internal control, risk management and governance arising from our work.
- 1.2. This report also details the remaining substantive audit and counter fraud work since our last progress report to the G&A Committee in April. Appendix 1 provides the detail underlying these audits. Appendix 2 demonstrates how the audit and counter fraud plan for 2015/16 has been duly completed. Appendix 4 provides the definitions underlying our opinions.
- 1.3. Over 2015/16 we completed 60 substantive audits together with a further 18 establishment visits. In relation to counter fraud we have completed 104 investigations with a further 16 still on-going and carried forward into 2016/17. The majority of this coverage was resourced and driven from the internal audit and counter fraud plan (previously reviewed by this Committee) selected on the basis of providing an independent and objective opinion on the adequacy of the Council's control environment. Overall we have examined an estimated £ 2.7 billion of KCC turnover (excluding Treasury Management).
- 1.4. In this annual report we highlight key messages and outcomes arising from our work together with the associated assurance levels. In section 3 we align such audit outcomes against key corporate risks or significant systems.
- 1.5. For 2015/16 we have also taken the results from audit work and arranged them against 10 areas in a 'Governance Health Check'. The results from this analysis are shown in the covering paper to this annual report.
- 1.6. During 2015/16 internal audit has also remained involved in monitoring the works in progress of selected significant change programmes and projects so as to provide timely pre-event challenge as they have progressed. We are also the appointed internal auditor for current and newly established arms lengths trading bodies (Commercial Services, GEN2 and legal services), providing independent assurance to their relevant Boards.

2 Overview

Internal Audit

1.7. The covering paper to this Annual Report provides a graphical distribution of the assurance levels from the totality of the substantive internal audits undertaken during 2015/16. To reprise our covering report, for the work and outcomes derived from this coverage, together with outcomes from the governance 'health check' , reviews of the Annual Governance Statement (AGS) returns and follow up work results in the following summary strengths and areas for development.

1.8. Strengths

- 42% of systems or functions have been judged with a Substantial assurance or better
- A continuing pattern of general robustness of key financial systems
- Substantial assurance over underlying Directorate risk management systems
- Positive assurance over non-financial safeguarding controls in children's services
- Positive outcomes from the operation of selected financial systems in schools and the financial support and review services utilised to support them
- Improvements in the performance of implementing agreed actions following issues emerging from audits
- Three quarters of functions were judged to have good prospects for future improvement
- No incidences of material fraud, irregularities or corruption have been discovered or reported.

1.9. Areas for further development relate to:

- The 19% of systems / functions that have received a Limited assurance level
- Evidence of shortfalls in the way the Council controls and monitors the contracts that it awards in some areas
- The need to enhance controls in selected change programmes and ensure planned benefits are deliverable and sustainable
- Elements of adult safeguarding
- Weaknesses in the methods of awarding and controlling grants
- Consistent application of policies and procedures across the Council
- The continuing need for consistent and robust devolved financial and non-financial controls in establishments

Overall Assurance and Opinion

- 1.10. The breadth of our coverage and outcomes from our work for the year has provided sufficient evidence to support a **Substantial** opinion on the overall adequacy and effectiveness of the Council's system of internal control, which relates to:
- Corporate Governance
 - Risk Management
 - Internal Control
- 1.11. There have been no limitations to the scope of our work, but it should be noted that the assurance expressed can never be absolute and as such internal audit provides "reasonable assurance" based on the work performed.
- 1.12. The formal declaration that will be incorporated into the Annual Governance Statement is shown in Appendix C of the covering paper.
- 1.13. Management have developed appropriate action plans in response to all the high priority issues raised from our recent audit and counter fraud work.

3 Mapping Audit (and Counter Fraud) outcomes against corporate risks.

3.1. Appendix 1 provides detailed summaries on the outcomes from internal audit work completed since April, but it is important to provide an overview of audit and related counter fraud outcomes against corporate risks, mapping cumulative audit outcomes for the whole of 2015/16.

Future operating environments – in particular Change Management and Governance of Change

3.2. During the year to date we have reviewed the following areas that have a common theme connected to the management of change.

	Assurance Level	Prospects for Improvement	Issues Raised	
Consultancy and Partnership Contract Arrangements	Limited	Adequate	High: 5 Medium:5	All accepted
Programme Management and Corporate Assurance	Adequate	Good	High: 0 Medium:6	All accepted
New Ways of Working (follow up)	Substantial	Good	High: 1 Medium:0	All accepted
Home Care contract	Adequate	Good	High: 1 Medium: 0	All accepted

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3.3. In addition there were 19 audits completed which looked in part at change and found that for these elements 42% were assessed as good, 53% were adequate and 5 % required improvement. A further related assessment if change is derived from our judgments on 'prospects for improvement'. From 44 relevant audits, the prospects for improvement were judged 'very good' or 'good' in 75% of instances. We have also attended a number of internal change management groupings where we have evidenced good project planning in partnership with consultant initiated change

3.4. Overall we have concluded that change management across the Council is generally satisfactory but there is a need to enhance controls in selected programmes and also ensure that the planned benefits will ultimately be achievable and sustainable.

Data and Information Management

3.5. Assurance over the integrity and reliability of the Council's information systems has been provided by audits of :

	Assurance level	Prospects for Improvement	Issues Raised	
Performance Management and KPI's	Substantial	Good	High: 0 Medium: 1	Accepted
Information Governance Toolkit	Substantial	Good	High: 0 Medium: 0	N/A
IT Third Party Contracts	Limited	Good	High: 1 Medium: 1	All accepted
ICT Data Centres	Substantial	Good	High: 0 Medium: 3	All accepted
ICT Change Control	Substantial	Good	High: 0 Medium: 1	All accepted
Data Quality (Oracle HR)	Substantial	Good	High: 2 Medium: 2	All accepted
IT Oracle	Substantial	Good	High: 0 Medium: 3	Accepted

Business Continuity Planning	Substantial	Good	High: 1 Medium: 4	Accepted
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- 3.6. In this period we audited the Council’s overarching performance management and KPI reporting framework and from our sampling concluded that such indicators are appropriate and reported on a timely basis. We found areas of good practice in relation to improving the consistency and quality of data to all levels of the organisation.
- 3.7. There were no further dedicated IT audits undertaken in this period beyond the 7 already completed and reported above. In addition results from other audits in devolved systems at Directorate level which included elements of IT and data quality showed nearly a third required improvement.
- 3.8. Overall from these results we have concluded that information management relating to performance monitoring is robust and timely. In relation to underpinning IT systems, it is evident that there are particular strengths in controls within the core IT function but that performance can be more variable at devolved levels across the Council.

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Safeguarding

- 3.9. Safeguarding of vulnerable children and adults is a critical risk for the Council. We have undertaken the following work relating to services to vulnerable young people and adults:

	Assurance level	Prospects for Improvement	Issues Raised	
Safeguarding Adults – Quality Assurance	Limited	Adequate	High: 3 Medium: 0	All accepted
Deprivation of Liberty Safeguards (DoLS)	Limited	Uncertain	High: 1 Medium: 4	All accepted
Leaving Care	Limited	Good	High: 2 Medium: 4	All accepted

Looked After Childrens (LAC) Finances	Adequate	Good	High: 0 Medium: 1	All Accepted
Safeguarding in Children's Services	Substantial	Good	High: 1 Medium: 7	All Accepted
Foster Care Follow Up	Adequate	Good	N/A	Good progress being made
Client Financial Affairs Follow Up	Substantial	Good	High: 0 Medium: 2	Accepted

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- 3.10. During the last quarter of the year we completed two audits linked to adult safeguarding. Both have received a Limited opinion and issues around specific operational and resource allocation issues were common to both services. That relating to Deprivation of Liberty safeguards (DoLS) showed that an increased volume of applications were being tackled with an absence of a robust case management system and shortage of staffing resources. These shortfalls in systems, data quality and resources are likely to result in breaches of the Mental Capacity Act.
- 3.11. Meanwhile the adult safeguarding quality assurance systems showed a decline in coverage and depth of departmental practice audits, pro-active work and sampling at a time when risks in this area were increasing. Additional issues around delays in reviewing improvement plans and policies and procedures were rectified during the audit.
- 3.12. Overall therefore it is evident that from our safeguarding work this year that the Council is served by a robust children's services safeguarding function although problematic legacy practice issues can exist in some services such as Leaving Care. Conversely adult safeguarding practice is more variable at a time when pressures and risks are increasing.

Access to resources to aid economic growth and enabling infrastructure

- 3.13. The audit relating to re-generation and growth funding in 2016/17 LEP monitoring and management arrangements was completed in this period with the following outcome:

	Assurance level	Prospects for Improvement	Issues Raised	
LGF and LEP	Substantial	Good	High: 0 Medium: 2	All accepted
Regional Growth Fund	Adequate	Good	High: 0 Medium: 3	All accepted

3.14. Our recent work on Local Growth Fund (LGF) and Local Enterprise Partnership (LEP) schemes concluded that controls were effective and that the risks and objectives of the projects we reviewed were well understood and payments made were compliant with grant conditions.

3.15. Overall, from our sampling this year it is evident that the controls underpinning our stewardship of growth and re-generation funding are generally robust.

Governance and Internal Control - critical systems and services

3.16. As would be expected from an internal audit function, a considerable proportion of our work is centred on reviews of core critical financial and corporate systems:

	Assurance level	Prospects for Improvement	Issues Raised	
Annual Governance Statements	Substantial	Adequate	High: 0 Medium: 1	Accepted
Insurance Fraud	Adequate	Good	High: 0 Medium: 3 Low: 2	Accepted
Officers Expenses (follow up)	Limited	Adequate	High: 1 Medium: 1	Accepted

Corporate Governance Health Check	Substantial	n/a	n/a	n/a
Public Health : Departmental Governance	Adequate	Adequate	High: 2 Medium: 5	All accepted
Risk Management	Substantial	Adequate	High: 0 Medium: 2	All accepted
Recruitment and retention incentives	Limited	Good	High: 2 Medium: 1	All accepted
Settlement Agreements	Adequate	Good	High: 0 Medium: 2	All accepted
Grants	Limited	Good	High: 3 Medium: 2	All accepted
Financial Assessments Follow Up	Adequate	Good	High: 1 Medium: 3	All accepted
Capital Finance	High	Very Good	High: 0 Medium: 0	n/a
Pension Contributions	Substantial	Good	High: 0 Medium: 0	n/a
Pension Scheme Admin	Adequate	Very good	High: 1 Medium: 3	All accepted

Recruitment Controls and DBS	Adequate	Good	High: 2 Medium:2	All accepted
Payments Processes	Adequate	Good	High: 0 Medium:2	All accepted
Treasury Management	High	Good	High: 0 Medium:0	N/A
Pensions Payroll	Substantial	Good	High: 1 Medium: 4	Accepted
KCC Payroll Follow Up	Substantial	Good	High: 0 Medium: 0	Accepted
Debt Recovery	Adequate	Good	High: 1 Medium: 3	Accepted
Learning and Development	Substantial	Good	High: 0 Medium: 1	Accepted

- 3.17. In the last quarter we reviewed the Annual Governance Returns that are provided from Directorates to the Director of Governance and Law. These statements are critical to the Council's governance self-declarations providing self assessed evidence of the standards of internal control and risk management within these Departments. We found the system is well established, returns are timely and complete and evidence is fair and representative of issues within Directorates.
- 3.18. The officers expenses follow up sampling found that nearly half were not compliant with KCC policy and one service with substantial claims had a policy different from corporate guidance. CMT have responded by commencing a process of strengthened corporate steer and accountability underlining expenses
- 3.19. The 18 audits we have undertaken during the year linked to governance and critical systems have produced generally good outcomes. Two finance systems (Treasury Management and Capital Finance) have received the highest assurance rating.

3.20. Our review of risk management this year incorporated a deeper review into the robustness of lower level departmental systems. This work has independently verified the robustness of these lower level risk systems that underpin the higher level corporate risks.

3.21. For 2015/16 we also undertook our first departmental governance review, focusing on Public Health. As previously reported we found the Division displayed a clear and well-grounded vision. A number of successes and improvements have been achieved, particularly around commissioning. The deficiencies related to challenges in achieving cohesive team working

Better Care Funding

3.22. During the year we undertook one audit on BCF arrangements and funding, with the following outcome :

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	Assurance level	Prospects for Improvement	Issues Raised	
Better Care Funding	Adequate	Uncertain	High: 0 Medium: 3	All accepted

3.23. We have incorporated further follow up work into the 2016/17 plan.

Procurement and Contract Management

3.24. The effective management of procurement and commissioning is critical to the Council. We have undertaken the following related audits during 2015/16:

	Assurance level	Prospects for Improvement	Issues Raised	
TFM Helpdesk	Limited	Adequate	High: 4 Medium: 1	All accepted

Contract Extensions and Variations	Adequate	Adequate	High: 2 Medium:2	All accepted
Contract Management Themed Review	Limited	Adequate	High: 1 Medium:4	All accepted
OP Residential Nursing Re- Let	Adequate	Adequate	High: 3 Medium:5	All accepted
TFM Contract Management	Limited	Good	High: 2 Medium:8	All accepted
Household waste and re-cycling contract management	Substantial	Good	High: 0 Medium: 3	Accepted

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- 3.25. The results from the 6 audits undertaken this year show that contract management is inconsistent, with only one area receiving a Substantial opinion and with half receiving Limited judgements. The findings highlight underlying weaknesses in the way contracts are managed in certain areas in the Council and that this continues to be a key risk.
- 3.26. Management have launched a number of corporate initiatives, partly in response to these findings, clearly we will be undertaking follow up next year to independently evidence planned improvements.

4 Other Audit Work

4.1 A further 5 audits have been undertaken during this quarter:

	Assurance level	Prospects for Improvement	Issues Raised	
Transport	Adequate	Adequate	High: 2 Medium: 3	All accepted
Consultations	Adequate	Adequate	High: 0 Medium: 4	All accepted
Family Placement Payments	Substantial	Good	High: 0 Medium: 3	All accepted
Mental Health Kent and Medway Partnership Trust (KMPT)	Substantial	Good	High: 0 Medium: 3	All accepted
Kent Resilience Team	Adequate	Good	High: 2 Medium: 3	All accepted
SEN Assessment and Funding	Adequate	Good	High: 0 Medium: 5	All accepted
Schools Financial Services	Substantial	Adequate	High: 1 Medium: 1	50% acceptance; management do not accept at present there should be a reduction in the team to reflect the reduction in the number of schools.

Schools themed review - Payroll and Income	Adequate	Good	High: 0 Medium: 2	All accepted
Section 17 – Children’s Payments (Follow up)	Adequate	Good	Previously: High: 2 Medium :5	Both high priority issues implemented. Inconsistencies remain with the 5 medium priority issues.
*Sexual Health	Adequate	Good	High: 0 Medium:2	All accepted
Community, Learning and Skills	Substantial	Good	High: 0 Medium:3	Accepted
Transparency Code Compliance	Substantial	Good	High: 0 Medium:3	Accepted
School Capital Project Delivery	Substantial	Good	High: 0 Medium:1	Accepted

- 4.2 Our audit of Transport (including home to school, travel passes, cards and Special Education Needs (SEN) which costs the County £39 million per annum) found that applications were dealt with appropriately, home to school transport appeared to provide value for money and safeguarding controls were robust. There remain risks over the delivery of the 2016/17 savings due to delays in commissioning plans and there are issues over high debtor levels.
- 4.3 Our audit of the legislative and financial requirements for consultations determined that underlying policies, guidance and training were satisfactory and relevant advice is provided by a small dedicated central team. Unfortunately there is no requirement for the advice of this team to be sought and followed by services and our testing found a number of issues including risk rating of consultations and a lack of evidence to support stakeholder identification or to justify the length of consultation periods.

4.4 Our audit of the £9 million contribution towards mental health partnership arrangements found that governance arrangements are sound, spending conforms to objectives and agreement conditions and staffing resources are utilised in an effective way. Unfortunately KMPT do not target resources based on demand which has contributed to budget overspends in most localities. There was also a backlog at the time of the audit of over 200 safeguarding files.

Establishment Visits

4.5 During this period we concluded our audits of a further 6 establishments, with the following outcomes:

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Site / Centre	Assurance level	Directorate
Bluebell's Childrens Respite	Substantial	SC
Fairlawn Childrens Respite	Adequate	SC
Sunrise Childrens Respite	Adequate	SC
Treetops Childrens Respite	Adequate	SC
Windchimes Childrens Respite	Adequate	SC
Canterbury Youth Hub	Limited	EY
Thanet Youth Hub	Adequate	EY
Swale Youth Hub	Limited	EY
Bewl Water (activities centre) Follow up	Adequate	EY
Swattenden (outdoor education centre) Follow up	Limited	EY
Kent Mountain Centre Follow up	Adequate	EY
Shorne Woods Country Park	Adequate	GET
Lullingstone (Country) Park	Substantial	GET
Westbrook Integrated Care Centre	Adequate	SC
Minnis Bay Day Centre	Limited	SC

Kiln Court (residential care home)	Adequate	SC
Blackburn Lodge (residential care home)	Adequate	SC
Wayfarers (residential care home)	Adequate	SC

4.6 In 2015/16 we initiated a system of minimal or no notice for these 18 establishment audits.

4.7 There were three discreet themes this year around Country Parks, Childrens Respite and Youth Services. The most significant findings related to the following areas:

- Cash Controls - including adequacy of petty cash records and the regular banking of cash receipts
- Assets – the adequacy of recording and security marking assets
- Stock records – missing or incomplete records for food and cleaning stocks
- Staff time recording – incomplete records to support staff overtime payments.
- Staff training –lack of a staff skills and training matrix and poor completion of mandatory training such as Data Protection, Information Governance, Equality & Diversity, Infection Control and Safeguarding.

4.8 It will be noted that only two establishments received a Substantial assurance opinion and these outcomes underline the need to ensure that consistent and robust financial and non-financial controls are maintained in these remote sites.

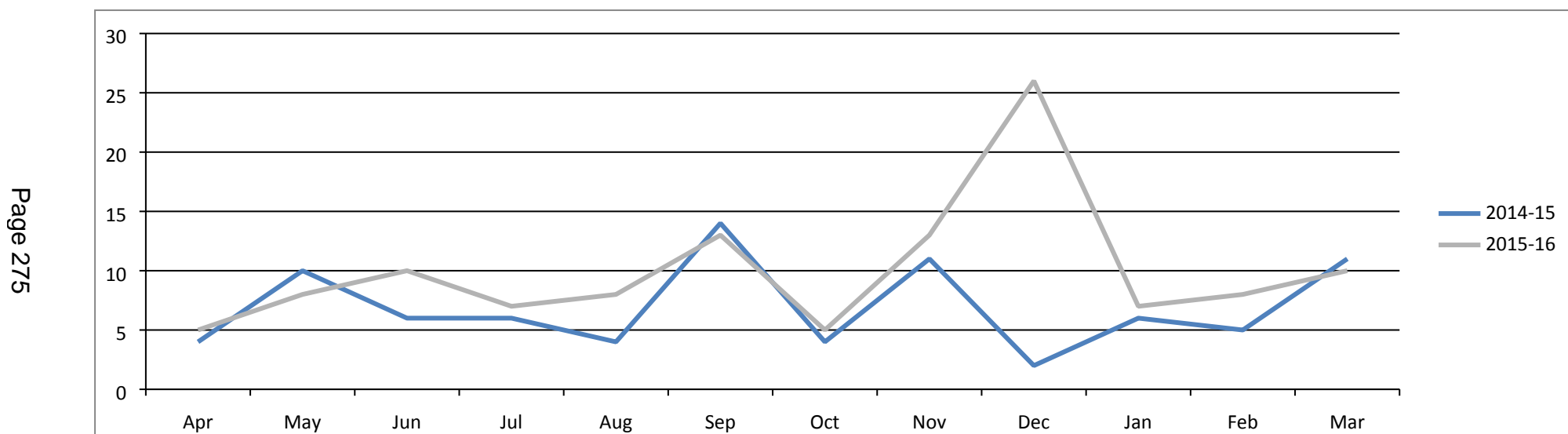
Other Activity

4.9 During the year we have also undertaken the following:

- Provided advice and input towards Broadband Development UK
- Advice on governance controls towards the setting up of future LATCo's
- Grant verification and certification work including Troubled Families
- Appointed internal auditor of Kent Commercial Services
- Appointed auditor to 13 Parish Councils
- Internal auditor of Kent and Medway Fire and Rescue Service and Kent and Essex Inshore Fisheries and Conservation Authority
- Entered into a shared service arrangement for the management of the audit and fraud service at Tonbridge and Malling Borough Council

5 Counter Fraud and Corruption Fraud and Irregularities

5.1 There were 120 financial irregularities reported to Internal Audit in 2015/16 (135 in 2014/15). 104 of those are closed and 16 remain open and under investigation. The potential value of these irregularities at the time they were reported to Internal Audit was £1.46 million. This figure is based on the total amount of funds at risk according to the initial allegation and the figure is higher than normal due to allegations of fraud affecting RGF. After investigation and closure the actual (potentially recoverable) losses totalled £108,700; we prevented a further loss of £64,300. In comparison to last year the referrals by month were as follows:



5.2 As in 2014/15 the majority of the fraud activity could be described as low value, high volume fraud which includes Blue Badge misuse. For example, as a result of our participating in the Cabinet Office's National Fraud Initiative, we cancelled 1,200 badges belonging to deceased residents resulting in savings of £691,000. The most common source of referral remains KCC' staff, which provides positive assurance that there are good levels of fraud awareness and accessible 'whistleblowing' systems

5.3 Overall these summary findings support a positive assurance, in terms of both the fraud and irregularity levels detected within the Council together with a positive culture of fraud awareness.

Kent Intelligence Network (KIN)

- 5.4 As per the details in the covering paper the implementation of the KIN has been frustratingly slow, despite the foundations being laid with the acquisition of the necessary IT data matching solution and the engagement of a fraud data analyst. The problems have been trying to agree the data sharing protocols with the 15 local authorities since October 2015. We are now anticipating we will agree these governance arrangements in July 2016 and will operating by September 2016.
- 5.5 As a reminder, the business case for the award of the grant from the DCLG demonstrated the potential for £ 4 million savings, principally from the local taxation base, across Kent.

6 Follow Ups

- 6.1 As per the covering report, we have instituted a new follow up reporting system involving Departments / Directorates undertaking self-assessments in relation to the progress of agreed actions that have in turn been subject to independent test checking by ourselves. The overall results are shown below :

Priority	Target implementation before June 2016	Implemented	In progress	Not Implemented	Superseded
High	27	14	8	2	3
Medium	70	49	19	0	2
Total (%)	97	63 (65%)	27 (28%)	2(2%)	5 (5%)

- 6.2 The detailed results are shown in Appendix 3. It is evident there has been a clear improvement in performance in implementing agreed actions from audits. The 2 high priority issues not implemented relate to the Concessionary Fares and Kent Card systems and do not represent fundamental risks.
- 6.3 From Appendix 3 it will be seen that of the 32 audits subject to follow up review 7 remain at amber status with further progress required to be made. None have been placed in a high (red) risk status.

7 Internal Audit and Counter Fraud Performance

7.1 Performance against our targets to the end of March 2016 are shown below:

Performance Indicator	Target to end March 2016	Actual
Outputs		
100% of Priority 1 audits completed	100%	99.6%
50% of Priority 2 audits completed	50%	84.2%
Time from start of fieldwork to draft report to be no more than 40 days	100%	51%
No of fraudulent incidents / irregularities recorded	N/A	120
Outcomes		
% of high priority / risk issues agreed	N/A	89%
% of high priority / risk issues (fully) implemented	N/A	52%
% of all other issues agreed	N/A	93.8%
% of all other issues implemented	N/A	70%
Client satisfaction	90%	91%
Value for money savings identified to date	N/A	£238,000

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Counter Fraud Transparency Measures

7.2 The Council is required to publish the following figures in accordance with the Transparency Code for Local Government. The code requires specific definitions of fraud and irregularity to be applied and therefore the figures differ to the figures reported earlier in the report. Explanatory notes are included (see below).

Counter fraud transparency measures	2015/16	
Total number of employees undertaking fraud investigations	3	
Total number of professionally accredited counter fraud specialists	3	
Amount spent on investigation and prosecution of fraud (Note 1)	£158,251	
No of fraud cases investigated (Note 2 and 3)	72	
No of irregularity cases investigated	32	
Total No of occasions on which (a) fraud and (b) irregularity was identified	(a)	72
	(b)	32
Total monetary value of (a) and (b) detected (Note 4)	(a)	£134,282
	(b)	£14,579
Total monetary value of (a) and (b) recovered (Note 5)	(a)	£94,739
	(b)	£14,001

Note 1- Based on midpoint basic salaries plus on costs for KR7, KR9, KR11 and KR12; reported as whole GBP.

Note 2- The definition of fraud is as set out by the Audit Commission in Protecting the Public Purse: an intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss, or expose another to the risk of loss. We include cases where management authorised action has been taken, including, but not limited to, disciplinary action, civil action or criminal prosecution.

Note 3- 16 cases still remain open

Note 4 - The values includes the value of attempted fraud where the loss was prevented and therefore no actual loss was incurred, the monetary value that has been detected is still ongoing.

Note 5 - Recovery remains ongoing in some cases.

8 Conformance with Public Sector Internal Audit Standards (PSIAS)

- 8.1 As detailed in the covering paper, it is essential that in delivering an internal audit opinion, Members and senior management can have confidence on the quality of the internal audit and counter fraud work that underpins it. In particular it is a requirement that the audit function complies with PSIAS standards.
- 8.2 In 2015 we were subject to a full independent review by the Institute of Internal Auditors (IIA) and were judged to be compliant with full adherence to 52 of the 56 standards and with partial compliance for the remainder. This put us in the highest level of grading from the IIA. In June this year we commissioned a follow up and we have now been assessed as being compliant in 55 of the 56 standards and partial with the one remaining standard.
- 8.3 Backing up these independent assessments have been the periodic 'business as usual' quality assurance checks and improvement programmes that the unit undertakes throughout the year.

Conclusion

- 8.1 In delivering our independent year end **Substantial** opinion on the Council's corporate governance, risk management and internal control arrangements we believe the scope, depth and quality of our work provides the appropriate and reliable levels of assurance for the Council and that we continue to offer an effective internal audit and counter fraud service providing added value during a time of considerable challenge and change.

Appendix 1 – Summary of individual 2015/16 Internal Audits issued January – March 2016

LEP & LGF

Audit Opinion	Substantial
Prospects for Improvement	Good

The overall opinion is based on sample testing, review of documentation and interviews with key officers. This has identified that controls are operating adequately and effectively and in particular the risks and objectives of the LGF projects we reviewed were well understood and all payments tested were compliant with the conditions of the grant.

There are several areas of good practice evident, however there are some key areas where improvements could be made. These are summarised below.

Strengths

- There is regular internal reporting with an appropriate level of detail.
- Risk registers are in place for all projects, with key risks considered and regularly reviewed.
- Appropriate consideration has been given to how achievement of objectives will be measured.
- Controls are in place for the checking of invoices prior to payment or receipting in I-Procurement.
- All payments tested were appropriate, relevant and compliant with the conditions of the grant.
- KCC procurement practices are followed.

Areas for Improvement

- Actual expenditure is not reported in a consistent way to the various Boards with oversight of the LGF Programme.

- Sources of external funding were not always secured at the time spend started on projects.
- The 'Scheme of Delegation Approval Limits' is currently incomplete and needs to be updated.
- Authorisation limits for raising orders in I-Procurement and WAMS are not consistent with the scheme of delegation, although they are in line with authority limits agreed for large contract payments in GET.

Prospects for improvement have been assessed as Good because of the following factors:

- Managers were aware of some of the issues identified and were already in the process of addressing them at the time of the audit.
- Managers have responded positively to the issues raised in this report.
- A Local Growth Fund Programme Manager has recently been appointed to provide additional co-ordination and oversight of the programme.

Summary of management responses

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

Family Placements

Audit Opinion	Substantial
Prospects for Improvement	Good

Controcc phase 1 has been live since August 2015. All the payment testing undertaken during the audit confirmed that payments were correctly calculated and processed accurately and promptly. Exception reports are run regularly so that corrective action can be taken to prevent avoidable overpayments to carers, although we found that there is a lack of oversight to ensure all exceptions are investigated and cleared. System access is appropriately restricted with relevant access levels being granted according to the users' job role.

We can therefore provide substantial assurance that payments being made through the Controcc system are accurate, timely and have relevant authorisation. The following strengths and areas for improvement were identified:

Key Strengths

- The payment rates in Controcc have been accurately input and match those agreed for foster carers through the formal decision making process.
- All the payments sample tested were accurate and based on the agreed rates where appropriate.
- Controcc is a more automated payment process than the Foster Payment System it replaced, which significantly reduces the risk of incorrect or late payments being made.
- The placement plans/service provisions set up in Liberi have been appropriately authorised in a timely manner.
- Defined user access levels are being applied to ensure there is appropriate authorisation for payments through the system.

Areas for development

- Not all placement plans had been fully completed and communicated to the carers (2 out of 20 tested were not finalised).
- There is no clear strategy behind the exception reports run, the allocation of responsibility and timescales for following up exceptions, including overpayments.
- A small number of fostering payments have resulted in significant overpayments however these have not been reported to the Counter Fraud team for investigation.

Prospects for improvement have been assessed as Good due to the following factors:

- The Controcc system is continuing to be developed and extended to other payment types in SCS, with appropriate project management.
- Detailed process maps are available to ensure a consistent approach is applied across the fostering teams and Children's Allowance Review Team (CART)
- The staff processing payments are appropriately experienced and proactively work with the fostering teams and CART to resolve queries and confirm the accuracy of payments.

Summary of management responses

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

Deprivation of Liberty Safeguards (DOLS)

Audit Opinion	Limited
Prospects for Improvement	Uncertain

The increase in the volume of DoLS applications received following the Supreme Court ruling, coupled with an absence of a robust case management system and a shortage of staffing resources, has resulted in processing shortfalls being exacerbated and associated risks increasing. It is evident that with current shortfalls in the robustness of systems, data quality and resources to the service, the service is not able to perform in the most efficient and effective way and is in breach of the Mental Capacity Act. We have identified the following Areas for Development and Key Strengths.

Areas for Development

- An Excel spreadsheet is being used to manage a significant amount of data (5.67MB for 2015/16). This spreadsheet has previously “crashed” and is not sustainable, particularly given that a 50% increase in applications is forecast for 2016/17.
- There are a number of significant data quality issues with the information contained within the Excel spreadsheet compared to the individual case files. This is highly likely to cause any reporting to be incorrect and may lead to priority cases being inadvertently missed.
- Significant volumes of priority assessments remain unallocated for 2015/16, which with current resources and allocation will take approximately 1.5 years to clear.
- There are clearly significant breaches of timeframes that not only place the individual at risk but place KCC at risk of potential significant fine.
- We identified an incident whereby three applications containing personal sensitive information had been sent unencrypted causing a Data Protection Act breach.
- Risk reporting takes place but risks appear under assessed.

Key Strengths

- Staff are conscientious and dedicated and actual assessments are of good quality.
- The DoLS management team demonstrated significant experience in their subject, and a high dedication and commitment to delivering the service.
- All applications reviewed as part of our sample had demonstrated that the correct statutory process had been followed (timescales aside).
- Court cases are well managed, with good proactive work and engagement with KCC Legal.

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

- The volume of assessments are predicted to increase by 50% in 2016/17, meaning the volume of statutory breaches is highly likely to increase.
- Financial costs could increase if precedent is set to compensate for statutory timescale breaches.
- There appears to be no prospect for any further investment and the Department of Health grant ceased at the end of 2015/16.
- There is a strong desire to replace the existing Excel spreadsheet, however engagement from IT to date has been lacking, but has now significantly increased since this audit.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	3	3	
Medium Risk	1	1	
Low Risk	4	4	

Audit Opinion	Adequate
Prospects for Improvement	Good

The Team have delivered a number of its objectives, such as a co-located team and efficiencies with multi-agency working. However, the audit identified key areas that require improvement. The governance structure requires refinement to enable strategic oversight and effective monitoring on the progress of the Team's successes.

Strengths

- Good progress has been made on capability surveys with a view to attracting partners into new arrangements from April 2016.
- The Team are undertaking work that aims to benefit communities and partner agencies
- Positive feedback has received from both partners and members of the public.
- Secondment agreements are in place to cover staff committed by all partners and staff are co-located in a single location.
- Plans are in place to assist with establishing the business model beyond Phase 3.
- The Team has played a key role in co-ordinating the planning and response to significant risks and issues that arose during the course of 2015/16
- This includes planning and delivering exercises to test the robustness of the plans
- Some identified savings have been achieved, for example reduction in the number of posts required due to joint working efficiencies and release of property space

Areas for Development

- The Governance structure is not clear in practice creating issues with effectiveness of ownership and oversight of the project.
- The Business Case for the Team did not clearly quantify how expected benefits would be achieved or provide detail for each option that was considered

- Key priorities and objectives are not being formally measured or monitored
- There is a Service Level Agreement (SLA) in place; however it has not been signed by any of the Partners.
- The consolidated budget requires further work to enable effective monitoring and reporting, and the SLA did not specify partner contributions

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

- A robust action plan has been submitted in response to our audit, with many actions already complete by the issue of the final report
- Sufficient plans are in place to attract new partners into the arrangement which will aid achievements of the objectives
- The terms of reference for the Project Steering Group are currently being reviewed to clarify and enhance the Group's scope and limitations
- The KRT can evidence achievements to date that provide positive prospects for sustainability
- The governance structure, which is a root cause to many of the areas for development needs to be enhanced, including clarity on reporting lines. However, this is now being addressed by management as a priority
- Earlier consideration should be given to timescales for revising key documents such as the SLA.

Summary of management responses

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

Audit Opinion	Limited
Prospects for Improvement	Adequate

Quality assurance arrangements are not as effective as they could be, in particular levels of practice audits have declined such that only one locality was completed for 2015/16. This low level of proactive sampling stands as a contrast to Children’s safeguarding where assurance is drawn from a wider case audit assurance network. Management have explained that the root cause of this issue is a diversion of safeguarding resources (c30% of staff) to operational functions and priorities during the year.

Areas for Development

- Independent practice audits need to increase to enable an opinion to be provided on managing operational safeguarding.
- Sample sizes of cases reviewed for practice audits in 2014/15 may not be representative of the total population of cases.
- The ASC Policies and Procedures page on KNet had a plethora of guidance on safeguarding, some of which were out of date (this has since been rectified during this audit).
- A central record of guidance provided on complex and near miss cases is not maintained, nor is there guidance as to what constitutes a “near miss”.
- The Countywide Group are not always reviewing improvement plans of practice audits timely, receiving such plans, or receiving tangible demonstrable evidence.

Key Strengths

- The safeguarding adults team (SAT) demonstrated significant experience.
- Appropriate governance structures are in place.
- Multi-agency policy and guidance is developed and embedded.
- The Quality Assurance Framework defines accountability and roles within the quality and adults safeguarding agenda.

- For practice audits a standard template is used to review cases to aid consistency and resultant reports are well structured and identify areas for improvement.
- Improvement Plans following practice audits are challenged by SAT, and agreed at the Countywide Group.
- Safeguarding Adult Reviews and Local Area Designated Officer reviews are effectively managed with adequate records maintained.
- The flow of information was good with a range of reports produced, all of which reconciled where the same information was reported.

Prospects for Improvement

Our overall opinion of “adequate” for Prospects for Improvements is based on the following factors:

- An external consultant has been engaged to undertake a round of practice audits between May and July 2016.
- Resource dependent plans are in place to reinstate internal reviews from January 2017 (with plans being submitted to DMT for sign-off in August 2016)
- The new Chair of the Adults Safeguarding Board could be a positive influence on further embedding the multi-agency approach.
- Safeguarding Performance Reports are received from OPPD, LD and MH and are presented to, and monitored by, the Countywide Group.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	1	
Medium Risk	4	4	
Low Risk	2	2	

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Audit Opinion	Substantial
Prospects for Improvement	Good

There are control frameworks in place for governance, performance monitoring, budget management and use of resources but improvements need to be made in the operating of the controls to ensure the delivery of desired outcomes.

Strengths

- Governance is sound and robust; arrangements include:
 - A Partnership Board to oversee and monitor effectiveness of joint working
 - A joint KCC members and KMPT non executives group
 - An updated Section 75 agreement including an operating framework.
- There has been timely intervention half way through the year to address forecast overspends through introducing savings targets.
- Spending conforms to the agreement conditions as well as objectives.
- Staffing resources are generally being utilised in an effective and efficient manner.
- Delivery of outcomes can be evidenced through good data from performance monitoring systems.

Areas for Development

- At month 12 despite the introduction of savings targets most localities were forecast to overspend on budget.
- KMPT do not look at activity and demand and target resources appropriately.
- There is a risk that in some localities social workers do not undertake predominantly social care and too much time is spent on healthcare.

- KCC are currently clearing a backlog of over 200 Safeguarding files which KMPT have been unable to close. Until files are closed the possibility of clients being at risk remains.
- Performance monitoring could be further improved, examples include:
 - Reporting of some KPIs is incomplete/inconsistent
 - The agreement does not require KMPT to obtain regular feedback from clients in relation to the service provided
 - The KCC Swift system and KMPT Rio system are not integrated and in some areas there is incomplete/unreliable data

Prospects for Improvement have been assessed as good, due to the following factors:

- There is good, strong leadership and an effective working relationship with KMPT.
- There was managerial intervention when overspend was forecast and performance monitoring is improving.
- There has been a positive response to issues raised by Internal Audit.
- There is over reliance on staff competence as opposed to better systems.
- If the current strong leadership needs to focus on other operational matters progress may stall.
- There are no plans to integrate the Rio and Swift systems.

Summary of management responses

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

Audit Opinion	Substantial
Prospects for Improvement	Good

Our audit confirmed that all the sampled KPI's and Activity Indicators are appropriate, reported to the correct recipients, are based on timely data and are correctly RAG rated. Our findings also confirmed that Performance Indicator Definition (PID) Forms were fully completed. We found areas of good practice across the authority with relation to improving data quality and consistent reporting of performance to all levels of the business. However, issues were identified regarding the accuracy of information within PID's and the documentation of data quality processes.

Strengths

- All the KPIs reviewed were aligned to a key objective within the Directorate Business Plans
- KPI and activity indicator data is communicated appropriately within reports and dashboards to Directorate Management Teams, Divisional Management teams or Heads of Service for assessment.
- The KPIs and Activity Indicators tested are regularly reported and the reporting intervals are appropriate are timely and regularly reported.
- All the KPIs and Activity Indicators reviewed during the audit were correctly RAG rated in line with Management Guide MG01 - Managing the Council's Performance.
- In all cases tested, the PID was fully completed.
- In 85% of cases tested, the process outlined for data extraction and analysis on the PID was correctly applied by the Officer responsible for this process.
- In 75% of cases reviewed, the data quality process outlined within the PID was correctly applied by the Officer responsible.

Areas for Improvement

- PIDs obtained for the sampled performance and activity indicators included examples where they had not been updated or their content was inaccurate. Two indicators (10% of in the sample) had discrepancies on the PID with regard to how they were calculated.
- For 20% of indicators tested, the data quality process was adequate, but differed from that described on the PID. For one KPI, no data quality assurances are sought to support the data provided by third parties.
- Not all the KPIs and Activity Indicator objectives and targets were included in the relevant Service Business Plans. Where they were included, we found that Business Plans were not updated to reflect agreed changes to indicator targets.

Prospects for Improvement are considered to be good based on the following factors:

- All issues raised within this audit have been accepted by the Business Intelligence Team and proactive steps are expected to be taken to address these issues.
- The Business Intelligence team have shown good leadership and oversight of the KPIs and Activity Indicators used by the Council.

Summary of management responses

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

Consultations

Audit Opinion	Adequate
Prospects for Improvement	Adequate

Our audit confirmed that the policies, guidance and training offered to officers and Members is sufficient. However, a number of issues were identified; the most significant of these relating to risk ratings and stakeholder identification for consultations.

Strengths

- Policies and procedures are up to date and sufficiently detailed.
- Training for officers is delivered on a regular basis and, when identified or requested, targeted training is provided. However, at present, such training is voluntary.
- Bespoke training has also been provided to Members in their role as decision makers as part of the consultation process.
- Relevant advice is provided by the Consultation team.
- Within 80% of our sample, supporting documentation for the consultations tested had sufficient detail and clarity for stakeholders to engage with the proposal.
- Where post-consultation correspondence was available, it adequately explained the decision and rationale.

Areas for Improvement

Within our sample of ten consultations we found that:

- Risk ratings with consultation plans did not demonstrate that all factors on the risk matrices have been considered and there is no formal review process to ensure consistency of ratings, unless the consultation is regarded as high risk. Discussion relating to risk ratings is not recorded.
- In half the consultations reviewed there was no evidence of stakeholder identification. The EIA for these consultations showed some level of identification of stakeholders and hard to reach groups.

- In 50% of our sample, there was no documentation to justify the length of the consultation period.
- In 60% of consultations reviewed, there was no formal budget estimation of costs before the consultation. There was also no formal monitoring process for the specific costs of the consultations in our sample.

Prospects for improvement have been assessed as Adequate because of the following factors:

- The Consultation team is small and has limited resources available to support services in their consultations.
- The service has a clear vision of how it will be supporting directorates in the future and recently submitted a paper to CMT outlining how this will be achieved.
- There is no requirement that services must engage with the consultation team however, the consultation team encourage business units to contact them, through Knet and guidance documents.

Summary of management responses

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

Transport including SEN

Audit Opinion	Adequate
Prospects for Improvement	Good

The overall opinion is based on a review of relevant controls and documentation encompassing Home to School Transport including SEN arrangements, Personal Transport Budgets, Young Persons Travel Pass (YPTP), and 16+ Travel Card. Our audit opinion of Adequate is based on the following strengths and prospects for improvement:

Strengths

- Applications reviewed in our samples were approved or declined appropriately in line with guidance for all transport schemes within our scope.
- A robust safeguarding protocol is in place which contains a wide range of eventualities.
- Escorts and PSV drivers tested had completed training and held an up to date DBS check.
- Sample testing found that procurement arrangements for home to school transport were value for money

Areas for Development

- Financial savings targets for SEN transport had not been realised for 2015/16 resulting in a £1,760k overspend. Savings of £1,700k have been built into the 2016/17 budget. If no management action is taken forecasting based on information taken from Routewise shows a potential £1m overspend by the end of the financial year. This is mitigated by a commissioning plan in place to realise necessary savings. Nevertheless there remain risks to delivery of the plan which depends on a positive response from the market.
- The current payments process for the 16+ travel card has amassed debts in excess of £500k. The majority of this is due to a single debtor. Management action has been taken for this debtor.

- Transport Information Forms (TIFs) sent to Public Transport to arrange transport for learners, were incomplete for those tested.
- Improvements and/or gaps were identified in the processes for reviewing eligibility for those granted home to school transport.
- The Management Information (MI) used to determine school attendance of those receiving Personal Transport Budgets should be interrogated and adjusted to account for daily rather than sessional attendance.

Prospects for Improvement have been assessed as Good, due to the following factors:

- Management plans are now in place in each instance to resolve the area of concern and action is planned to mitigate any potential financial risk to the LA. Some of these we were advised by the service as already implemented.
- Management were aware of the High risk issues prior to our findings and were taking actions to address.
- New systems are currently being developed to enhance the delivery of transport.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	2	2	0
Medium Risk	3	3	0
Low Risk	4	4	0

Insurance Fraud

Audit Opinion	Adequate
Prospects for Improvement	Good

Within the insurance team there are a number of checks in place to ensure the authenticity of claims; this includes a detailed claim form and a requirement to submit supporting evidence. However there are some improvements that could be made to detect and deter potentially false claims through clear guidance about what to do if fraud is suspected, closer working with the Council's fraud team and making better use of the available data. The service has responded positively and is already adapting their processes.

Strengths

- All claimants are required to submit a detailed claim form which requires the claimant to attest to the truthfulness of their claim and advises them that their data may be shared for the purposes of preventing and detecting fraud.
- Claimants are required to submit evidence to support their claims such as an MOT and vehicle registration documents. Original invoices are required before any payment to the claimant is made and there are some checks in place to ensure repair work has been completed.
- Payments are made by BACS.

Areas for Development

- There should be clear procedures in place for staff describing what to do if they suspect a potentially fraudulent claim has been submitted.
- Potentially fraudulent insurance claims, whether rejected or not, should be referred to the Counter Fraud Manager and a record kept.

- The service should ensure that claim forms that are unsigned are rejected and returned to claimants before any further processing.
- Claimants could be asked to submit evidence of their identity.
- The insurance record system (Figtree) has not historically been used to record data such as claimant address or telephone number which limits the opportunity to automate repeat and suspicious claim detection.
- The service should work with the current insurance provider to improve the quality of the data uploaded to the National Fraud Initiative.
- The Management Information (MI) used to determine school attendance of those receiving Personal Transport Budgets should be interrogated and adjusted to account for daily rather than sessional attendance.

Prospects for Improvement have been assessed as good, due to the following factors:

- Management have responded positively to the issues raised in this report and developed appropriate action plans to address them.
- Management are liaising with Zurich Municipal to rectify the issue of incorrect data being uploaded to the NFI.

Summary of management responses

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

Officers Expenses Follow-up

Audit Opinion	Limited
Prospects for Improvement	Adequate

This follow-up audit confirmed that some action has been taken in relation to the issues that were raised in the previous audit but further sampling has identified the action has not resolved the issues. Claims are still being authorised even though they do not include sufficient address information and/or the receipts were missing. We also identified two incidents of duplicate claims being paid in error. Overall, nearly half of the expenses sampled were not compliant with KCC policy and one service's expenses policy differed from corporate guidance. We identified the following Areas for Development and Key Strengths.

Areas for Development

- There were three duplicate claims identified in December's expenses report to the value of £268.36.
- 48% of claims were not compliant with KCC Policy
- 24% of claims had no postcodes and/or sufficient detail for the authorising manager to make an informed judgement before authorising payment.
- 36% of claims did not include receipts to support expenditure, including VAT.
- 16% of the claims were unable to be tested because there was insufficient journey information.
- 28% of journeys claimed were not within the 10% of the shortest distance.

- Three of the nine approvers interviewed stated that they never check the officers supporting receipts.

Key Strengths

- We found that the current policies, procedure notes and guidance are up to date and are available for officers and approvers via Knet. The policy was updated in July 2015 and emphasises the approver's requirement to check that claims are legitimate and accurate.
- 92% of claims had been submitted within the three month required timeframe.
- All claims tested were equal to the gross value that was paid.

Prospects for improvement are considered to be adequate. The draft management response has indicated that an enhanced corporate steer will take place with communication re-enforcing accountabilities and responsibilities followed up with an independent test check to detect ANY non-compliance.

Summary of management responses

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

Appendix 2 – Audit Plan 2015/16 Progress

Project	Progress at March 2016	Date to G&A	Overall Assessment	Project	Progress at March 2016	Date to G&A	Overall Assessment
Core Assurance							
Annual Governance Statement	Complete	July 2015	Substantial	Consultation	Complete	July 2016	Adequate/Adequate
Business Continuity	Complete	October 2015	Substantial/Good	Consultancy & Partnership Contract Arrangements	Complete	January 2016	Limited/Adequate
Transparency Code Compliance	Complete	October 2015	Substantial/Good	Contact Point	Deferred to 2016/17		
Information Governance	Complete	April 2016	Substantial/Good	Recruitment and Retention Incentives	Complete	April 2016	Limited / Good
Performance Management and KPI Reporting	Complete	July 2016	Substantial/Good	Recruitment Controls	Complete	January 2016	Adequate/Good
Risk Management	Complete	April 2016	Substantial/Adequate	Payroll Key Controls Follow-up	Complete	October 2015	Substantial/Good
Corporate Governance – KCC Health Check	Complete	July 2016	Substantial	Pensions Payroll	Complete	October 2015	Substantial/Good
Departmental Governance Review – Public Health	Complete	April 2016	Adequate/Adequate	Pension Scheme Administration	Complete	April 2016	Adequate/Very Good
Corporate Governance – Alternative Service Delivery Models	Ongoing	N/a	N/a	Member and Officer Expenses – Follow-Up	Complete	July 2016	Limited/Adequate
Implementation of Strategic Commissioning Strategy	Deferred to 16/17			Disclosure and Barring Service Process	Merged with Recruitment Controls		
Declarations of Interest	Priority 2	N/a	N/a	Oracle Right Now	Priority 2	N/a	N/a
Programme Management and Corporate Assurance	Complete	January 2016	Adequate/Good	Learning and Development	Complete	October 2015	Substantial/Good

Project	Progress at March 2016	Date to G&A	Overall Assessment	Project	Progress at March 2016	Date to G&A	Overall Assessment
Portfolio and Programme Checkpoint Reviews	Ongoing	N/a	N/a	Compromise Agreements and Disciplinary Process	Complete	April 2016	Adequate/Good
Transformation and Change – Major outsource arrangements	Replaced by Contract Management Themed Review			Contract Extensions and Variations	Complete	April 2016	Adequate/Adequate
Contract Management Themed Review	Complete	April 2016	Limited/Good				
Core Financial Assurance							
Schools Financial Services – System of Audit	Complete	April 2016	Substantial/Adequate	Client Financial Affairs Follow-up	Complete	October 2015	Substantial/Good
Schools Themed Review – Payroll and Income	Complete	April 2016	Adequate/Good	Debt Recovery	Complete	October 2015	Adequate/Good
Payment Processing	Complete	January 2016	Adequate/Good	Financial Assessments Follow-up	Complete	April 2016	Adequate/?Good
Family Placement Payments	Complete	July 2016	Substantial/Good	Grants	Complete	April 2016	Limited/Good
Pension Contributions	Complete	April 2016	Substantial/Good	Insurance (Fraud)	Complete	July 2016	Adequate/Good
Treasury Management	Final Draft	January 2016	High/ Good	iSupplier	Merged with Payment Processing		
Capital Finance	Complete	April 2016	High/Very Good				
Risk/Priority Based Audit							
Total Facilities Management (TFM) – Contract Management	Complete	January 2016	Limited/Good	Home Care	Complete	October 2015	Adequate/Good
TFM – Property Service Desk	Complete	April 2016	Limited/Adequate	Public Health Advice to CCGs	Merged with Public Health Governance Review		
New Ways of Working Follow-Up	Complete	January 2016	Substantial/Good	Sexual Health	Complete	January 2016	Adequate/Good
Data Quality – Oracle HR	Complete	January 2016	Substantial/Good	Kent Drug and Alcohol Service Follow-up	Merged with Public Health Governance Review		

Project	Progress at March 2016	Date to G&A	Overall Assessment	Project	Progress at March 2016	Date to G&A	Overall Assessment
Blue Badges	Complete	Quarterly update	N/a	Clinical Governance Process	Merged with Public Health Governance Review		
Safeguarding Framework – Adults	Complete	July 2016	Limited/Adequate	Health Inequalities	Merged with Public Health Governance Review		
Care Act – Pre and Post Implementation	Deferred due to delayed implementation of legislation			SEN Assessment and Funding	Complete	April 2016	Adequate/Good
Better Care Fund	Complete	January 2016	Adequate/Uncertain	Elective Home Education Outcomes	Priority 2	N/a	N/a
Integrated Discharge Scheme	Priority 2	N/a	N/a	School Admissions – Fair Access	Priority 2	N/a	N/a
Independent Living Scheme	Priority 2	N/a	N/a	Community Learning and Skills	Complete	October 2015	Substantial/Good
Pooled Equipment Budget	Priority 2	N/a	N/a	School Improvement Team	Deferred to 2016/17		
Boundary Re-alignment and Change Management	Priority 2	N/a	N/a	Troubled Families – grant	Ongoing	Ongoing	N/a
Mental Capacity Act and Deprivation of Liberty	Complete	July 2016	Limited/Uncertain	Contract Management – Household Waste and Recycling	Complete	October 2015	Substantial/Good
Autism Service	Deferred to 16/17			Developer Contributions and Community Infrastructure Levy	Deferred to 16/17 due to lack of progress		
KCC/KMPT Partnership agreement and AMHP (Approved Mental Health Professionals) service	Complete	July 2016	Substantial/Good	Local Growth Fund and Local Enterprise Partnership	Complete	July 2016	Substantial/Good
Transformation and Integration of Disabled Services	Ongoing into 16/17	N/a	N/a	Regional Growth Fund	Complete	April 2016	Adequate/Good
Adult Social Care Transformation Phase 2	Ongoing	N/a	N/a	Broadband Delivery UK Watching Brief	Complete	April 2016	N/a – advisory only
0-25 Change Portfolio	Ongoing	N/a	N/a	Coroners Service	Priority 2	N/a	N/a
Quality Assurance Framework Safeguarding Children	Complete	October 2015	Substantial/Good	Allington Waste Incinerator Contract	Priority 2	N/a	N/a
On-line Case File Audit – Children	Merged with Safeguarding Children			Transformation and Change – Transport inc SEN	Complete	July 2016	Adequate/Good

Project	Progress at March 2016	Date to G&A	Overall Assessment	Project	Progress at March 2016	Date to G&A	Overall Assessment
Missing Children	Merged with Safeguarding Children			Transformation and Change – Libraries, Registration and Archives	Cancelled	N/a	N/a
Adoption Service	Complete	N/a	N/a – advisory only	Transformation and Change – Property	Ongoing	N/a	N/a
Looked After Children's Finances	Complete	January 2016	Adequate/ Good	Economic Development Contract Management	Merged with Contract Management Themed Review		
Section 17 Payments Follow-up	Complete	April 2016	Adequate/ Good	International Development Team	Priority 2	N/a	N/a
Leaving Care Service	Complete	April 2016	Limited/ Good	Kent Resilience Team	Complete	July 2016	Adequate/ Good
Foster Care Follow-up	Complete	October 2015	Adequate/ Good	Carbon Reduction Commitment – Annual Return	Complete	January 2016	Compliant
Older Persons Residential and Nursing Contract Re-let	Complete	January 2016	Adequate/ Adequate	Community Wardens	Priority 2	N/a	N/a
Supporting People Follow-up	Ongoing support to review of Housing Support			EduKent Follow-up	Deferred to 2016/17		
ICT Audit							
Oracle Application Review	Complete	October 2015	Substantial/ Good	Review of Third Party ICT Contracts	Complete	April 2016	Limited/ Good
ICT Strategy and Governance	Deferred to 2016/17	Data Centres	Complete	ICT Data Centres	Complete	April 2016	Substantial / Good
ICT Change Control	Complete	January 2016	Substantial/ Good	Swift Application Review	Priority 2	N/a	N/a
Software Lifecycle Management	Deferred to 2016/17	WAMS Application Review	Priority 2				

Appendix 3 – Internal Audit & Counter Fraud Follow-up on Implementation of Agreed Actions

Audit	Date	Total due to be implemented		Implemented	In Progress		Not Implemented		Superseded	Overall Opinion on Actions R.A.G.	
		High	Medium		Medium	High	Medium	High			Medium
		High									
Pension Scheme Administration	04/03/16		1	1						GREEN	
Contract Extensions and Variations	30/03/16	1	1			1	1			AMBER	
Pensions Payroll	08/09/15		2	1			1			GREEN	
Data Quality – Oracle HR	30/11/15		2	2						GREEN	
Transparency Code Compliance	10/09/15		3	2			1			GREEN	
OP Residential & Nursing Contract Re-Lets <i>(Evidence awaited to confirm issue status)</i>	16/12/15	2	5	1	2	1	3			AMBER	
Data Quality Education & Social Services	27/02/15	5	3	5	3					GREEN	
Secure Remand	10/07/15		3		3					GREEN	
Apprenticeships	22/07/15	2	3	2	3					GREEN	

Audit	Date	Total due to be implemented			Implemented		In Progress		Not Implemented		Superseded	Overall Opinion on Actions R.A.G.
		High	Medium	Low	Medium	High	Medium	High	Medium			
				High								
Consultancy and Partnership Contract Arrangements	09/12/15		3				1			2	GREEN	
Settlement Agreements & Disciplinary	26/02/16		1		1						GREEN	
Customer Feedback	21/07/15	1	2		1	1	1				AMBER	
Contract Management – Household Waste & Recycling Centres	02/10/15		3		2		1				GREEN	
Waste Contract Management	08/07/15	1	2	1	2						GREEN	
Concessionary Fares	05/12/14	2	1	1	1			1			GREEN	
Client Financial Affairs Follow-up	23/07/15		1				1				GREEN	

Audit	Date	Total due to be implemented		Implemented	In Progress		Not Implemented		Superseded	Overall Opinion on Actions R.A.G.	
		High	Medium		Medium	High	Medium	High			Medium
		High									
Recharges	04/03/15		1		1					GREEN	
Property – Capital Project Delivery	16/09/15		1		1					GREEN	
New Ways of Working <i>(Evidence awaited to confirm issue status)</i>	09/01/05	1				1				AMBER	
Oracle Application Review	10/09/15		1		1					GREEN	
ICT Change Control Audit	11/01/16		1		1					GREEN	
Data Centres Audit	21/12/15		2		1		1			GREEN	
Kent Card	20/07/15	1	3		3			1		GREEN	
Direct Payments <i>(Evidence awaited to confirm issue status)</i>	30/07/15	2	2	1	1	1	1			GREEN	

Audit	Date	Total due to be implemented		Implemented	In Progress		Not Implemented		Superseded	Overall Opinion on Actions R.A.G.	
		High	Medium		Medium	High	Medium	High			Medium
		High									
Optimisation	17/06/15	5	2	1		2	2			AMBER	
Promoting Independence Reviews	24/02/15	2		1		1				GREEN	
Bank Accounts	09/01/15	1	1	1	1					GREEN	
Health Checks	21/04/15		6		5		1			GREEN	
Childrens Payments Section 17	16/06/15		3		3					GREEN	
Quality Assurance Framework - Safeguarding Children / Online Case file audit process / Missing Children	06/11/15		7		3		4			AMBER	
Childrens Finances (LAC)	21/12/15		1		1					GREEN	
Unaccompanied Asylum Seeking Children	15/01/14	1	3		2		1	1		AMBER	

Appendix 4 – Internal Audit Assurance Level Definitions

Assurance level	
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 of error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.

Prospects for Improvement

Very Good

There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.

Good

There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.

Adequate

Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives.

Uncertain

Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.

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

To: Governance and Audit Committee – 21 July 2016

Subject: **UPDATE ON 2016-17 SAVINGS PROGRAMME**

Classification: Unrestricted

Summary: This paper provides an update on the delivery of the 2016-17 savings target of £81m.

**FOR
ASSURANCE**

INTRODUCTION

1. A process of 'BRAG rating' is being undertaken regularly to monitor the delivery of the 2016-17 £81m savings target. 'BRAG' is the standard RAG rating, with blue added to distinguish between green – which is on track for delivery as planned – and blue – which means that savings are already banked and no further work is required to deliver them. This paper is for Governance & Audit Committee to consider and note, for assurance.

BRAG UPDATE SINCE COUNTY COUNCIL IN FEBRUARY

2. Prior to County Council, a high level RAG a rating for each saving line in the MTFP was undertaken, and a summary position was presented to Members at the budget briefing before County Council on 8th February. This summary is set out in Table 1 below.

Table 1: Position reported to County Council 8th February

Red	Amber	Green	TOTAL
£1.5m	£22.0m	£57.3m	£80.8m
2%	27%	71%	100%

3. A process of reviewing and updating the BRAG ratings for the savings lines in the MTPF has been undertaken on a regular basis and the latest position is set out in Table 2 below.

Table 2: Latest BRAG position

Red	Amber	Green	Blue	TOTAL
£3.3m	£14.0m	£31.2m	£32.3m	£80.8m
4%	17%	39%	40%	100%

(Figures subject to roundings)

4. The A3 appendix to this paper provides the detail behind Table 2. The first ten columns in the appendix are a replica of Appendix Aii in the final MTFP, which breaks down the £80.8m savings into more detail, including a split by Directorate. The following six columns allocate these savings into one (or more) of the BRAG categories and the final column provides an explanation for the BRAG rating the saving has been given.
5. The table at the bottom of the second page of the A3 appendix provides a summary of the BRAG ratings by Directorate.
6. Looking at the movement between Table 1 and Table 2, the value of savings in the Blue/Green categories has increased by £6.2m, which is good news, but the value of savings in the Red category has also increased by £1.8m.
7. Corporate Directors are absolutely committed to resolving the issues that are causing the £3.3m red rating. Where the total saving proves to be impossible to deliver, the Corporate Director will propose alternatives, although we are not giving up on any of the red savings this early in the financial year.

CONCLUSIONS

8. This BRAG rating exercise will continue to be undertaken in the short term until it is fully incorporated into the regular budget monitoring cycle.

RECOMMENDATION

9. Governance & Audit Committee is asked to note the latest BRAG position on the 2016-17 savings target of £81m, for assurance.

Report Author:

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Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total	Red	Amber	Green	Blue	TOTAL	BRAG rating explanation
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
Savings and Income															
Transformation Savings															
Adults Phase 2 OP/PD	Continued rollout of Phase 2 transformation including initiatives aimed at promoting better integration with health services and better range of support services for clients leaving hospital	0.0	-3,499.1	0.0	0.0	0.0		-3,499.1		0.0	0.0	-3,499.1	0.0	-3,499.1	Saving will be over-delivered according to May Finance & Performance Monitoring Group.
Adults Phase 2 Learning Disability	Continued rollout of Phase 2 transformation including initiatives aimed at reducing dependence on care services for vulnerable adults	0.0	-1,829.7	0.0	0.0	0.0		-1,829.7	-10,227.8	0.0	0.0	-1,829.7	0.0	-1,829.7	Saving will be over-delivered according to May Finance & Performance Monitoring Group.
Learning Disability	Full year effect of 2015-16 transformation savings plan to review support packages	0.0	-500.0	0.0	0.0	0.0		-500.0		0.0	0.0	-500.0	0.0	-500.0	Full Year Effect of savings achieved in 2015-16
OP/PD commissioned services	Reduction to older people and physical disability commissioned services through encouraging greater client independence	0.0	-4,399.0	0.0	0.0	0.0		-4,399.0		0.0	-2,306.3	-1,337.5	-755.2	-4,399.0	Amalgamation of 11 detailed saving streams in OPPD.
Specialist Children's Services	Reduction in the number and length of time children are in care following improved targeting of preventative services including reduction and improvement in assessment activity	0.0	-3,220.0	0.0	0.0	0.0		-3,220.0	-3,220.0	-1,390.5	-115.5	-1,714.0	0.0	-3,220.0	£1391k Red savings is due to higher than anticipated demand and therefore a greater agency staff requirement. £116k is Amber due to higher proportion of fostering placements being in the independent sector than planned, although this is expected to improve over the coming months based on latest placement data. £1714k Green expected to be delivered as planned. All figures from May Finance & Performance Monitoring Group.
SEN Transport independent travel initiatives	Savings from initiatives aimed at increasing independent travel to school by SEND pupils including developing independent travel training and direct payments to parents	-423.6	0.0	0.0	0.0	0.0		-423.6		0.0	-423.6	0.0	0.0	-423.6	Continuation of existing programme of work, but risks associated with recruitment of additional staff and identification of further suitable pupils who would benefit (the easiest ones have already been trained)
Street lighting	Conversion of streetlight network to more efficient LED technology and implementation of a central monitoring system	0.0	0.0	-1,618.0	0.0	-96.0		-1,714.0		0.0	0.0	-1,714.0	0.0	-1,714.0	Work started mid March, on track for delivery.
Public Transport	Bus operators taking subsidised bus routes into commercial operation, with minor refinements, resulting in a reduction in subsidies paid	0.0	0.0	-315.0	0.0	0.0		-315.0	-3,176.2	0.0	-315.0	0.0	0.0	-315.0	Went out to consultation on proposed routes to be affected by this on 21 March. Saving remains Amber until consultation closes, but is moving in the right direction (i.e. towards Green).
Property LATCo	Dividend from and implementation of Property Local Authority Trading Company model	0.0	0.0	0.0	-673.6	0.0		-673.6		0.0	-341.7	-200.0	-131.9	-673.6	£131.9k Blue - already delivered through reduced core fee paid to LATCo / £200k Green - on track to be delivered £341.7k Amber - Relates to LATCo dividend. 2016-17 is the first year of implementation of the Property LATCo and there are still a large number of vacancies in the structure, which will need to be filled by contractors (more expensive).
Community Safety & Emergency Planning	Full year effect of integrating services with Police and Fire	0.0	0.0	-50.0	0.0	0.0		-50.0		0.0	0.0	-50.0	0.0	-50.0	FYE of savings achieved in 2015-16. On track, structure yet to be finalised and hence not blue.
Income															
Trading	Increased income from traded services with schools, academies, other local authorities and public bodies	-585.6	0.0	0.0	-100.0	0.0		-685.6		0.0	0.0	-535.6	-150.0	-685.6	EYP £585.6k - £150k already achieved in 2015-16 (Blue) and there are plans in place to deliver the rest (£435.6k Green). S&CS £100k - plans in place to deliver BSC increased profitability (Green).
Client Charges	Uplift in social care client contributions in line with benefit uplifts for 2016-17 and charges for other activity led services including young person's travel pass, libraries, and registration	0.0	-1,530.0	-1,062.3	0.0	0.0		-2,592.3		0.0	-100.0	-2,492.3	0.0	-2,592.3	SCHW £1,530k - £175k non-resi client contribs from assessments and £1,355k benefits uplift - all green GET £1,062.3k - £100k Amber (£80k KSS increased income target and £20k of £115k libraries income target, due to slow start of schemes. £962k Green (YPTP £20 inflationary increase, plus additional income from: libraries, country parks, registration, planning applications, and dev cons).
Disability Children's Services	Maximise income from continuing healthcare in residential care	0.0	-60.0	0.0	0.0	0.0		-60.0	-6,998.8	0.0	-60.0	0.0	0.0	-60.0	Depends on negotiations with Health to contribute towards client costs
Commercial Business Rate Pool	Explore options for distribution of business rate regeneration pot	0.0	0.0	-500.0	0.0	0.0		-500.0		-500.0	0.0	0.0	0.0	-500.0	Discussions with Districts have been initiated, but given the complexities of the agreements (bilateral) this has yet to be agreed. The directorate are identifying base funded costs/services to present to districts within the next 1-2 months.
Corporate Support Services	Income from full recharge of corporate support service costs to Property LATCo (offset by pressure to Property LATCo above)	0.0	0.0	0.0	-660.9	0.0		-660.9		0.0	0.0	0.0	-660.9	-660.9	Delivered, as there is a corresponding pressure allocated to Property to fund external income to Corporate Services Directorate.
Commercial Services	Increased dividend from Commercial Services	0.0	0.0	0.0	0.0	-2,000.0		-2,000.0		0.0	-2,000.0	0.0	0.0	-2,000.0	Commercial Services have alerted us that the £8.7m dividend this would require is a massive challenge and would require use of reserves.
Investment income	Improved returns from cash balances through more diverse investments, and assuming gradual increase in interest rates	0.0	0.0	0.0	0.0	-500.0		-500.0		0.0	0.0	-500.0	0.0	-500.0	In line with 2015-16 position
Efficiency Savings															
Staffing															
Staff restructures	Service re-design, integration of services and more efficient ways of working resulting in a reduction of staff costs that equates to the equivalent of approx. 150 fte. The delivery of these savings will be with appropriate stakeholder engagement and detailed consultations	-703.8	-1,158.0	-1,620.0	-1,615.0	0.0		-5,096.8	-5,096.8	0.0	0.0	-4,393.0	-703.8	-5,096.8	EYP £703.8k - all now complete and therefore blue. S&CS £1,615k - all green/ on track to achieve based on existing plans. GET £1,620k - all green/ on track to achieve based on existing plans. Some of the £1,620k will become blue next month as structures are finalised and early retirement/redundancy positions confirmed. SCHW £1,158k - all green/ on track to achieve based on existing plans.
Property															
Established Programmes	Existing savings plans arising from asset rationalisation, facilities management and utility contracts	0.0	0.0	0.0	-1,444.0	0.0		-1,444.0	-1,444.0	-24.4	-387.6	-1,032.0	0.0	-1,444.0	Corporate Board have acknowledged the difficulty of delivering this saving, but support that these aspirational plans should continue to be pursued.

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total	Red	Amber	Green	Blue	TOTAL	BRAG rating explanation
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
Contracts & Procurement															
Disabled Children's Services	Review of contracts and realignment of prices	0.0	-500.0	0.0	0.0	0.0		-500.0		0.0	0.0	-500.0	0.0	-500.0	In line with 2015-16 forecast
Housing Related Support	Efficiency savings from standardising the hourly rate within support contracts and review of low level support packages	0.0	-2,016.1	0.0	0.0	0.0		-2,016.1		0.0	0.0	-2,016.1	0.0	-2,016.1	In line with Commissioning Division's 2016-17 savings plans
Learning Disability	Reduction on external day care contracts	0.0	-130.0	0.0	0.0	0.0		-130.0		0.0	0.0	-130.0	0.0	-130.0	In line with existing savings plans
OP/PD meal service	Recommissioning of the Meal Service contract	0.0	-268.0	0.0	0.0	0.0		-268.0		0.0	-268.0	0.0	0.0	-268.0	FYE of 2015-16 retender. Currently Amber pending an updated calculation of savings delivered from retender. After the updated calculations have been done this saving is expected to move to green.
Learning Disability supported living	Supported living contract reviews and reduction in cost	0.0	-800.0	0.0	0.0	0.0		-800.0		0.0	0.0	-800.0	0.0	-800.0	In line with existing savings plans
Early Help & Prevention	Review of commissioned services across Early Help and Preventative Services	-1,891.0	0.0	0.0	0.0	0.0		-1,891.0		0.0	-600.0	-1,200.0	-91.0	-1,891.0	£91k Youth Remand saving: now achieved - blue. £1,800k saving from recommissioning: £600k Amber and £1200k Green, pending completion of work to recommission services.
SEN Transport route optimisation	Savings through improved route optimisation and procurement practices	-1,170.0	0.0	0.0	0.0	0.0		-1,170.0		-880.0	-290.0	0.0	0.0	-1,170.0	Saving predicated on rolling out learning from 3 pilot schemes to more schools from September 2016.
Infrastructure	Reduction in ICT spend on third party contracts and equipment	0.0	0.0	0.0	-1,410.0	0.0		-1,410.0		0.0	-940.0	-470.0	0.0	-1,410.0	£470k Green represents saving to be made through reductions to TRP resourcing (staffing) £940k Amber represents £740k saving anticipated as a result of User Access Device procurement (which is currently being undertaken) and £200k review of other contracts.
Waste site maintenance	Review of site maintenance budgets	0.0	0.0	-120.0	0.0	0.0		-120.0	-11,539.1	0.0	0.0	0.0	-120.0	-120.0	Already delivered, site maintenance responsibility transferred to Provider as part of renegotiation of contracts in 2015-16.
Household waste recycling centres	HWRC efficiencies in line with new waste strategy outcomes	0.0	0.0	-500.0	0.0	0.0		-500.0		0.0	0.0	-500.0	0.0	-500.0	Will be delivered through contracts & efficiencies at the sites (not closing HWRCs).
Highways	Review of procurement strategy including extending length of contracts	0.0	0.0	-150.0	0.0	0.0		-150.0		0.0	0.0	-150.0	0.0	-150.0	AMEY have now agreed to honour the contract extension and a modest discount has been agreed, which will achieve £100k of this saving. The directorate will look to achieve the balance in-year.
Environmental Management	Review of natural environment and flood risk strategy	0.0	0.0	-100.0	0.0	0.0		-100.0		0.0	0.0	-100.0	0.0	-100.0	Deliverable as £55k roll-forward from 2015-16 has now been agreed.
Economic Development	Review of grants and contributions	0.0	0.0	-53.0	0.0	0.0		-53.0		0.0	0.0	-53.0	0.0	-53.0	
Waste procurement	Waste procurement savings from contracts due for re-tender in 2016-17	0.0	0.0	-1,671.0	0.0	0.0		-1,671.0		0.0	-450.0	-1,221.0	0.0	-1,671.0	Plans in place to achieve this, subject to successful tender processes throughout the year (which service have a good track record of delivering on year-on-year). The £450k in Amber relates to the dry recyclables contract, which is currently under review.
Libraries	Saving on book purchases under new contract and reduction in systems project budget	0.0	0.0	-250.0	0.0	0.0		-250.0		0.0	0.0	0.0	-250.0	-250.0	ICT systems saving already achieved through procurement process. Book saving will be achieved by purchasing through framework agreement or, if necessary, buying less books.
Public Transport	Bus operators fully adopting existing subsidised bus routes, resulting in a reduction in subsidies	0.0	0.0	-510.0	0.0	0.0		-510.0		0.0	0.0	-260.0	-250.0	-510.0	Green (£260k) - it has been agreed with bus operators which routes will be taken back into commercial operation. This is still subject to consultation, but the provision will be like for like and there shouldn't be any conflict for this part of the saving.
Other															
OP/PD Social support	Review the provision of social support services	0.0	-425.0	0.0	0.0	0.0		-425.0		0.0	0.0	0.0	-425.0	-425.0	Reduced payments commenced on 1 April 2016
OP/PD Equipment	Recommissioning of the Integrated Community Equipment Service	0.0	-110.0	0.0	0.0	0.0		-110.0		0.0	0.0	-110.0	0.0	-110.0	In line with current forecast; value of saving may be understated.
Specialist Children's Services removal of one-off funding	Removal of one-off funding for transitional arrangements and special operations	0.0	-1,657.8	0.0	0.0	0.0		-1,657.8		0.0	-1,407.8	-250.0	0.0	-1,657.8	£400k Operation Lakeland: there may be ongoing costs in relation to Operation Lakeland of approx. £120-£130k placement costs plus potential for some Legal costs. Therefore £150k rated as amber to reflect this, and the remaining £250 is green. £1257.8k removal of transitional funding for Adoption Reform Grant: this saving has been allocated across all headings, but with no clear plans to achieve the savings. Rated as Amber until more detailed plans have been worked up.
Specialist Children's Services efficiencies	Efficiency savings across specialist children's services including family support, adoption, secure accommodation, in-house fostering, section 17 and day care	0.0	-383.0	0.0	0.0	0.0		-383.0		0.0	0.0	-383.0	0.0	-383.0	£183k green - plans in place to deliver efficiency savings in secure accommodation, in-house fostering, section 17 and day care. £200k amber - detailed plans yet to be confirmed to deliver savings in family support & adoption.
Home to school Transport	Reduced demand for home to school transport	-1,092.0	0.0	0.0	0.0	0.0		-1,092.0		0.0	0.0	0.0	-1,092.0	-1,092.0	Saving will be achieved because we are at a low point for roll numbers, in line with underspend in 2015-16.
Early Help & Prevention	Review of Troubled Families provision with a view to greater integration with Early Help and Preventative Services	-500.0	0.0	0.0	0.0	0.0		-500.0		0.0	0.0	-500.0	0.0	-500.0	Deliverable as 2015-16 roll-over was approved in June.
Early Years & Childcare	Reduction in support for projects in Early Years & Childcare Unit	-100.0	0.0	0.0	0.0	0.0		-100.0		0.0	0.0	-100.0	0.0	-100.0	Work already under way to deliver reduced project support
Education Pension costs	Reduction in education staff pension cost commitments	-500.0	0.0	0.0	0.0	0.0		-500.0		0.0	0.0	0.0	-500.0	-500.0	In line with 2015-16 predicted outturn
Payments to Districts	Saving from reducing payments to Districts from proceeds of second homes Council Tax discounts	0.0	0.0	0.0	-375.0	0.0		-375.0		0.0	0.0	-375.0	0.0	-375.0	Districts have already been informed about the reduction.
Waste payments to Districts	Discretionary payments to Districts	0.0	0.0	-105.0	0.0	0.0		-105.0	-9,111.5	0.0	-105.0	0.0	0.0	-105.0	This grant payment is now being looked at in the round as part of the district deal discussions and therefore Amber status retained as no resolution currently in place and timeline delayed. The directorate will work up alternative solutions if this saving is undeliverable.
Highways	Review of non staffing budgets	0.0	0.0	-100.0	0.0	0.0		-100.0		0.0	0.0	0.0	-100.0	-100.0	In line with 2015-16 predicted outturn
Libraries	Review of Libraries operating model to align resources with demand at peak times	0.0	0.0	-250.0	0.0	0.0		-250.0		0.0	0.0	-250.0	0.0	-250.0	Review of staffing to match resource with peak hours (in line with lean internally commissioned service)
Young Persons Travel Pass	Reduce budget to reflect reduced take-up and fewer journeys per passholder seen in 2015-16	0.0	0.0	-540.0	0.0	0.0		-540.0		0.0	-540.0	0.0	0.0	-540.0	This saving is at risk because 2015-16 underspend has reduced. The £540k saving was based on 2015-16 Q2 underspend (-£940k) offset by £400k pressure for 10 additional school days in 2016-17 (timing of Easter school holidays), but the outturn position reduced significantly to -£400k which will only just cover the additional school days. Increased journey numbers and cost in Q3 and Q4 has put this saving at risk. The directorate is in regular communication with operators with a view to reducing costs.
Social Care	Review of client transport arrangements	0.0	-300.0	0.0	0.0	0.0		-300.0		-252.4	-47.6	0.0	0.0	-300.0	Saving target has been allocated within SCHW, but plans to deliver are yet to be finalised.
Adult Operational Support Unit	Office support cost rationalisation	0.0	-250.0	0.0	0.0	0.0		-250.0		0.0	0.0	-250.0	0.0	-250.0	Plans in place to achieve from running cost of buildings, in line with 2015-16 underspend.
Publicity Expenditure	Reduction in publicity expenditure across the Council	0.0	0.0	0.0	0.0	0.0	-700.0	-700.0		0.0	-700.0	0.0	0.0	-700.0	Directorates are working to identify how their allocation of this saving will be delivered
Other	Other minor efficiency savings	-196.4	-377.6	-828.3	-321.4	0.0		-1,723.7		-280.0	0.0	-1,397.3	-46.4	-1,723.7	EYP £196.4k, GET £828.3k, S&CS £321.4k - all low value/ risk savings (All green apart from £46.4k in EYP which moved to blue this month) SCHW £377.6k : £97.6k Green/ low value & low risk. £280k Asylum saving rated Red, because Home Office have confirmed that this money will not be available from them in 2016-17 (the first 25 care leavers were funded for last 2 years and we assumed in the MTFP that it would be ongoing, but the Home Office have now confirmed it will not be - however we are still pursuing this with them).

Heading	Description	E&YP	SCH&W	GET	S&CS	FI	U	Total	Total	Red	Amber	Green	Blue	TOTAL	BRAG rating explanation
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	
Financing Savings															
Drawdown reserves & provisions	Net reduction in earmarked reserves including workforce reduction reserve, Supporting People reserve, Medway Preserved Rights reserve, and other Directorate specific reserves & provisions	0.0	-2,263.0	0.0	0.0	-3,988.8		-6,251.8		0.0	0.0	0.0	-6,251.8	-6,251.8	Delivered
Modernising the Council	Reduce the Modernising the Council base budget	0.0	0.0	0.0	0.0	-1,000.0		-1,000.0		0.0	0.0	0.0	-1,000.0	-1,000.0	Delivered
Reductions due to use of prior year's underspend	Use of uncommitted 2014-15 underspend	0.0	0.0	0.0	0.0	-4,100.0		-4,100.0		0.0	0.0	0.0	-4,100.0	-4,100.0	Delivered
Reductions in contributions to reserves	Removal of one-off contributions to reserves in 2015-16 and base contributions including council tax support & general reserves	0.0	0.0	0.0	0.0	-9,462.2		-9,462.2	-22,664.0	0.0	0.0	0.0	-9,462.2	-9,462.2	Delivered
Kings Hill distribution	Increase annual support to the base budget from Kings Hill distribution	0.0	0.0	0.0	0.0	-500.0		-500.0		0.0	0.0	0.0	-500.0	-500.0	Delivered
Kings Hill reserve	Further one-off draw-down on Kings Hill reserve in response to worse than expected provisional settlement	0.0	0.0	0.0	0.0	-500.0		-500.0		0.0	0.0	0.0	-500.0	-500.0	Delivered
Revisions to MRP	Revised calculation of amount needed to repay prudential borrowing due to slippage in delivering capital programme together with adjustments in line with the MRP policy outlined in Appendix C of MTFP	0.0	0.0	0.0	0.0	-800.0		-800.0		0.0	0.0	0.0	-800.0	-800.0	Delivered
External Audit Fee	Reduction in base budget for external audit fee	0.0	0.0	0.0	0.0	-50.0		-50.0		0.0	0.0	0.0	-50.0	-50.0	Saving is in line with previous year's charges
Policy Savings															
Full year effect of previous savings	Impact of previous decision to remove discretions on home to school transport policy	-300.0	0.0	0.0	0.0	0.0		-300.0		0.0	0.0	0.0	-300.0	-300.0	Continuation of policy decision made a number of years ago
Learning Disability	Review occupancy and delivery of short break services	0.0	-145.0	0.0	0.0	0.0		-145.0		0.0	-145.0	0.0	0.0	-145.0	Decision on Osborne Court is yet to be taken, due to consultation still progressing (ends 29th August 2016).
Older People & Physical Disability	Review occupancy and delivery of older people residential care services	0.0	-537.0	0.0	0.0	0.0		-537.0		0.0	-212.0	-325.0	0.0	-537.0	£325k Kiln Court - decision has been taken to close from end of August. £212k Dorothy Lucy Centre - decision has been taken to have a phased closure from end of August. Re-provision costings still in progress, so all Amber for now although some will move to Green once this exercise is complete.
Highways	Reprioritisation of spend to focus on achieving better outcomes for the network	0.0	0.0	-2,250.0	0.0	0.0		-2,250.0	-7,283.1	0.0	-2,250.0	0.0	0.0	-2,250.0	The saving is deliverable, but has been given an overall rating of amber due to the impact which has not yet been fully assessed. Therefore, once the assessment is complete some of the saving may be deemed inappropriate or a false economy.
Member Grants	Reduce Member Grants by 20%	0.0	0.0	0.0	-420.0	0.0		-420.0		0.0	0.0	0.0	-420.0	-420.0	Delivered
Capital Financing	Reduction in net debt costs as a consequence of the 2016-19 capital programme	0.0	0.0	0.0	0.0	-3,476.1		-3,476.1		0.0	0.0	0.0	-3,476.1	-3,476.1	In line with rephased capital programme
Other	Other minor policy savings	0.0	0.0	-120.0	-35.0	0.0		-155.0		0.0	0.0	-35.0	-120.0	-155.0	S&CS £35k - on track & low risk GET £120 - Blue
Total savings and Income		-7,462.4	-26,358.3	-12,712.6	-7,054.9	-26,473.1	-700.0	-80,761.3	TOTAL SAVINGS	-3,327.3	-14,005.1	-31,172.6	-32,256.3	-80,761.3	
									% SPLIT	4.1%	17.3%	38.6%	39.9%		
									EYPS	£000s split	-880.0	-1,313.6	-2,385.6	-2,883.2	-7,462.4
										% split	11.8%	17.6%	32.0%	38.6%	
									SCHW	£000s split	-1,922.9	-4,562.2	-16,430.0	-3,443.2	-26,358.3
										% split	7.3%	17.3%	62.3%	13.1%	
									GET	£000s split	-500.0	-3,760.0	-7,612.6	-840.0	-12,712.6
										% split	3.9%	29.6%	59.9%	6.6%	
									S&CS	£000s split	-24.4	-1,669.3	-4,148.4	-1,212.8	-7,054.9
										% split	0.3%	23.7%	58.8%	17.2%	
									Fin Items & Unallocated	£000s split	0.0	-2,700.0	-596.0	-23,877.1	-27,173.1
										% split	0.0%	9.9%	2.2%	87.9%	
									TOTAL	£000s split	-3,327.3	-14,005.1	-31,172.6	-32,256.3	-80,761.3
										% split	4.1%	17.3%	38.6%	39.9%	

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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 – 21 July 2016

Subject: **TREASURY MANAGEMENT ANNUAL REVIEW 2015-16**

Classification: Unrestricted

Summary: To report a summary of Treasury Management activities
in 2015-16

FOR DECISION

INTRODUCTION

1. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end). At KCC half yearly reports are made to Council and quarterly updates are provided to the Governance and Audit Committee.
2. Treasury management is defined as: "The management of the local authority'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. The Council's Treasury Management Strategy for 2015-16 was approved by full Council on 12 February 2015.
4. The Council has both borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk during 2015-16:
 - a) Reports on the implications of treasury decisions and transactions;
 - b) Gives details of the outturn position on treasury management transactions in 2015-16;
 - c) Confirms compliance with its Treasury Management Strategy, Treasury Management Practices and Prudential Indicators.
5. When this report is agreed by this Committee it will go forward to full Council.

BORROWING STRATEGY

6. At 31 March 2016 KCC held £980m of loans, a decrease of £4m on 31 March 2015.
7. The Council's chief objective when borrowing continues to be to consider borrowing at advantageous points in interest rate cycles as well as striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
8. In 2015-16 KCC funded £26.5m of its capital expenditure from borrowing.
9. In April 2015 based on concerns regarding the likely outcome of the UK general election and possible impact on the UK financial market as well as uncertainty over the future for Greece in the EU, the decision was made, given the availability of advantageous rates from the PWLB for long term fixed rate maturity loans, to borrow £25m from the PWLB for 40 years at a fixed rate of 3.16%.
10. The council has agreed an £22m interest free loan to be used specifically to fund improvements to Kent's street lighting under the government's energy efficiency loans programme. In March 2016 we received the first instalment (£1.5m).
11. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs and the Council's Treasury Advisor, Arlingclose has assisted it with this 'cost of carry' and breakeven analysis.
12. This strategy has lowered overall treasury risk by reducing both external debt and temporary investments however the sustainability of this approach continues to be kept under review.

	Balance on 01/04/2015 £m	Debt Maturing £m	New Borrowing £m	Balance on 31/3/2016 £m	Average Rate % / Average Life (yrs)
Capital Financing Requirement (CFR)	1,383			1,348	
Long Term Borrowing	984	-31	27	980	5.24% / 31
Other Long Term Liabilities					
TOTAL EXTERNAL DEBT	984			980	
Decrease in Borrowing				-4	

13. The Council holds £441.8m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which KCC has the option to either accept the new rate or to repay the loan at no additional cost. £200.7m of these LOBOs had options during the year, none of which were exercised by the lender. These LOBO loans were primarily taken out between 2004 and 2007 at very low interest rates (average 4.2%) and were the most cost effective means of funding large scale capital spending at that time.

INVESTMENT ACTIVITY

14. KCC holds significant invested funds, representing income received in advance of expenditure plus balances and reserves. During 2015-16 the Council's average investment balance was £379m.
15. The Guidance on Local Government Investments gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.
16. Investment Activity in 2015-16

Investment Counterparty	Balance on 01/04/2015 £m	Net Investments Made £m	Balance on 31/03/2016 £m	Avg Rate % / Avg Life (yrs)
UK Central Government	0.0	0.0	0.0	
Banks and building societies	202.5	-83.5	119.0	0.62% / 0.45
Marketable instruments (Covered Bonds)	89.7	-1.3	88.4	1.02% / 1.75
Money Market Funds	4.0	55.7	59.7	0.42% / overnight
Icelandic recoveries outstanding	4.2	-3.7	0.5	
Icelandic deposits held in Escrow (incl interest)	3.3	0.0	3.3	
Total Internally Managed Investments	303.7	-32.8	270.9	0.73% / 1.8
Pooled property fund	15.3	10.4	25.7	3.48% pa
Pooled investments fund	5.1	0.0	5.1	2.96% pa
Equity / Loan notes	2.1	0.0	2.1	7.20% pa
Total Externally Managed Investments	22.5	10.4	32.9	
Total investments	326.2	-22.4	303.8	
Decrease in Investments (£m)			22.4	

17. Security of capital has remained the Council's main investment objective. This has been maintained by following KCC's counterparty policy as set out in its Treasury Management Strategy Statement for 2015-16.

18. Counterparty credit quality was assessed and monitored with reference to credit ratings (KCC's minimum long-term counterparty rating is A- across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
19. KCC has also used secured investments products in particular covered bonds that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

COUNTERPARTY UPDATE

20. The application of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities such as KCC. During the year, all three credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.
21. All three credit ratings agencies (Moody's, S&P and Fitch) reviewed their ratings in the first quarter of 2015-16 to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions on the KCC approved counterparty list saw upgrades due to an improvement in their underlying strength and an assessment that that the level of loss given default is low.
22. In August duration limits were increased for some UK and European banks, and building societies based on advice from Arlingclose. Those for Close Brothers, Coventry BS, Nationwide BS and Santander UK were increased to 6 months from 100 days and Bank of Scotland, HSBC Bank, Lloyds Bank and Svenska Handelsbanken increased to 13 months from 6 months. The limit for Barclays was unchanged while RBS / NatWest remained suspended from the list as their ratings continue to be below the Council's agreed threshold.
23. In September, Volkswagen was found to have been cheating emissions tests over several years in many of their diesel vehicles. As issues surrounding the scandal continued there were credit rating downgrades across the Volkswagen group by all of the ratings agencies. The £1.75m corporate bond that KCC had purchased in March matured in October at par.
24. In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the RBS and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.

25. The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016 the ratings of Standard Chartered Bank were downgraded due to concerns around the profitability and quality of the bank's assets. Taking account of advice from Arlingclose, the bank was suspended from the Council's counterparty list.
26. The end of bank bail-outs, the introduction of bail-ins, and the preference being given to large numbers of depositors other than local authorities means that the risks of making unsecured deposits continues to be elevated relative to other investment options.
27. During 2015-16 KCC made greater use of money market funds to support short term liquidity requirements and reduced the proportion of surplus cash invested in unsecured bank deposits. The total amount invested in covered bonds and pooled funds increased.
28. At the end of March 2016 some 40% of KCC's cash was invested in covered and corporate bonds as well as investment funds and equity which are not subject to bail in risk.

FINANCIAL OUTTURN

29. The UK Bank Rate was maintained at 0.5% through the year. Short term money market rates remained at very low levels and continued to have a significant impact on investment income.
30. The Council's total investment income for the year, including dividends received on the investment funds and equity, was £4.32m, 1.15% on funds held. The above benchmark return primarily reflects:
 - a) Internally managed deposits made at an average of 0.73% compared to the average 7 day LIBID rate during 2015-16 of 0.36%. The higher return in particular reflects the investment in a diversified covered bond portfolio which earned £1.89m during 2015-16; and
 - b) KCC maintained its investment in the Pyrford Absolute Return Fund and Kent PFI (Holdings) Ltd, and added to its investment in the CCLA Property Fund. Total income received in the year from these investments was £1.364m.
31. With the full recovery of monies held in Landsbanki total recoveries are now £52.4m (£50.5m was deposited) with £370,000 outstanding from Heritable.
32. Investments as at 31 March 2016 are shown in Appendix 2.

COMPLIANCE WITH PRUDENTIAL INDICATORS

33. The Council confirms that it has complied with its Prudential Indicators for 2015-16, which were set as part of the Council's Treasury Management Strategy Statement. Details can be found in Appendix 1.
34. 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 ADVISOR

35. KCC currently contracts with Arlingclose as Treasury Advisers.

RECOMMENDATION

36. Members are asked to agree the report and recommend that it is submitted to County Council.

Alison Mings
Treasury and Investments Manager
Ext: 03000 416488

2015-16 Final Monitoring of Prudential Indicators**1. Estimate of Capital Expenditure (excluding PFI)**

	£m
Actuals 2014-15	205.979
Original estimate 2015-16	289.838
Actuals 2015-16	234.911

2. Estimate of capital financing requirement (underlying need to borrow for a capital purpose)

	2014-15 Actual £m	2015-16 Original Estimate £m	2015-16 Actual as at 31 March £m
CFR	1,382.856	1,382.620	1,348.259
Annual increase/(decrease) in underlying need to borrow	-52.407	-9.053	-34.597

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 2014-15	14.19%
Original estimate 2015-16	13.17%
Actual 2015-16	13.90%

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. The operational boundary for debt will not be exceeded in 2015-16

Operational boundary for debt relating to KCC assets and activities

	Prudential Indicator £m	Position as at 31 March 2016 Actual £m
Borrowing	983	941
Other Long Term Liabilities	254	245
Total	1,237	1,186

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 2016 £m
Borrowing	1,024	980
Other Long Term Liabilities	254	245
Total	1,278	1,225

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 2016 £m
Borrowing	1,023	941
Other long term liabilities	254	245
Total	1,277	1,186

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 2016 £m
Borrowing	1,064	980
Other long term liabilities	254	245
Total	1,318	1,225

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 2015-16

Fixed interest rate exposure	100%
Variable rate exposure	40%

These limits have been complied with in 2015-16.

8. Upper limits for maturity structure of borrowings

	Upper limit	Lower limit	As at 31 March 2016
	%	%	%
Under 12 months	10	0	0.00
12 months and within 24 months	10	0	3.30
24 months and within 5 years	15	0	9.00
5 years and within 10 years	15	0	10.20
10 years and within 20 years	20	5	10.50
20 years and within 30 years	20	5	18.30
30 years and within 40 years	25	10	13.30
40 years and within 50 years	25	10	23.60
50 years and within 60 years	30	10	11.80

9. Upper limit for principal sums invested for periods longer than 364 days

Prudential Indicator	Actual
£m	£m
175.00	130.00

Appendix 2

Investments as at 31 March 2016

1. Internally Managed Investments

Instrument Type	Counterparty	Principal Amount	Maturity Date	Interest Rate
Same Day Call Deposit	Barclays Bank	£1,300,000.00	n/a	0.35%
Same Day Call Deposit	Barclays FIBCA	£0.00	n/a	0.50%
Fixed Deposit	Close Brothers	£10,000,000.00	21/06/2016	0.80%
Fixed Deposit	Lloyds Bank	£5,000,000.00	19/08/2016	1.00%
Fixed Deposit	Lloyds Bank	£5,000,000.00	30/09/2016	1.05%
Fixed Deposit	Lloyds Bank	£5,000,000.00	24/05/2016	0.80%
Fixed Deposit	Lloyds Bank	£5,000,000.00	22/07/2016	0.85%
Fixed Deposit	Lloyds Bank	£5,000,000.00	08/08/2016	1.00%
Fixed Deposit	Lloyds Bank	£5,000,000.00	09/05/2016	0.80%
Fixed Deposit	Lloyds Bank	£5,000,000.00	05/09/2016	1.00%
Call Deposits	Santander UK	£5,000,000.00	n/a	0.40%
31 Day Call Notice Account	Santander UK	£5,000,000.00	n/a	0.65%
60 Day Call Notice Account	Santander UK	£5,000,000.00	n/a	0.75%
95 Day Call Notice Account	Santander UK	£5,000,000.00	n/a	0.90%
120 Day Call Notice Account	Santander UK	£5,000,000.00	n/a	1.05%
180 Day Call Notice Account	Santander UK	£5,000,000.00	n/a	1.15%
Certificate of Deposit	Standard Chartered Bank	£10,000,000.00	01/04/2016	0.73%
Certificate of Deposit	Standard Chartered Bank	£10,000,000.00	07/04/2016	0.73%
Certificate of Deposit	Standard Chartered Bank	£10,000,000.00	22/04/2016	0.73%
Certificate of Deposit	Standard Chartered Bank	£5,000,000.00	15/07/2016	0.78%
Certificate of Deposit	Standard Chartered Bank	£5,000,000.00	06/05/2016	0.74%
Total UK Bank Deposits		£116,300,000.00		

Fixed Deposit	Nationwide Building Society	£3,600,000.00	19/04/2016	0.66%
Fixed Deposit	Nationwide Building Society	£10,000,000.00	22/04/2016	0.68%
Total UK Building Society Deposits		£13,600,000.00		

Same Day Call Deposit	Svenska Handelsbanken	£750,000.00	n/a	0.40%
Total Swedish Bank Deposits		£750,000.00		

Money Market Funds

Fund Name	Principal Amount	Interest Rate
Deutsche Managed Sterling Fund	£9,966,735.74	0.43 (variable)
HSBC Global Liquidity Fund	£9,931,055.97	0.46 (variable)
Insight Sterling Liquidity Fund	£9,939,656.80	0.46 (variable)
LGIM Liquidity Fund	£9,962,710.43	0.49 (variable)
SSgA GBP Liquidity Fund	£2,807,919.87	0.42 (variable)
Aberdeen Sterling Liquidity Fund	£51,423.69	0.42 (variable)
Total Money Market Fund Deposits	£42,659,502.50	

Covered Bond Portfolio

Bond Type	Issuer	Adjusted Principal	Maturity Date	Net Yield
Fixed Rate Covered Bond	Bank of Scotland	£2,070,756.25	08/11/2016	1.293%
Fixed Rate Covered Bond	Bank of Scotland	£2,980,463.78	08/11/2016	1.309%
Fixed Rate Covered Bond	Coventry Building Society	£3,233,354.82	19/04/2018	1.933%
Fixed Rate Covered Bond	Coventry Building Society	£5,420,183.39	19/04/2018	1.703%
Fixed Rate Covered Bond	Coventry Building Society	£2,180,527.85	19/04/2018	1.520%
Fixed Rate Covered Bond	Leeds Building Society	£2,128,007.54	17/12/2018	2.016%
Fixed Rate Covered Bond	Leeds Building Society	£1,601,727.09	17/12/2018	1.187%
Fixed Rate Covered Bond	Yorkshire Building Society	£2,160,066.52	12/04/2018	1.981%
Fixed Rate Covered Bond	Yorkshire Building Society	£3,279,738.32	12/04/2018	1.550%
Floating Rate Covered Bond	Abbey National Treasury	£5,758,592.03	20/01/2017	0.820%
Floating Rate Covered Bond	Abbey National Treasury	£3,004,402.93	20/01/2017	0.714%
Floating Rate Covered Bond	Abbey National Treasury	£2,443,008.22	05/04/2017	0.776%
Floating Rate Covered Bond	Abbey National Treasury	£1,380,318.37	05/04/2017	0.716%
Floating Rate Covered Bond	Abbey National Treasury	£3,003,661.25	29/05/2018	0.787%
Floating Rate Covered Bond	Barclays Bank	£5,004,600.45	15/09/2017	0.693%
Floating Rate Covered Bond	Barclays Bank	£3,002,939.62	15/09/2017	0.685%
Floating Rate Covered Bond	Barclays Bank	£5,003,051.62	12/02/2018	0.721%
Floating Rate Covered Bond	Coventry Building Society	£3,008,305.65	17/03/2020	0.877%
Floating Rate Covered Bond	Leeds Building Society	£2,502,474.96	09/02/2018	0.784%
Floating Rate Covered Bond	Leeds Building Society	£2,502,513.75	09/02/2018	0.784%
Floating Rate Covered Bond	Leeds Building Society	£5,000,000.00	01/10/2019	0.967%
Floating Rate Covered Bond	Lloyds	£3,004,176.72	14/01/2017	0.806%
Floating Rate Covered Bond	Lloyds	£3,902,346.56	19/01/2018	0.721%
Floating Rate Covered Bond	Lloyds	£1,404,814.83	18/07/2019	0.758%
Floating Rate Covered Bond	National Australia Bank	£5,004,479.88	12/08/2016	0.647%
Floating Rate Covered Bond	Nationwide Building Society	£1,899,995.91	17/07/2017	0.769%
Floating Rate Covered Bond	Nationwide Building Society	£1,000,737.57	17/07/2017	0.719%
Floating Rate Covered Bond	Nationwide Building Society	£2,101,859.88	17/07/2017	0.709%
Floating Rate Covered Bond	Nationwide Building Society	£3,430,284.48	27/04/2018	0.740%
Total Bonds		£88,417,390.24		

Iceland

ISK held in Escrow at Islandsbanki	Glitnir	£3,783,749.00
ISK held in Escrow at Islandsbanki	Landsbanki Islands	£164,000.00
Total ISK held in Escrow		£3,947,749.00

Icelandic Recoveries outstanding	Heritable Bank Ltd	£366,905.37
Total Icelandic Recoveries outstanding		£366,905.37

Total of Internally Managed Funds	£266,041,547.11
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2. Externally Managed Funds

Investment Fund Name	Purchase Book Cost	Market Value at 31/03/2016	Total Annualised Return (%)
CCLA LAMIT Property Fund	£25,000,000.00	£25,742,571.96	3.48%
Pyrford Global Total Return (Sterling) Fund	£5,000,000.00	£5,123,674.25	2.96%
Total Externally Managed Investments	£30,000,000.00	£30,866,246.21	

Investment Fund Name	Purchase Book Cost	Market Value at 31/03/2016	Total Annualised Return (%)
Kent PFI (Holdings) Ltd	£2,135,740.59	£2,135,740.59	0.00%
Total UK Private Equity Holding	£2,135,740.59	£2,135,740.59	

Total of Externally Managed Funds	£33,001,986.80
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Grand Total of All Investments	£299,043,533.91
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By: Deputy Leader and Cabinet Member for Finance & Procurement
Corporate Director of Finance & Procurement

To: Governance & Audit Committee – 21 July 2016

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 1 June 2016, as shown on Oracle Accounts Receivable Business Intelligence Suite, is £33.8m. This represents Social Care debt of £17.1m (11,461 Clients) and Sundry Debt of £16.6m (2,493 Debtors).
4. The sundry debt figures includes invoices raised to the Clinical Commissioning Groups amounting to £5.2m, of which £244k is not yet due for payment. Please see paragraph 22 for further details.
5. The total debt reported has decreased by £15.9m from the £49.7m reported in the last Governance and Audit report. However, the £49.7m reported to the Governance & Audit Committee in January 16 included £22.2m actually due for payment compared to £23.8m due for payment as at this reporting period.
6. The value of total debt at any given date can vary considerably, particularly when large one-off invoices are raised – and thus paid. 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-16	30-Apr-15	30-Apr-14	30-Apr-13	30-Apr-12	30-Apr-11	30-Apr-10	30-Apr-09
11%	5%	7%	8%	12%	8%	6%	11%

7. It can be seen that there has been a significant increase in the percentage of debt over 6 months. There are ten invoices with a total value of £1m that have been outstanding for over six months. Six of these invoices relate to Health

CCG's, and the Directorate is leading for the recovery of these debts. The table below provides information regarding the invoices:

Directorate	Customer Name	Sales Invoice Number	Total AR Outstanding Amount
GT	ALGAECYTES LTD#RGL	400011188	£150,000.00
GT	CHRIS CAREY COLLECTIONS LTD	400006479	£108,956.38
GT	HODSON DEVELOPMENTS (ASHFORD) LTD	400011196	£85,548.65
GT	HODSON DEVELOPMENTS (ASHFORD) LTD	400011197	£61,439.49
GT Total			£405,944.52
SC	KENT COMMUNITY HEALTH NHS FOUNDATION TRUST	800005396	£181,803.24
SC	NHS ASHFORD CCG	800006236	£122,776.66
SC	NHS THANET CCG	800008336	£112,320.15
SC	NHS MEDWAY CLINICAL COMMISSIONING GROUP	800003184	£66,802.34
SC	NHS MEDWAY CLINICAL COMMISSIONING GROUP	800005301	£66,444.56
SC	NHS ASHFORD CCG	800008333	£51,187.57
SC Total			£601,334.52
Grand Total			£1,007,279.04

8. 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 26-34, with earlier sections referring to Sundry debt only. The Social Care debt analysed from this point on reflects the four weekly client billing process run on Tuesday 24 May 2016.
9. The table below is an analysis of the summary position for Sundry debt as at 1 June 2016. As can be seen £11.6m of the £16.6m outstanding is not yet due for payment:

FTC	Directorate	Not Yet Due	AR Overdue 0-60 Amount	AR Overdue 61-181 Amount	AR Overdue 182+ Amount	Total AR Outstanding Amount	Overdue Element
New Directorate	EY	£161,920.48	£290,583.52	£96,434.00	£96,481.00	£645,419.00	£483,498.52
	GT	£912,773.71	£2,437,463.56	£677,752.16	£391,625.99	£4,419,615.42	£3,506,841.71
	SC	£647,506.81	£3,117,933.18	£951,896.85	£832,786.01	£5,550,122.85	£4,902,616.04
	ST	£2,570,286.37	£1,119,146.49	£193,017.03	£176,913.68	£4,059,363.57	£1,489,077.20
Old Directorate	BSS	£52,289.88	£29,495.09	£4,345.45	£51,100.42	£137,230.84	£84,940.96
	C&C	£0.00	£0.00	£0.00	£9,893.26	£9,893.26	£9,893.26
	E&E	£4,173.11	£0.00	£0.00	£21,726.26	£25,899.37	£21,726.26
	ELS	£33,579.98	£0.00	£608.90	£4,230.23	£38,419.11	£4,839.13
	FSC	£23,808.44	£0.00	£952.38	£175,618.77	£200,379.59	£176,571.15
Other	EDUKENT	£218,461.46	£564,196.64	£39,931.01	£2,377.99	£824,967.10	£606,505.64
	Penalty Notices	£16,869.00	£7,200.00	£30,372.00	£5,400.00	£59,841.00	£42,972.00
	Property Rents	£361,299.34	£283,459.67	£21,160.85	£10,029.47	£675,949.33	£314,649.99
Grand Total		£5,002,968.58	£7,849,478.15	£2,016,470.63	£1,778,183.08	£16,647,100.44	£11,644,131.86

PERFORMANCE

10. 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 15%

As at 1 June 2016, 77.21% of the total sundry outstanding debt was under 60 days old whilst 10.68% was over 6 months old.

DEBT LEVELS OVER SIX MONTHS OF AGE

11. The following tables provide 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.

12. EY – Early Years

DEBT CATEGORY	AMOUNT OUTSTANDING
EDUKENT	£58,702.38
ONGOING ACTION	£29,325.36
HEALTH DEBT - HQ	£485.00
LIQ'S/INSOLV'S/RECV	£200.00
OTHER	£4,150.00
REFERRED FOR WRITE OFF	£993.19
REFERRED TO DIRECTORATE	£2,625.07
TOTAL	£96,481.00

There are 83 invoices over 6 months for EY – the Debt Recovery Team is liaising with all invoice requestors to recover the debts. The largest invoice is for the sum of £58,345.00 regarding a work skills pilot at East Kent College – the debt is being chased by the Directorate directly.

13. GT – Growth, Environment & Transport

DEBT CATEGORY	AMOUNT OUTSTANDING
ONGOING ACTION	104,268.27
INSTALMENTS	105,103.74
INSURANCE	5,960.28
OTHER	13,312.18
ON HOLD	146,988.14
REFERRED FOR WRITE OFF	4,605.60
REFERRED TO DIRECTORATE	11,387.78
TOTAL	£391,625.99

There are 112 outstanding invoices over 6 months for GT – the Debt Recovery Team is liaising with all invoice requestors to recover the debts. The largest invoice is for the sum of £103,956.38 regarding a waste management contract. An instalment plan is in place which is being formalised by Legal Services.

14. SC – Strategic Commissioning

DEBT CATEGORY	AMOUNT OUTSTANDING
ONGOING ACTION	£90,360.57
HEALTH DEBT - HQ	£473,829.85
HEALTH DEBT - SECURED - HQ	£239,341.44
LIQ'S/INSOLV'S/RECV	£1,934.21
OTHER	£1,022.05
ON HOLD	£2,064.77
PAYMENT PLAN	£2,938.93
REFERRED FOR WRITE OFF	£12,118.20
REFERRED TO DIRECTORATE	£9,175.99
TOTAL	£832,786.01

There are 129 invoices over 6 months - the Debt Recovery Team is liaising with all invoice requestors to recover the debts. It can be noted that £239k of the total debt is secured – leaving £593k as unsecured. The largest invoice is for the sum of £181,803.24 outstanding from KCH NHS Foundation Trust regarding the Active care scheme.

15. ST – Strategic & Corporate Services

DEBT CATEGORY	AMOUNT OUTSTANDING
ONGOING ACTION	£108,512.33
HEALTH DEBT - HQ	£259.82
INSTALMENTS	£298.79
LIQ'S/INSOLV'S/RECV	£657.84
ON HOLD	£4,885.96
PAYMENT PLAN	£10,012.43
REFERRED FOR WRITE OFF	£7,456.45
REFERRED TO DIRECTORATE	£44,830.06
TOTAL	£176,913.68

There are 128 invoices over 6 months for ST - the Debt Recovery Team is liaising with all invoice requestors to recover the debts. The largest invoice is for the sum of £12,620.53 regarding fees paid to a care provider. The Debt Recovery team are currently liaising with the debtor to obtain payment.

16. BSS – Business Strategy and Support

DEBT CATEGORY	AMOUNT OUTSTANDING
ONGOING ACTION	£11,326.32
INSTALMENTS	£994.54
INTERNAL	£-30.00
PAYMENT PLAN	£13,017.00
REFERRED FOR WRITE OFF	£16,461.88
REFERRED TO DIRECTORATE	£8,248.98
SMALL CLAIMS COURT	£1,081.70
TOTAL	£51,100.42

There are 51 invoices over 6 months old for BSS - the Debt Recovery Team is liaising with all invoice requestors to recover the debts. The largest invoice is for the sum of £8,750 regarding a duplicate payment made to The Milkmaid & Pail LLP. The Debt Recovery team has received agreement to present this debt for consideration to write off.

17. C&C – Customers & Community

DEBT CATEGORY	AMOUNT OUTSTANDING
ONGOING ACTION	£2,073.49
INSTALMENT - SMALL CLAIMS	£772.00
LIQ'S/INSOLV'S/RECV	£1,500.07
REFERRED FOR WRITE OFF	£4,111.25
REFERRED TO DIRECTORATE	£1,436.45
TOTAL	£9,893.26

There are 7 invoices over 6 months old for C&C - the Debt Recovery Team is liaising with all invoice requestors to recover the debts. The largest invoice is for the sum of £4,111.25 which relates to work undertaken in order to ensure the safety of fuel tanks located at a garage where the owner had absconded. Write off is currently being considered.

18. E&E - Environment & Enterprise

DEBT CATEGORY	AMOUNT OUTSTANDING
INSTALMENT - SMALL CLAIMS	£1,254.60
INSURANCE	£7,935.60
REFERRED FOR WRITE OFF	£670.00
REFERRED TO DIRECTORATE	£11,866.06
TOTAL	£21,726.26

There are 18 invoices for E&E over 6 months old. These are all GET invoices and the Directorate are responsible for chasing these debts directly. The largest invoice is for £9,530.08 regarding an insurance claim for repairs to a bridge. The £7.9k tagged as "Insurance" consists of 12 invoices.

19. ELS – Education, Learning & Skills

DEBT CATEGORY	AMOUNT OUTSTANDING
INSTALMENT - SMALL CLAIMS	£1,320.00
PAYMENT PLAN	£1,359.76
REFERRED FOR WRITE OFF	£1,340.47
REFERRED TO DIRECTORATE	£210.00
TOTAL	£4,230.23

There are 9 invoices for ELS over 6 months old. The largest invoice is for the sum of £1,320 regarding a salary overpayment. The Debt Recovery team are currently liaising with the debtor to obtain payment.

20. FSC - Families and Social Care

DEBT CATEGORY	AMOUNT OUTSTANDING
ONGOING ACTION	£19,191.45
INSTALMENTS	£1,559.52
LIQ'S/INSOLV'S/RECV	£595.14
OTHER	£120.00
PAYMENT PLAN	£42,010.75
REFERRED FOR WRITE OFF	£27,149.31
REFERRED TO DIRECTORATE	£59,541.47
REFERRED TO LEGAL	£11,410.12
SMALL CLAIMS COURT	£14,041.01
TOTAL	£175,618.77

The £59.5k tagged as “Referred to Directorate” consists of 28 Invoices. Of these, the largest invoice for £11.4k is to reclaim costs regarding a Direct Payment. Payments of £10 are being made on a monthly basis. The instalment plan is reviewed regularly with the debtor.

21. EduKent

DEBT CATEGORY	AMOUNT OUTSTANDING
EDUKENT	£2,377.99
TOTAL	£2,377.99

There are currently 10 invoices over 6 months old for Edu Kent. Edu Kent are responsible for the recovery of their own debts.

SUNDRY HEALTH DEBT

22. The Sundry Health Debt as at 1 June 2016 was identified as being £5.2 million comprising of 225 invoices. This is a decrease of £15.6 million when compared to the position reported in January 2016 of £20.8m comprising of 186 invoices.
23. The following table provides an analysis by debtor of Sundry Health debt as at 1 June 2016:

Customer Name	Not Yet Due	Overdue 0-60 Amount	Overdue 61-181 Amount	Overdue 182+ Amount	Total Outstanding Amount
DARTFORD & GRAVESHAM NHS TRUST	£0.00	£0.00	£4,904.00	£0.00	£4,904.00
NHS EASTERN & COASTAL CCG	£0.00	£0.00	£0.00	£41,330.20	£41,330.20
EAST KENT HOSPITALS UNIVERSITY NHS FOUNDATION TRUST	£3,144.61	£207,660.99	£9,520.64	£0.00	£220,326.24
EASTERN & COASTAL KENT PRIMARY CARE TRUST	£0.00	£50.00	£0.00	£0.00	£50.00
KENT & MEDWAY NHS SOCIAL CARE PARTNERSHIP TRUST	£106.39	£107,305.84	£64,364.95	£668.64	£172,445.82
KENT AND MEDWAY NHS SCPT T/AS KENT AND MEDWAY CFE M E SERVICES	£0.00	£84.00	£0.00	£70.00	£154.00
KENT COMMUNITY HEALTH NHS FOUNDATION TRUST	£15,829.87	£77,113.02	£69,371.95	£218,599.26	£380,914.10
LONDON PORT HEALTH AUTHORITY	£7,989.60	£0.00	£0.00	£0.00	£7,989.60
MAIDSTONE & TUNBRIDGE WELLS NHS TRUST	£0.00	£22,826.85	£7,304.00	£100.00	£30,230.85
MEDWAY NHS FOUNDATION TRUST	£0.00	£50.00	£100.00	£0.00	£150.00
NHS ASHFORD CCG	£0.00	£492,046.93	£76,547.20	£178,964.23	£747,558.36
NHS CANTERBURY & COASTAL CCG	£0.00	£70,888.30	£96,433.26	£22,136.04	£189,457.60
NHS DARTFORD, GRAVESHAM, AND SWANLEY CCG	£62,282.82	£67,820.11	£70,111.47	£0.00	£200,214.40
NHS EASTERN & COASTAL KENT COMMUNITY SERVICES	£50.00	£0.00	£150.00	£215.00	£415.00
NHS ENGLAND	£0.00	£1,000,000.00	£0.00	£0.00	£1,000,000.00
NHS KENT & MEDWAY CSU	£186.16	£0.00	£0.00	£0.00	£186.16
NHS MEDWAY CLINICAL COMMISSIONING GROUP	£0.00	£0.00	£4,604.00	£133,246.90	£137,850.90
NHS PROPERTY SERVICES LTD#RENT	£0.00	£0.00	£1,116.17	£0.00	£1,116.17
NHS SOUTH EAST CSU	£0.00	£189,381.03	£3,854.88	£0.00	£193,235.91
NHS SOUTH KENT COASTAL CCG	£2,460.00	£191,331.14	£116,264.79	£60,071.32	£370,127.25
NHS SWALE CCG	£60,464.62	£148,342.25	£70,660.81	£0.00	£279,467.68
NHS THANET CCG	£0.00	£151,692.81	£88,412.66	£11,466.78	£251,572.25
NHS THANET TRADESHIFT CCG	£0.00	£667,283.53	£0.00	£0.00	£667,283.53
NHS WEST KENT CCG	£90,530.75	£65,404.45	£112,270.00	£47,047.74	£315,252.94
SUSSEX PARTNERSHIP NHS FOUNDATION TRUST	£768.80	£0.00	£0.00	£0.00	£768.80
SUSSEX PARTNERSHIP-NHS FOUNDATION TRUST-KENT CAMHS	£0.00	£213.00	£300.00	£0.00	£513.00
Grand Total	£243,813.62	£3,459,494.25	£796,290.78	£713,916.11	£5,213,514.76

TRENDS

24. The numbers and values of invoices raised through Accounts Receivable for the last 6 years are:

	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11
Number of invoices raised	35,010	31,465	30,290	28,353	32,029	29,336
Value of invoices raised	£280,859,263	£250,886,916	£246,893,065	£237,392,631	£160,139,056	£176,597,554

WRITE OFFS

25. The table below shows the sum written off from 1 April 2016 to 1 June 2016 in relation to Sundry debts.

DIRECTORATE	TOTAL WRITE OFFS
BSS REVENUE DEBT	£94.39
C&C BAD DEBT	£510.00
C&C REVENUE DEBT	£2,531.12
E&E REVENUE DEBT	£883.47
ELS BAD DEBT	£50.00
ELS REVENUE DEBT	£867.80
FSC REVENUE DEBT	£8,977.68
GRAND TOTAL	£13,914.46

SOCIAL CARE DEBT

26. Client Charging

- (i) Clients are financially assessed to determine their contribution towards either their residential or non-residential care costs in accordance with the Care Act – Care and Support Charging & Assessment of Resources Regulations 2014.
- (ii) In 2015/2016 the total amount of income charged to clients through the client billing system was £59,125,763.10. This is a slight decrease when compared to the previous year. The average amount billed on each invoice run is £4,927k – an increase when compared to the previous year.

ANALYSIS OF CLIENT RELATED DEBT

27. As at the billing run on 24 May 2016 the overall client related social care debt stood at £17,249,327.10. This debt can be broken down as follows:

Debt Type	£'000
Residential	£14,430
Non-Residential	£2,819
Total	£17,249

28. Of the £17.2m (11,499 debtors), £4.7m relates to the latest billing run and is therefore not yet due.
29. The £17.2m can be broken down between secured and unsecured debt as follows:

Credit Status	£'000
Caution/Restriction	£137
Secured	£5,589
Unsecured Ongoing	£9,581
Unsecured Deceased/Terminated	£1,942
Grand Total (Including Not Yet Due)	£17,249

AGED ANALYSIS OF CLIENT RELATED DEBT

30. The table below shows an analysis of unsecured debt **that is due for payment**:

	Under Six Months £'000	Six Months to a Year £'000	Over One Year £'000	Total Overdue £'000
Unsecured Debt				
Total	£2,720	£1,268	£3,326	£7,314

NUMBERS OF UNSECURED DEBTORS

31. There are currently 11,346 debtors with an unsecured debt or credit on their account. This figure includes both due and not yet due debts – which total £11,661k.

SOCIAL CARE DEBT MOVEMENTS

32. The following table shows all due debt across the localities. It also includes all types of debt:

Total Debt (due and not yet due, secured and unsecured)

Total Debt	24-May-16 Total Debt £'000	10-Nov-15 Total Debt £'000	29-Apr-14 Total Debt £'000	Change Since 29-Apr-14 £'000
Ashford and Canterbury	£3,156	£3,041	£3,424	-£268
Corporate	£0	£1	£5	-£5
Dartford Gravesham Swanley & Swale	£4,210	£4,061	£4,586	-£377
East Kent LD	£697	£679	£704	-£7
Mental Health	£190	£190	£144	£47
Thanet and South Kent Coastal	£4,227	£4,479	£4,526	-£299
West Kent	£4,341	£4,316	£5,682	-£1,340
West Kent LD	£428	£380	£289	£139
Total	£17,249	£17,147	£19,360	£-2,110

33. The table below shows unsecured overdue debt, which is the “highest” risk debt:

Overdue Debt (unsecured)

Unsecured Overdue Debt - All Localities				
Locality	24-May-16 Total Debt £'000	10-Nov-15 Total Debt £'000	29-Apr-14 Total Debt £'000	Change Since 29-Apr-14 £'000
Ashford and Canterbury	£1,210	£1,049	£1,113	£97
Corporate	£0	£0	£3	-£3
Dartford Gravesham Swanley & Swale	£1,706	£1,485	£1,500	£206
East Kent LD	£284	£261	£195	£89
Mental Health	£146	£141	£103	£43
Thanet and South Kent Coastal	£1,803	£1,801	£1,632	£171
West Kent	£2,032	£1,780	£1,643	£389
West Kent LD	£132	£128	£83	£49
Total	£7,314	£6,645	£6,272	£1,042

WRITE OFFS

34. As at 1 June 2016, £39,442.05 in Social Care write offs had been processed in ORACLE since 1 April 2016. Write offs processed in previous years are as follows.

Social Care Write Offs	
Year	Amount
2015 - 2016	£686,715.80
2014 - 2015	£472,066.50
2013 - 2014	£400,685.90
2012 - 2013	£188,124.22
2011 - 2012	£468,094.95
2010 - 2011	£254,829.22

35. It can be seen that there was a significant increase in the number of write offs in the year 15/16. This is due to the fact that a review of all historic debt was undertaken. This review resulted in irrecoverable debt being written off in accordance with KCC's Debt Policy.

CONCLUSION

36. Total Sundry Debt has decreased from £32.6m to £16.6m since the last Governance and Audit report. This is largely due to changes in the way that Kent hosted the budget arrangement for the Better Care Fund last year.
37. Total Social Care debt including not yet due has increased from £17.1m to £17.2m since the last Governance and Audit report.

RECOMMENDATION

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

Andrea Hanson

Assessment & Income Operational Services Manager

Business Service Centre

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13 June 2016

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By: Cabinet Member for Finance and Business Support – John Simmonds

To: Governance and Audit Committee – July 21 2016

Subject: **Update of Contracts and Tenders Standing Orders part of the Constitution** (see: Appendix 5 Resource Management Responsibilities Statement (including Property Management Protocol and Contracts and Tenders Standing Orders))

Classification: Unrestricted

Summary: This report asks Members to agree the proposed changes and updates to the Contracts and Tenders Standing Orders.

FOR DECISION

1. Introduction
 - 1.1 The Contracts and Tenders Standing Orders are constantly being reviewed to ensure they meet the needs of the Council. Whilst there have been no major changes to the format of the Constitution, amendments have been made to reflect the changes in working practices with respect to how procurement is delivered within the Council and to ensure the recent changes to the approach and content of Spending the Council's Money (STCM) is properly reflected.
 - 1.2 In line with the terms of reference of this Committee, the revised words to the Contracts and Tenders Standing Orders need to be agreed prior to updating the constitution.
2. Main Amendments
 - 2.1 The process for conducting this review included:
 - Updating the Single Source process increasing value in line with the new Public Contracts Regulation 2015.
 - Improving the reporting process to ensure committees are getting visibility of Single Source Award Reports.
 - Updating the Constitution to allow electronic signatures of contracts for goods and services
 - 2.2 The amendments made to the Constitution can be seen in the appendix to this report where all of the changes are highlighted. The shaded highlighted changes are suggested additions while the struck-through changes are suggested deletions

2.3 The main areas of change to highlight are:

-updating values and wording for single source;

-Single Source process flowchart old deleted and replaced with new improved process flow chart;

-e-signature wording added to allow electronic signatures for both simple contracts and contracts signed as a deed.

3. Recommendation

Members are asked to agree the updated Contracts and Tenders Standing Orders as set out in the appendix to this report for inclusion in Appendix 5 of the Constitution.

Henry Swan Head of Procurement

03000 416742

Attachments: Contracts and Tenders Standing Orders – showing suggested additions and deletions

Contracts and Tenders Standing Orders

1. It is the responsibility of Senior Managers to ensure that all purchasing or commissioning of goods, services or works comply with:
 - (a) legal requirements
 - (b) EU Directives
 - (c) the Council's Financial Regulations
 - (d) 'Spending The Council's Money' (as approved by the Governance & Audit Committee)
 - (e) standards for the management of property, information technology resources and staff
 - (f) any conditions attached by the Leader or the Council to the exercise of powers delegated by them
 - (g) the Council's Bribery Act Policy

Authority

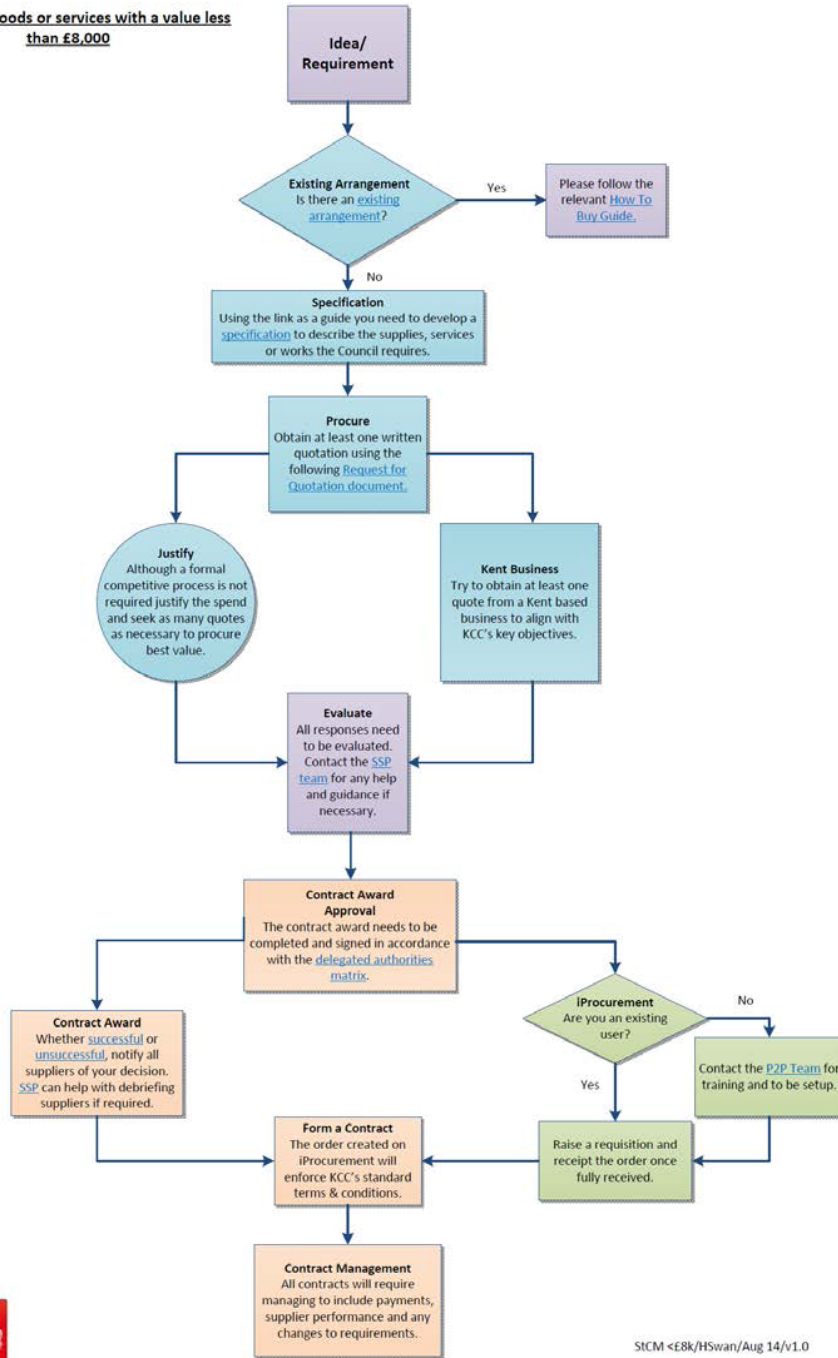
2. (a) All transactions must either fall within the powers delegated to Senior Managers or have been approved by a decision (in accordance with the Council's Constitution) of the Cabinet, the Leader, an authorised Cabinet Member, the Council or one of its committees or sub-committees.
 - (b) No contract, agreement or other document shall be signed or sealed unless it gives effect to:
 - (i) a decision or resolution (in accordance with the Council's Constitution) of the Leader, the Cabinet, an authorised Cabinet Member or one of its committees or sub committees or
 - (ii) a decision by an officer exercising delegated powers
3. (a) Budgetary provision must exist before any contract can be entered into. This provision should be explicit in a budget approved by resolution of the Council.

(b) Where there is no specific budget line, Senior Managers may approve expenditure up to £100,000, provided the expenditure can be met within budget. Above £100,000 a formal decision by the Leader, the Cabinet or an authorised Cabinet Member is required in accordance with the Council's Constitution.

Thresholds

4. (a) The financial values (exclusive of Value Added Tax) refer to the total lifecycle of the contract and the rules included in the flowcharts must be followed:
 - (i) Less than £8,000

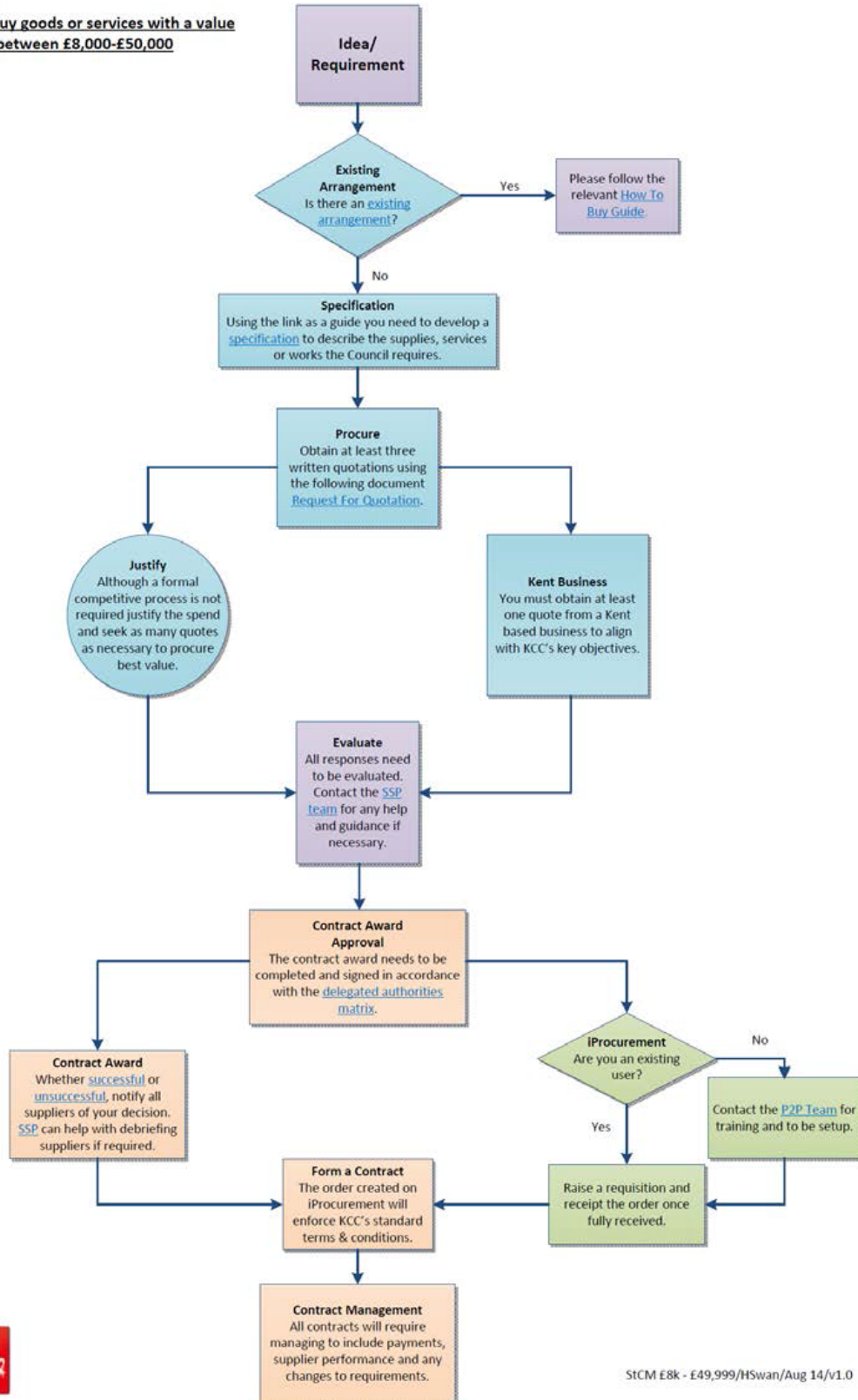
How to buy goods or services with a value less than £8,000



STCM <E8k/HSwan/Aug 14/v1.0

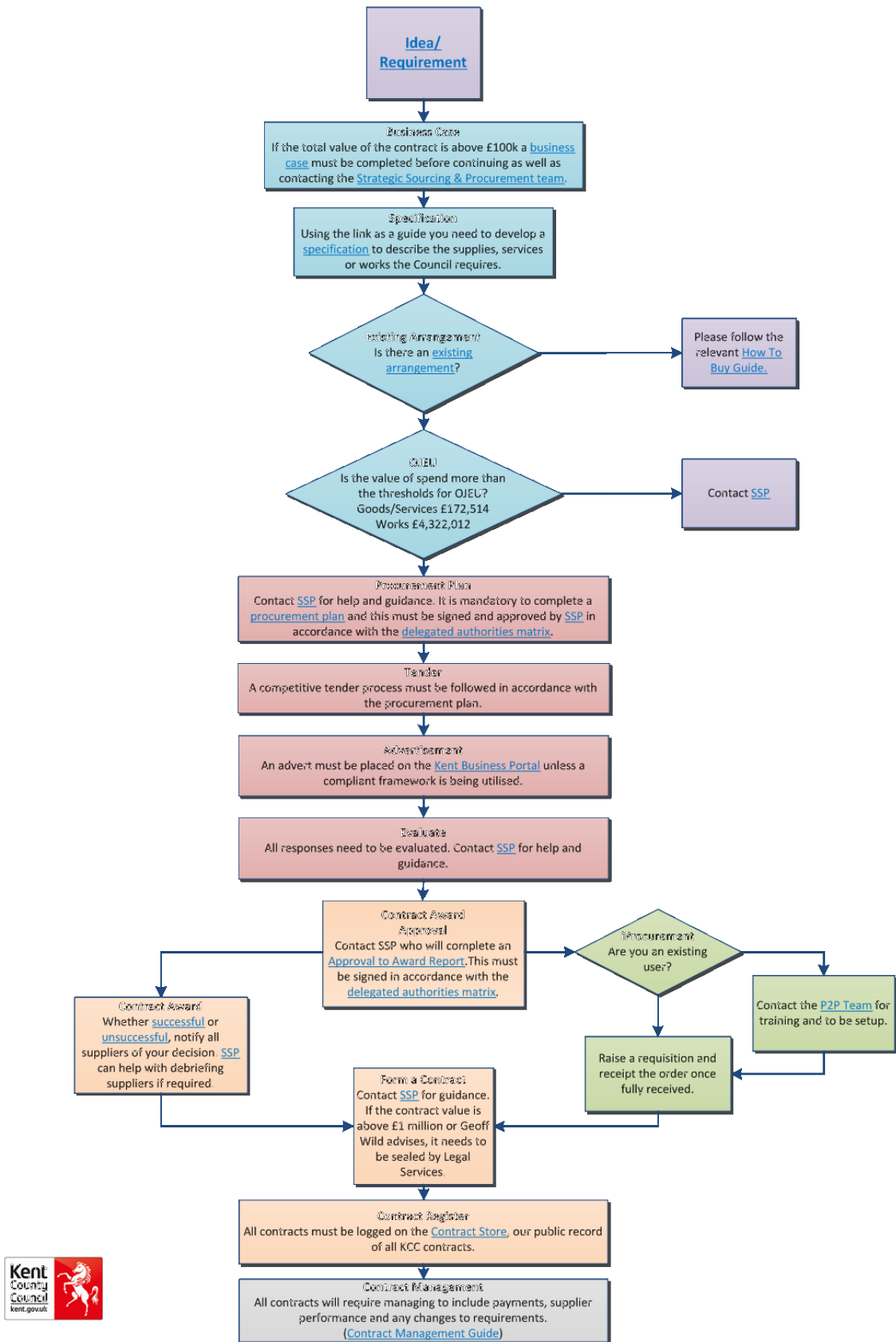
(ii) £8,000 to £50,000

How to buy goods or services with a value between £8,000-£50,000



STCM E8k - E49,999/HSwan/Aug 14/v1.0

(iii) More than £50,000



However both the overall obligations of the Code and the statutory requirement to achieve value for money apply to all transactions and don't just apply from the above amounts and,

as such a competitive tender process may be appropriate for procurements of £50,000 and below.

(b) In addition, the Public Contract Regulations 2015 set limits for public contracts above which specific procedures are required to be followed. The current levels at which these apply are for goods and services, £172,514 and for works, £4,322,012. All contracts estimated to exceed these values must be notified to the Head of Procurement for guidance and support.

(c) There must be no attempt to avoid any of these limits by deliberately manipulating the requirement or frequency of ordering.

(d) The 'financial values' here refers to:

(i) the total amount payable over the contract period, i.e. the Council's total liability under the contract, and not the budget available in the current year or

(ii) the reasonable expectation of the cost of the consequence of the decision or

(iii) the 'commercial benefit' to the contractor, supplier or provider

whichever is the greater.

The award

5. Senior Managers may sign documents on behalf of the Council or authorise officers to do so in accordance with the Delegated Authorities Matrix in the Financial Regulations.

6. Where a contract for a Consultant is estimated to cost over £50,000, details of the proposed award must be forwarded to the relevant Cabinet Member prior to the appropriate officer making the award. In this context a Consultant is defined as a named individual (i.e. the Council states it wants individual x) taken on to perform a particular, temporary, and defined, task. Members and Officers are also reminded to seek guidance over the engagement of ex-employees as consultants (see Kent Scheme - Terms and Conditions of Employment).

7. (a) Any contract with a value in excess of £1m must be made in writing and either:

(i) affixed with the common seal of the Council and be attested by at least one authorised officer (as defined in clause 9 below) or

(ii) signed as a deed by at least one authorised officer (as defined in clause 9 below)

8. The common seal of the Council shall be affixed to any document or agreement if the Director of Governance and Law considers it appropriate for the purpose of transacting the Council's business or safeguarding its interests.

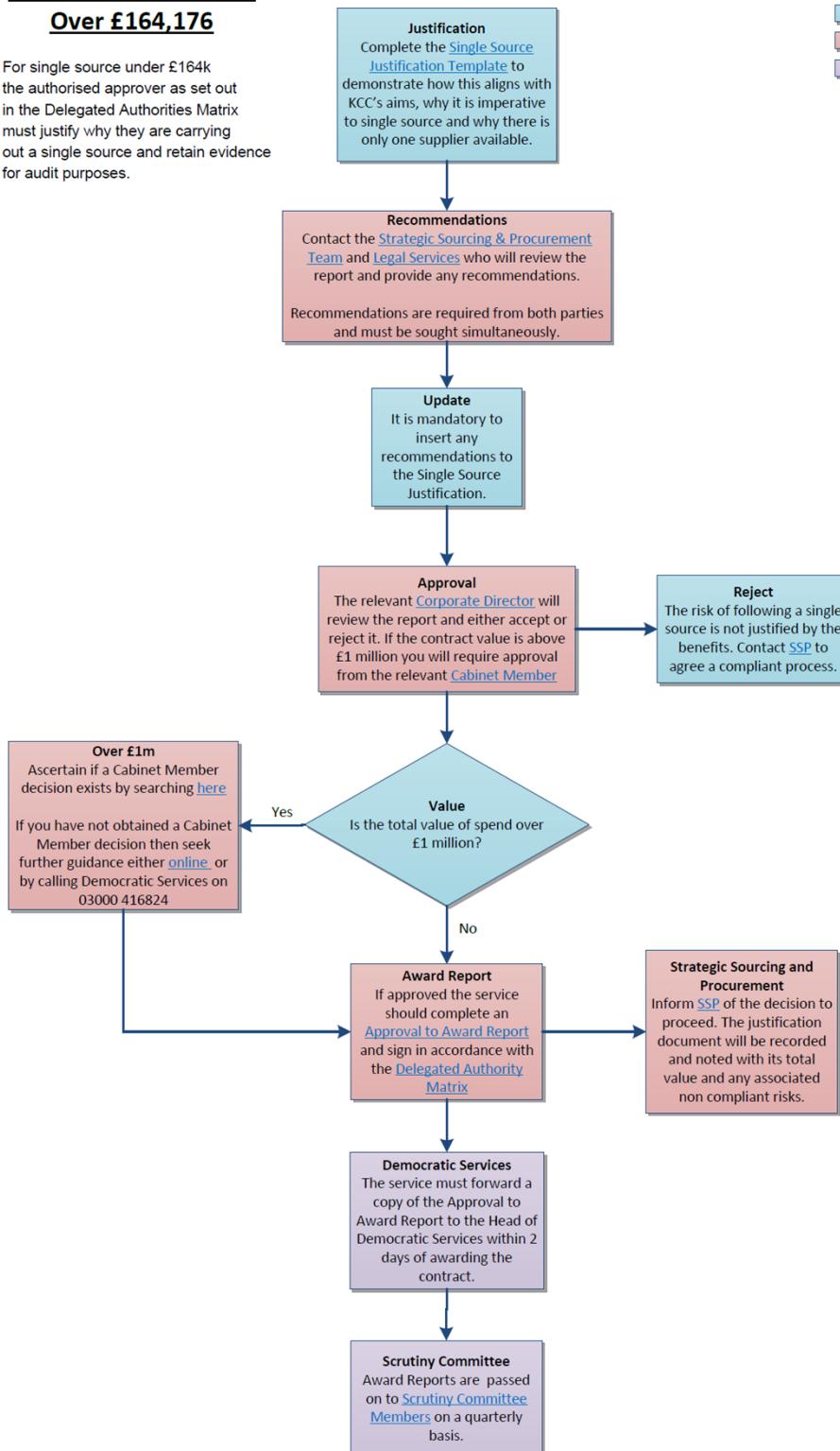
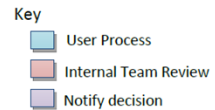
9. The seal may be fixed and witnessed or the document signed as a deed only by the Director of Governance and Law or officers authorised by him in writing to do so.

10. The Director of Governance and Law shall ensure a register is maintained of all documents and agreements that are sealed including the name of the person who witnessed the affixing of the seal.

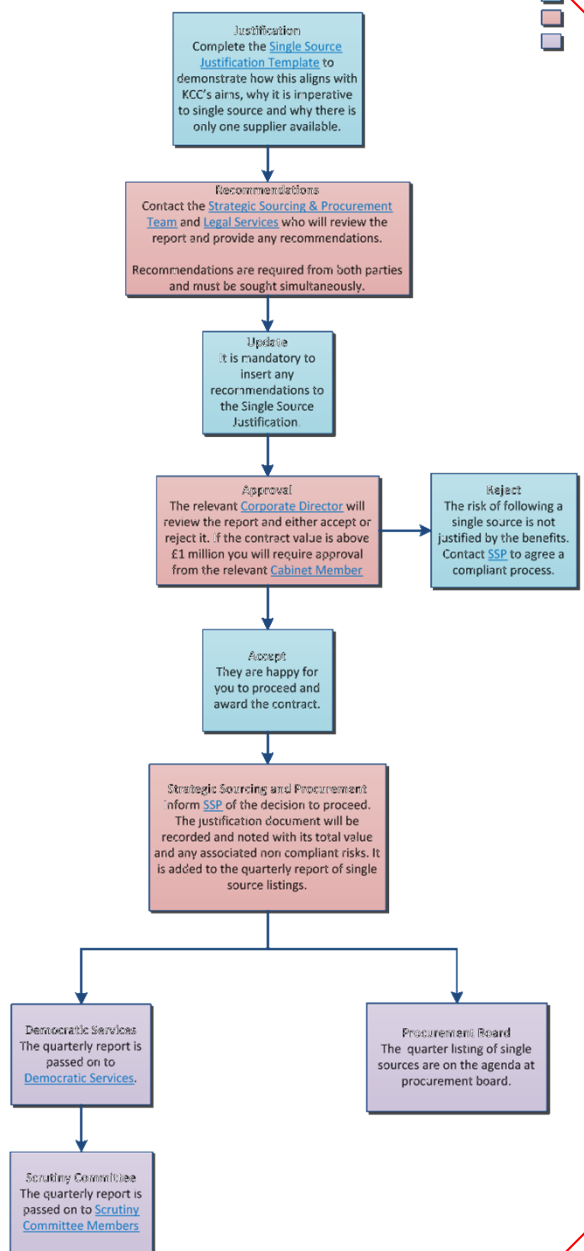
11. (a) For contracts over ~~£164,17650,000~~, where a non-competitive process is used to determine the contractor, the Single Source Justification Report will include evidence of the advice obtained from Legal Services and Strategic Sourcing and Procurement. The approved Award Report must be sent to the Head of Democratic Services within 2 days of the contract being awarded so that s/he may notify Members of the Scrutiny Committee on a quarterly basis. For those contracts with a value of £1million or more a formal cabinet member decision must also be in place before the contract can be awarded.

Single Source Request Over £164,176

For single source under £164k the authorised approver as set out in the Delegated Authorities Matrix must justify why they are carrying out a single source and retain evidence for audit purposes.



Comment [SH-BF1]: Old to be deleted flow chart



(b) Being a named individual a 'Consultant' must, by definition, have been sourced via a non-competitive process. All contracts for a Consultant for more than £50,000 must be reported as a non-competitive procurement to the Head of Democratic Services within 2 days of the contract being awarded so that s/he may notify Members of the Scrutiny Committee on a quarterly basis.

13. With the exception of charges and deeds that have to be registered at the Land Registry or Companies Registry in order to take effect or to have legal protection (where a 'wet ink' signature will still be required), electronic signatures will, in line with the Electronic Communication Act 2000, be accepted as a fair representation of a willingness to enter into a contract by the Council and Supplier, insofar as the e-signature is a true representation of the authorised person's written signature and:

_____ (a) the Contract will be entered into in relation to being either under seal (or signed as a deed) or under hand

_____ (b) is supported with a contemporaneous document of authenticity and authorisation on behalf of the Council and the Supplier.

In which case an e-signature and a signature will be referred to as the same.

(where a 'wet ink' signature will still be required), electronic signatures will, in line with the Electronic Communication Act 2000, be accepted as a fair representation of a willingness to enter into a contract with the Council, insofar as the e-signature is a true representation of the authorised person's written signature and:

(a) the Contract will be entered into in relation to being either under seal or under hand

(b) is supported with a contemporaneous document of authenticity and authorisation from the Supplier.

in which case an e-signature and a signature will be referred to as the same.

By: Paul Carter, Leader and Cabinet Member for Business Strategy, Audit & Transformation, and Commercial & Traded Services
David Cockburn, Corporate Director Strategic & Corporate Services and Head of Paid Service

To: Governance and Audit Committee – 21st July 2016

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 each autumn, 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 14 risks. Changes since the register was last reported to Governance & Audit Committee in January 2016 are summarised as follows:

- a) The delivery of 2015/16 savings risk has been closed, with KCC once again achieving a balanced budget position;
- b) A risk relating to delivery of 2016/17 savings has been added and is rated as 'medium' at this stage, while a corporate risk relating to the identification of, and planning for, delivery of 2017/18 budget savings has also been added to the register.
- c) The level of risk for CRR 9 – Health & Social Care Integration was raised from amber to red to reflect the potential repercussions of knock-on impacts from stresses in the health care system. In addition, an action to contribute to the development of Sustainability and Transformation plans by summer 2016 was added.

- d) The risk description for CRR 23 – managing and embedding sustainable change has been amended to give more focus on the Council’s evolution to a strategic commissioning authority.
- e) CRR 3: Access to resources to aid economic growth and enabling infrastructure has been raised from amber to red as there is increasing pressure to secure external funding with much reduced resources, and the delivery environment we are operating in is becoming increasingly complex, which introduces additional cost burdens.
- f) The EU referendum was initially mentioned as context for the Future Operating Environment for Local Government risk (CRR 17). More recently, in light of the result, potential implications are being closely monitored in the coming weeks and months to see what specific risks or opportunities arise for KCC.
- g) The ‘Prevent’ counter terrorism work has been reflected as part of the Civil Contingencies and Resilience Risk (CRR 4). It was previously only highlighted as part of the safeguarding risks for adults and children.
- h) The current and target ‘impact’ ratings for the safeguarding risks CRR2a and CRR2b have been amended to more accurately reflect the severity of consequences should they occur. Specifically, the current impact rating has changed from 4 out of 5 (‘serious’) to 5 out of 5 (‘major’), while the target rating has increased from 3 out of 5 (‘significant’) to 5 out of 5 (‘major’). The ‘likelihood’ ratings remain at 4 out of 5 (‘likely’) currently, with 3 out of 5 (‘possible’) as a target. This means that the total risk score is 20, with a target rating of 15.
- i) CRR 22: As a result of previous feedback from the Governance & Audit Committee, the risk description has been amended to reference the risk of Unaccompanied Asylum Seeking Children (UASC) not being taken on by other Local Authorities, as well as the consequence of a serious potential impact on young people.
- j) Cyber security has been more explicitly referenced in the Civil Contingencies and Resilience Risk (CRR 4).

2.2 Another consideration being discussed with Corporate Directors and Cabinet Members as part of the upcoming formal annual refresh is Redbridge Council’s recent acquisition of leasing rights for 208 properties at the Howe Barracks site in Canterbury, in which they intend to place their homeless families from summer 2016. If there is proliferation of such a move by other local authorities (sudden and sizeable increase rather than incremental rise) it could add to the pressure on local services. Further work will be carried out to assess the level of risk, especially if intelligence shows that this approach is likely to become more widespread.

2.3 Out of the 14 risks there are 9 areas of risk currently rated as ‘high’ and five rated as ‘medium’. The high risks relate to the management of demand in both adults and children’s social care; safeguarding (both vulnerable adults

and children); the future financial and operating environment / landscape for local government; implications of the significant increase in Unaccompanied Asylum Seeking Children; access to resources to aid economic growth and infrastructure; health and social care integration; and identification of, and planning for, delivery of 2017/18 savings. All risks have mitigating actions in place that aim to achieve a target residual rating of 'medium' or 'low'.

2.4 Further details of these risks, including controls and mitigating actions, are contained in appendix 1.

2.6 The Corporate Risk Team supports directorates to ensure that the Corporate Risk Register is underpinned by directorate and divisional / service risk registers, from which risks will be escalated in accordance with KCC's Risk Management Policy.

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. Updates against actions due for review or completion in quarter 1 of 2016/17 have been requested from action owners and will be reported in the next Quarterly Performance Report presented to Cabinet on 26th September 2016.

3.2 In addition, the corporate risks relevant to each Cabinet Committee are reported in the spring round of Committees each year along with directorate risk registers, allowing for discussion of these risks with the relevant Risk Owners and responsible Cabinet Members.

3.3 The more formal annual review of the Corporate Risk Register is taking place in the autumn, involving meetings with individual members of the Cabinet and Corporate Management Team.

4. Recommendations

4.1 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.

Report Author:

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Relevant Director:
David Whittle, Director of Strategy, Policy, Relationships and Corporate Assurance
David.whittle@kent.gov.uk
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KCC Corporate Risk Register

FOR PRESENTATION TO GOVERNANCE & AUDIT COMMITTEE

21ST JULY 2016

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	Direction of Travel since Jan 2016
CRR 1	Data and Information Management	9	9	↔
CRR 2(a)	Safeguarding – protecting vulnerable children	20	15	**
CRR 2(b)	Safeguarding – protecting vulnerable adults	20	15	**
CRR 3	Access to resources to aid economic growth and enabling infrastructure	16	8	↑
CRR 4	Civil Contingencies and Resilience	12	8	↔
CRR 9	Health & Social Care Integration (inc. Better Care Fund)	16	9	↑
CRR 10(a)	Management of Adult Social Care Demand	20	12	↔
CRR 10(b)	Management of Demand – Early Help and Preventative Services and Specialist Children’s Services	20	12	↔
CRR 12	Welfare Reform and Work Act	12	9	↔
CRR 17	Future financial and operating environment for local government	20	12	↔
CRR 22	Implications of increased numbers of Unaccompanied Asylum Seeking Children (UASC)	20	12	↔
CRR 23	Managing and embedding sustainable change	12	6	↔
CRR 24	Delivery of 2016/17 savings	12	2	New
CRR 25	Identification of, and planning to deliver, 2017/18 savings	16	2	New

*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.

**The ‘impact’ rating for the risk has been amended to 5 out of 5 (‘major’) to more accurately reflect the severity of consequences should they occur

Risk ID	CRR1	Risk Title	Data and Information Management			
Source / Cause of risk		Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact
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 "cyber" security have become complex and important.		Information security incidents resulting in loss of personal data or breach of privacy/confidentiality. Data Subject complaint upheld by Information Commissioners Office (ICO). Failure to achieve either annual PSN or NHS Information Governance certification.	ICO sanction (e.g. undertaking, assessment, improvement, enforcement or monetary penalty notice) issued against the Authority. Reputational damage. Damages claims. Cost of remediation. Access to PSN and/or NHS connected services revoked or restricted resulting in significant interruption to services.	On behalf of CMT: Geoff Wild, Director Governance & Law Rebecca Spore, Director Infrastructure Responsible Cabinet Member(s): Gary Cooke, Corporate & Democratic Services	Possible (3)	Significant (3)
Control Title					Control Owner	
Senior Information Risk Officer supported by Information Governance cross-directorate group.					David Cockburn, Corporate Director Strategic and Corporate Services	
SIRO IG Action Plan and Information Risk Register in place and regularly reviewed					Geoff Wild, Director Governance & Law	
Information Governance policies and procedures in place and monitored.					Geoff Wild, Director Governance & Law	
Information Governance Management Framework in place					Geoff Wild, Director Governance & Law	
Information Resilience and Transparency team providing business information governance support					Caroline Dodge, Team Leader-Information Resilience &	

	Transparency team
Information Assurance maturity monitoring procedure in place.	Geoff Wild, Director Governance & Law/Michael Lloyd, Head of Technology Commissioning & Strategy
Contractor information assurance procedure in place	Mark Lobban, Director Commissioning SCHW
Corporate Director Social Care Health & Wellbeing is KCC Caldicott Guardian, protecting confidentiality of service user information and enabling appropriate information sharing. Caldicott Guardian Support Officers nominated in relevant services	Andrew Ireland, Corporate Director SCHW
County wide protocols in place for information sharing between agencies and governed by Kent & Medway Information Governance Partnership Board. Information Sharing Designated Officers nominated in relevant services.	Charlie Beaumont, Education & Young People Services
ICT Compliance and Risk Team operational.	Michael Lloyd, Head of Technology Commissioning & Strategy
Electronic Communications User Policy, Virus reporting procedure and social media guidelines in place	Michael Lloyd, Head of Technology Commissioning & Strategy
Information Governance training completed by significant number of employees, contractors and temporary staff. Specialist training needs identified and training plan in place. Information Governance training plan in place and monitored.	Geoff Wild, Director Governance & Law
Discussions in place with Government regarding requirements of the Code of Connection	Michael Lloyd, Head of Technology Commissioning & Strategy
Corporate Information Asset Register established and risk assessments in progress.	Geoff Wild, Director Governance & Law
Information risk assessments completed for systems processing personal data and for new/change projects	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 SCHW/Geoff Wild, Director Governance & Law/

	Michael Lloyd, Head of Technology Commissioning & Strategy
Public Service Network (PSN) code of compliance information security standard achieved	Michael Lloyd, Head of Technology Commissioning & Strategy
NHS Information Governance Toolkit 'satisfactory' rating achieved	Michael Lloyd, Head of Technology Commissioning & Strategy
Information Governance Training re-launched. Training to be completed every 2 years	Geoff Wild, Director Governance & Law
Cyber security controls in place	Kathy Stevens, ICT Compliance and Risk Manager
Action Title	Action Owner
Planned Completion Date	
Implement recommendations arising from the Information Commissioner's Office (ICO) audit	Geoff Wild, Director Governance & Law
July 2016	
Continuous development of cyber-security monitoring and response processes	Kathy Stevens, ICT Compliance and Risk Manager
September 2016 (review)	

Risk ID	CRR2(a)	Risk Title	Safeguarding – protecting vulnerable children			
	<p>Source / Cause of risk</p> <p>The Council must fulfil its statutory obligations to effectively safeguard vulnerable children.</p> <p>In addition, the Government's "Prevent Duty" requires the Local Authority to act to prevent people from being drawn into terrorism, with a focus on the need to safeguard children at risk of being drawn into terrorism.</p>	<p>Risk Event</p> <p>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.</p> <p>Failure to meet the requirements of the new "Prevent Duty" placed on Local Authorities.</p>	<p>Consequence</p> <p>Serious impact on vulnerable people.</p> <p>Serious impact on ability to recruit the quality of staff critical to service delivery.</p> <p>Serious operational and financial consequences.</p> <p>Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities.</p> <p>Incident of serious harm or death of a vulnerable child.</p>	<p>Risk Owner</p> <p>On behalf of CMT:</p> <p>Andrew Ireland, Corporate Director Social Care Health & Wellbeing (SCHW)</p> <p>Responsible Cabinet Member(s):</p> <p>Peter Oakford Specialist Children's Services</p> <p>Mike Hill (Lead Member for PREVENT)</p>	<p>Current Likelihood</p> <p>Likely (4)</p> <p>Target Residual Likelihood</p> <p>Possible (3)</p>	<p>Current Impact</p> <p>Major (5)</p> <p>Target Residual Impact</p> <p>Major (5)</p>
Control Title		Control Owner				
Consistent scrutiny and performance monitoring through Divisional Management Team, District 'Deep Dives' and audit activity		Andrew Ireland, Corporate Director SCHW / Philip Segurola, Director Specialist Children's Services				
Independent scrutiny by Kent Safeguarding Children Board		Independent Chair Kent Safeguarding Children Board				
Manageable caseloads per social worker and robust caseload monitoring		Philip Segurola, Director Specialist Children's Services				

SCHWB management team monitors social work vacancies and agrees strategies for urgent situations	Andrew Ireland, Corporate Director SCHW
Active strategy in place to attract, recruit <i>and retain</i> social workers through a variety of routes with particular emphasis on experienced social workers. Detailed programme of training	Philip Segurola, Director Specialist Children's Services / Amanda Beer, Corporate Director Engagement, Organisational Design & Development
Multi-agency public protection arrangements in place	Andrew Ireland, Corporate Director, SCHW
Extensive staff training – Specialist Children's Services and Early Help and Preventative services are adopting the 'Signs of Safety' model of intervention, a standardised child-focused model of risk analysis, risk management and safety planning.	Philip Segurola, Director of Specialist Children's Services
Regular reporting on safeguarding takes place quarterly for Directors and Cabinet Members, with an annual report for elected Members, to allow for scrutiny of progress.	Andrew Ireland, Corporate Director, SCHW
KCC has led a multi-agency review of existing arrangements in light of the new Prevent Duty	Nick Wilkinson, KCC Prevent Lead Officer
Prevent Duty Delivery Board established to oversee the activity of the Kent Channel Panel, co-ordinate Prevent activity across the County and report to other relevant strategic bodies in the county (including reporting route to the Kent Safeguarding Children Board)	Andrew Ireland, Corporate Director, SCHW
Kent Channel panel (early intervention mechanism providing tailored support to people who have been identified as at risk of being drawn into terrorism) established.	Nick Wilkinson, KCC Prevent Lead Officer
Awareness of the responsibility for schools to be alert to signs of radicalisation has been raised (e.g. via education e-bulletin with links to online training materials and specific contacts for information and advice	Patrick Leeson, Corporate Director Education and Young People's Services (EYPS)
Safeguarding and Quality Assurance Unit has been restructured to include additional child protection and Independent Reviewing Officer capacity	Philip Segurola, Director of Specialist Children's Services
Education Safeguarding Team in place	Gillian Cawley, Director Education Quality & Standards
Children's Development Plan, jointly owned by Specialist Children's Services, Early Help and Preventative Services and Children's Commissioning team, in place and updated to address recommendations arising from Child Sexual Exploitation (CSE) themed inspection and actions identified during a recent external	Philip Segurola, Director Specialist Children's Services

review.		
Multi-agency Crime and Sexual Exploitation Panel (MACSE) established to provide a strategic, county-wide, cross-agency response to CSE.		Andrew Ireland, Corporate Director, SCHW (KCC lead)
Action Title	Action Owner	Planned Completion Date
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 SCHW / Amanda Beer, Corporate Director Engagement, Organisational Design & Development	September 2016 (review)
Implementation of transformation programme for children's services, including Social Work Contract Programme <ul style="list-style-type: none"> Complete a piece of diagnostic work related to the point of access into Children's Services 	Philip Segurola, Director Specialist Children's Services	October 2016 (review)
Delivery of key actions to tackle Children's Sexual Exploitation (CSE) and Trafficking as part of the Children's Development Plan	Philip Segurola, Director Specialist Children's Services	June 2016 (review)
Ensure any necessary training and procedures to support professionals working with children where there are concerns regarding their vulnerability to radicalisation are embedded as part of existing safeguarding arrangements	Patricia Denney, Assistant Director Children's Safeguarding and Quality Assurance	June 2016
Awareness-raising 'Prevent' training for identified key staff and specific training for those working with people directly at risk	Nick Wilkinson, KCC Prevent Lead Officer	June 2016

Risk ID	CRR2(b)	Risk Title	Safeguarding – protecting vulnerable adults			
	<p>Source / Cause of risk</p> <p>The Council must fulfil its statutory obligations to effectively safeguard vulnerable adults.</p> <p>In addition, the Government's "Prevent Duty" requires the Local Authority to act to prevent people from being drawn into terrorism.</p>	<p>Risk Event</p> <p>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.</p> <p>Failure to meet the requirements of the new "Prevent Duty" placed on Local Authorities.</p>	<p>Consequence</p> <p>Serious impact on vulnerable people.</p> <p>Serious impact on ability to recruit the quality of staff critical to service delivery.</p> <p>Serious operational and financial consequences.</p> <p>Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities.</p> <p>Incident of serious harm or death of a vulnerable adult.</p>	<p>Risk Owner</p> <p>On behalf of CMT:</p> <p>Andrew Ireland, Corporate Director SCHW</p> <p>Responsible Cabinet Member:</p> <p>Graham Gibbens, Adult Social Care & Public Health</p> <p>Mike Hill (Lead Member for PREVENT)</p>	<p>Current Likelihood</p> <p>Likely (4)</p> <p>Target Residual Likelihood</p> <p>Possible (3)</p>	<p>Current Impact</p> <p>Major (5)</p> <p>Target Residual Impact</p> <p>Major (5)</p>
Control Title		Control Owner				
Multi agency public protection arrangements in place		Andrew Ireland, Corporate Director SCHW				
Safeguarding Vulnerable Adults Board in place with key agencies. The Board is now on a statutory footing following implementation of the Care Act.		Andrew Ireland, Corporate Director SCHW				
Consistent scrutiny and performance monitoring through divisional management teams, 'deep dives' and audit activity.		Divisional Directors / Head of Adult Safeguarding				
Regular reporting on safeguarding takes place quarterly for Directors and Cabinet Members, with an annual report for elected Members, to allow for scrutiny of progress.		Andrew Ireland, Corporate Director SCHW				
In Kent a joint Winterbourne Steering Group has been established to learn lessons from Winterbourne and is working to an action plan		Penny Southern, Director DCALDMH				

Safeguarding improvement plan in place for Older People and Physical Disability service	Anne Tidmarsh, Director OPPD	
Prevent Duty Delivery Board established to oversee the activity of the Kent Channel Panel, co-ordinate Prevent activity across the County and report to other relevant strategic bodies in the county	Andrew Ireland, Corporate Director SCHW	
KCC has led a multi-agency review of existing arrangements in light of the new Prevent Duty	Nick Wilkinson, KCC Prevent Lead Officer	
Kent Channel panel (early intervention mechanism providing tailored support to people who have been identified as at risk of being drawn into terrorism) established at district and borough level.	Nick Wilkinson, KCC Prevent Lead Officer	
Capability framework for safeguarding and the mental capacity act introduced	Mark Lobban, Director of Commissioning SCHW / Nick Sherlock, Head of Adult Safeguarding	
Action Title	Action Owner	Planned Completion Date
Develop and roll-out a new package of multi-agency training ensuring it reflects Care Act changes	Nick Sherlock, Head of Adult Safeguarding	October 2016
Implement actions arising from recent internal audit – actions included in Safeguarding Action Plans	Nick Sherlock, Head of Adult Safeguarding	September 2016
Ensure any necessary training and procedures to support professionals working with vulnerable adults where there are concerns regarding their vulnerability to radicalisation are embedded within existing safeguarding arrangements	Nick Sherlock Head of Adult Safeguarding	June 2016
Awareness-raising 'Prevent' training for identified key staff and specific training for those working with people directly at risk	Nick Wilkinson, KCC Prevent Lead Officer	June 2016 (review)
Independent audit of case files commissioned across all client categories	Nick Sherlock, Head of Adult Safeguarding	September 2016

Risk ID	CRR3	Risk Title	Access to resources to aid economic growth and enabling infrastructure			
Source / Cause of Risk		Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact
<p>The Council seeks access to resources to develop the enabling infrastructure for economic growth and regeneration.</p> <p>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.</p> <p>At the same time, Government funding for infrastructure (for example via the 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.</p>		<p>Inability to secure sufficient contributions from development to support growth.</p> <p>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.</p> <p>Insufficient return on investment from Regional Growth Fund schemes or significant level of default on loans.</p>	<p>Key opportunities for growth missed.</p> <p>The Council finds it increasingly difficult to fund KCC services across Kent (e.g. schools) and deal with the impact of growth on communities.</p> <p>Kent becomes a less attractive location for inward investment and business.</p> <p>Our ability to deliver an enabling infrastructure becomes constrained.</p> <p>Reputational risk.</p>	<p>Barbara Cooper, Corporate Director Growth, Environment and Transport</p> <p>Responsible Cabinet Member(s):</p> <p>Mark Dance, Economic Development</p> <p>Matthew Balfour, Environment & Transport</p>	<p>Likely (4)</p> <p>Target Residual Likelihood</p> <p>Unlikely (2)</p>	<p>Serious (4)</p> <p>Target Residual Impact</p> <p>Serious (4)</p>
Control Title					Control Owner	
Growth and Infrastructure Framework for Kent and Medway published, setting out the infrastructure needed to deliver planned growth					Katie Stewart, 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	David Smith, Director Economic Development / Katie Stewart, Director Environment Planning & Enforcement	
Coordinated approach in place between Development Investment Team and service directorates	David Smith, Director Economic Development	
Dedicated team in Economic Development in place, working with other KCC directorates, to lead on major sites across Kent.	David Smith, Director Economic Development	
Economic Development SMT review of “critical” programmes/projects and review of KPIs to ensure continued appropriateness and relevance	David Smith, Director Economic Development	
Infrastructure Funding Group established and receives regular performance reports, potential issues for resolution and highlights funding gaps etc.	Barbara Cooper, Corporate Director, Growth, Environment and Transport	
Strong engagement of private sector through Kent and Medway Economic Partnership (KMEP), Business Advisory Board and Kent Developer’ Group	David Smith, Director Economic Development	
Strong engagement with South East LEP and with central Government to ensure that KCC is in a strong position to secure resources from future funding rounds	Ross Gill, Economic Strategy & Policy Manager	
Monitoring framework in place for Regional Growth Fund (RGF) programmes covering the issuing and management of contract agreements with regular reports reviewed by Growth, Economic Development & Communities Cabinet Committee.	Jacqui Ward, Regional Growth Fund Programme Manager	
KCC Internal Audit and external Auditor commissioned on an annual basis to conduct audits on the compliance of the RGF process and administration of the schemes, including governance, decision making and outcomes	Jacqui Ward, Regional Growth Fund Programme Manager	
Continued coordinated dialogue with developers, Districts and KCC service directorates	Nigel Smith, Head of Development	
Action Title	Action Owner	Planned Completion Date
Produce Kent’s Local Transport Plan 4 – the next iteration of ‘Growth without Gridlock’	Tom Marchant, Head of Strategic Planning & Policy	January 2017
Growth & Infrastructure Framework – progress the key actions arising from the framework	Tom Marchant, Head of Strategic Planning & Policy	July 2016 (review)

Influencing local plans and major applications – coordinating KCC’s response to and providing expert advice around developments e.g. Ebbsfleet Development Corporation and Paramount Park	Tom Marchant, Head of Strategic Planning & Policy	June 2016 (review)
Progress proposals for a more consistent and comprehensive approach to early engagement and provision of advice for developers on major development proposals, involving a single point of contact at senior County Council officer level.	Nigel Smith, Head of Development	January 2017 (business case)

Control Title	Control Owner
<p>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:</p> <ul style="list-style-type: none"> • Intelligence gathering and forecasting; • Regular training exercises and tests; • Task & Finish groups addressing key issues. • Plan writing • Capability building 	Mike Overbeke, Head of Public Protection (for Kent Resilience Team Activity)
Kent Resilience Forum has a Health sub-group to ensure coordinated health services and Public Health England planning and response is in place	Andrew Scott-Clark, Director of Public Health
Kent Resilience Forum Severe Weather Advisory Group established to convene in the event of a severe weather incident.	Mike Overbeke, Head of Public Protection
Critical functions identified across KCC as a basis for effective Business Continuity Management (BCM).	Tony Harwood, Resilience and Emergencies Manager
The Director of Public Health works through local resilience fora to ensure effective and tested plans are in place for the wider health sector to protect the local population from risks to public health.	Andy Scott-Clark, Director of Public Health
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.	Tony Harwood, Resilience and Emergencies Manager
System in place for ongoing monitoring of severe weather events (SWIMS)	Carolyn McKenzie, Head of Sustainable Business and Communities
Implementation of Kent's Climate Adaptation Action Plan	Carolyn McKenzie, Head of Sustainable Business and Communities
Local multi-agency flood response plans in place for each district / borough in Kent, in addition to overarching flood response plan for Kent	Mike Overbeke, Head of Public Protection

Winter Resilience Planning Group & action plan in place.	Mike Overbeke, Head of Public Protection
ICT resilience improvements made to underlying data storage, data centre capability and network resilience.	Michael Lloyd, Head of Technology Commissioning & Strategy
Cyber security controls in place	Kathy Stevens, ICT Compliance and Risk Manager
On-going programme of review relating to ICT Disaster Recovery and Business Continuity	Michael Lloyd, Head of Technology Commissioning & Strategy
Kent Resilience Team in place bringing together personnel from KCC, Kent Police and Kent Fire and Rescue Service in an integrated and co-located team to deliver enhanced emergency planning and business continuity in Kent	Mike Overbeke, Head of Public Protection
Multi-Agency recovery structures are in place at the Strategic and Tactical levels & working effectively.	Katie Stewart, Director Environment Planning & Enforcement
KCC Community Wardens trained as Incident Liaison Officers	Mike Overbeke, Head of Public Protection
KCC and local Kent Resilience Forum partners have tested preparedness for chemical, biological, radiological, nuclear and explosives (CBRNE) incidents and communicable disease outbreaks in line with national requirements. The Director of Public Health has additionally sought and gained assurance from the local Public Health England office and the NHS on preparedness and maintaining business continuity.	Andrew Scott-Clark, Director Public Health
KCC jointly with Medway Council Public Health dept maintain an on-call rota on behalf and with Public Health England to ensure preparedness for implementing the Scientific, Technical Advisory Cell (STAC) in the event of a major incident with implications for the health of the public	Andrew Scott-Clark, Director of Public Health
'Introduction to Emergency Planning' e-learning package available to all staff	Tony Harwood, Resilience and Emergencies Manager
Emergency planning training rolled out at strategic, tactical and operational levels. KCC Resilience Programme in place to deliver further training opportunities	Katie Stewart, Director Environment Planning & Enforcement
Exercises regularly conducted to test different elements of KCC emergency and business continuity	Tony Harwood, Resilience &

arrangements with partners (e.g. 'Fort Invicta' November 2015 and Exercise 'Thor' December 2015).	Emergencies Manager	
Senior Management on-call rota devised and agreed	Katie Stewart, Director Environment Planning & Enforcement	
Learning and potential improvements to business continuity plans in light of recent loss of ICT systems captured	Katie Stewart, Director Environment Planning & Enforcement	
Emergency Reservists have been recruited to aid emergency responses	Katie Stewart, Director Environment Planning & Enforcement	
Prevent Duty Delivery Board established to oversee the activity of the Kent Channel Panel, co-ordinate Prevent activity across the County and report to other relevant strategic bodies in the county	Andrew Ireland, Corporate Director SCHW	
Kent Channel panel (early intervention mechanism providing tailored support to people who have been identified as at risk of being drawn into terrorism) established at district and borough level.	Nick Wilkinson, KCC Prevent Lead Officer	
KCC Business Continuity Plan in place	Katie Stewart, Director Environment, Planning & Enforcement	
Reporting arrangements have been reviewed to include appropriate elected Member oversight of KCC Business Continuity arrangements.	Katie Stewart, Director Environment, Planning & Enforcement	
Action Title	Action Owner	Planned Completion Date
Review sufficiency of KCC emergency and resilience resource	Katie Stewart, Director Environment, Planning & Enforcement	September 2016 – Phase 1 April 2017 – Phase 2
Cabinet Office resilience training scheduled for Summer 2016	Katie Stewart, Director Environment, Planning & Enforcement	September 2016
Continually review and ensure robust processes for management of IT security incidents	Kathy Stevens, ICT Compliance and Risk Manager	October 2016 (review)
Review Business Continuity arrangements for Contact Point with service provider.	Chris Smith, Intelligent client – subject expert (telephony)	September 2016

Risk ID	CRR9	Risk Title	Health & Social Care Integration (inc. Better Care Fund)			
Source / Cause of Risk	Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact	
The health & social care 'system' is under extreme pressure to cope with increasing levels of demand and financial constraints. Consequently, there is an urgent need to develop integrated health & social care services to meet these challenges. The integration agenda presents local authorities with both opportunities and risks.	Pressures within the health sector have repercussions for social care. Insufficient Better Care Fund monies to support preventative services, which means plans to reduce hospital admissions are destabilised. Failure to maximise opportunities presented for health & social care integration, and ensure changes achieve maximum impact.	Additional budget pressures. Gaps between services or in some instances duplication of services or inefficient use of the available joint resources.	Andrew Ireland, Corporate Director SCHW Responsible Cabinet Member(s): Roger Gough, Education & Health Reform Graham Gibbens, Adult Social Care & Public Health	Likely (4)	Serious (4)	
				Target Residual Likelihood	Target Residual Impact	
				Possible (3)	Significant (3)	
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			
Health & Wellbeing Board and CCG-level Health & Wellbeing Board sub-committees established			Roger Gough, Cabinet Member Education & Health Reform			
Joint Commissioning Board Strategy & Commissioning plans established with Clinical Commissioning Groups			Mark Lobban, Director Commissioning SCHW			
Joint Strategic Needs Assessment helps to support joint health & social care commissioning activity			Andrew Ireland, Corporate Director SCHW			
Kent chosen as one of 25 pioneers of health & social care integration in the UK, which is giving renewed impetus to the integration programme in Kent. An Integration Pioneer Steering Group is in place with other 20 stakeholder members to provide strategic direction and oversee successful delivery of health & social care in Kent.			Anne Tidmarsh, Director OPPD(KCC lead)			
Detailed delivery plans being developed with CCG areas			Andrew Ireland, Corporate			

	Director SCHW	
Joint Area Team, CCG and KCC group established	Andrew Ireland, Corporate Director SCHW	
Reporting arrangements are in place to support integrated working, including reports to Health & Wellbeing Boards, Clinical Commissioning Groups and Vanguard Groups.	Anne Tidmarsh, Director OPPD	
KCC has developed an understanding of, and is well placed to implement, the NHS 'Five Year Forward View'	Andrew Ireland, Corporate Director SCHW	
The Better Care Fund will help the integration programme and the development of joined up working and commissioning	Anne Tidmarsh, Director OPPD	
BCF Finance and Performance Group established, consisting of CCG/KCC Chief Finance Officers as well as a BCF Internal Assurance Group	Andy Wood, Corporate Director Finance & Procurement/ Andrew Ireland, Corporate Director SCHW	
Programme management arrangements in place for integration, with a programme plan and associated local action plans. Activity coordinated by a programme manager.	Anne Tidmarsh, Director OPPD	
Implementation of local Better Care Fund action plans being monitored by BCF delivery groups	Anne Tidmarsh, Director OPPD	
Detailed performance returns in place to report Pioneer programme progress to the new models of care team at NHSE	Anne Tidmarsh, Director OPPD	
Action Title	Action Owner	Planned Completion Date
Work towards greater connectivity of information systems via a shared integration plan	Anne Tidmarsh, Director OPPD	June 2016 (review)
Ensure adherence to the Continuing Healthcare (CHC) framework and monitor joint working arrangements to prevent cost shunting	Mark Lobban, Director Commissioning SCHW / Penny Southern, Director CDLDMH / Anne Tidmarsh, Director OPPD	September 2016 (review)
Contribute to the development of five-year, place-based Sustainability and Transformation Plans	Andrew Ireland, Corporate Director SCHW	June 2016

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 SCHW Responsible Cabinet Member(s): Graham Gibbens, Adult Social Care & Public Health	Likely (4)	Major (5)	
				Target Residual Likelihood	Target Residual Impact	
				Possible (3)	Serious (4)	
Control Title			Control Owner			
Regular 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 SCHW/ Mark Lobban, Director Commissioning SCHW			
Implementation of Adults Transformation partnership programme progressing including: Care Pathways, Commissioning & Procurement and Optimisation			Mark Lobban, Director Commissioning SCHW/Anne Tidmarsh, Director OPPD/Penny Southern, Director Disabled Children Adult Learning Disability & Mental Health (DCALDMH)			
Monitoring, vigilance and challenge regarding the placement of Adults into Kent by other local authorities.			Mark Lobban, Director			

		Commissioning SCHW
Legal Services are engaged where required to support KCC when challenging other Authorities to accept Ordinary Residence re: responsibilities		Penny Southern, Director DCALDMH
Joint commissioning of services with health, in particular for people with dementia, long term conditions and for carers (links to <i>Health & Social Care Integration agenda</i> – see Risk CRR9).		Mark Lobban, Director Commissioning SCHW/ Anne Tidmarsh, Director OPPD
Continued drive to maximise the use of Telecare as part of the mainstream community care services		Anne Tidmarsh, Director OPPD and Penny Southern, Director DCALDMH
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 SCHW
Health & Social Care Integration Programme in place with a strategic objective of proactively tackling demand for health & social care services		Anne Tidmarsh, Director OPPD
Risk stratification tools devised. Now being used by GP's		Anne Tidmarsh, Director OPPD
Continued support for investment in preventative services through voluntary sector partners		Mark Lobban, Director Commissioning SCHW
Public Health & Social Care ensures effective provision of information, advice and guidance to all potential and existing service users, promoting self-management to reduce dependency		Andrew Scott-Clark, Director Public Health/ Anne Tidmarsh, Director OPPD
Best Interest Assessments (BIA) training package in place to be delivered as part of a rolling programme twice yearly		Mark Lobban, Director Commissioning, SCHW
Continual review and monitoring of demand in relation to Deprivation of Liberty assessments (DoLs)		Nick Sherlock, Head of Adult Safeguarding
Action Title	Action Owner	Planned Completion Date
Implementation of Adults Transformation Phase 2 Design <ul style="list-style-type: none"> Implementation activities complete in all areas for Phase 2 projects in OPPD – Full roll out of Your Life Your Home 	Mark Lobban, Director Commissioning SCHW	June 2016
Development of a project to explore a systemic approach to Demand Management for Care Leavers	David Whittle, Director Strategy, Policy & Assurance	June 2016 (review)

Risk ID	CRR10(b)	Risk Title	Management of Demand – Early Help and Preventative Services and Specialist Children’s Services				
		<p>Source / Cause of risk</p> <p>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.</p> <p>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.</p> <p>These challenges need to be met as early help and preventative services and specialist children’s services face increasingly difficult financial circumstances and operational challenges such as recruitment and retention of permanent qualified social workers.</p>	<p>Risk Event</p> <p>High volumes of work flow into early help and preventative services and specialist children’s services leading to unsustainable pressure being exerted on them.</p>	<p>Consequence</p> <p>Children’s services performance declines as demands become unmanageable.</p> <p>Failure to deliver statutory obligations and duties or achieve social value.</p> <p>Additional financial pressures placed on other parts of the Authority at a time of severely diminishing resources.</p> <p>Ultimately an impact on outcomes for children, young people and their families.</p>	<p>Risk Owner</p> <p>Andrew Ireland, Corporate Director SCHW</p> <p>Patrick Leeson, Corporate Director EYPS</p> <p>Responsible Cabinet Member(s):</p> <p>Peter Oakford, Specialist Children’s Services</p>	<p>Current Likelihood</p> <p>Likely (4)</p> <p>Target Residual Likelihood</p> <p>Possible (3)</p>	<p>Current Impact</p> <p>Major (5)</p> <p>Target Residual Impact</p> <p>Serious (4)</p>
		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 SCHW / Philip Segurolo, Director Specialist Children’s Services				
		The Early Help and Preventative Services Programme is working to ensure that vulnerable families can	Florence Kroll, Director Early				

access the right support through open access services or through targeted casework.	Help and Preventative Services	
Plans developed to appropriately manage the number of children in care (subject to continual monitoring)	Philip Segurola, 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 SCHW	
Continued support for investment in preventative services through voluntary sector partners	Mark Lobban, Director Commissioning SCHW	
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 SCHW	
Scoping of diagnostic work for children's services with aid of efficiency partner has been completed	Philip Segurola, Director Specialist Children's Services	
Early Help & Preventative Services have outlined priorities for service development and change, including ambitious targets to improve outcomes for children, young people and families	Florence Kroll, Director Early Help & Preventative Services	
New and innovative service design concepts tested in 'sandbox' to inform the business case and associated projections	Patrick Leeson, Corporate Director, EYPS/Andrew Ireland, Corporate Director SCHW	
Weekly Management Information reports track key children in care milestones	Philip Segurola, Director Specialist Children's Services	
Kent Safeguarding Children Board has developed a 'threshold' document that outlines the criteria required to by partners when making a referral	Mark Janaway, KSCB Programme and Performance Manager	
Action Title	Action Owner	Planned Completion Date
In-house fostering capacity to be developed and assertive monitoring of all children in care performance milestones	Philip Segurola, Director Specialist Children's Services	October 2016 (review)
Implementation of Unified 0-25 programme with projects targeted within Specialist Children's Services, Early Help and Prevention and External Spend	Patrick Leeson, Corporate Director, EYPS/Andrew Ireland, Corporate Director SCHW	June 2016 (review)

Work with partners to ensure that they understand the Kent Safeguarding Children Board thresholds and can accurately apply these when making referrals i.e. via training, workshops, audits and reviews of policies.

Mark Janaway, KSCB
Programme and Performance
Manager

September 2016 (review)

Risk ID	CRR 12	Risk Title	Welfare Reform and Work Act			
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 <i>Universal Credit: Welfare that Works</i> . 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. This now includes assessment of potential impacts of the Welfare Reform & Work Act 2016.		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.	An increase in households falling below poverty thresholds with vulnerable people becoming exposed to greater risk. Additional pressure on KCC services e.g. demand for adults and children's social care. Increasing deprivation leads to increase in social unrest and criminal activity.	Andrew Ireland, Corporate Director SCHW Responsible Cabinet Member(s): Graham Gibbens, Adult Social Care & Public Health	Possible (3)	Serious (4)
					Target Residual Likelihood	Target Residual Impact
					Possible (3)	Significant (3)
Control Title					Control Owner	
Ongoing analysis and tracking of impacts conducted by Strategy, Policy & Assurance and Strategic Business Development & Intelligence teams plus external partners to give an indication of scale of implications of reforms. Mechanism developed to track benefit migration into Kent.					Emma Mitchell, Director Strategic Business Development & Intelligence /David Whittle, Director Strategy, Policy, Relationships and Corporate Assurance	
Policy & research updates produced periodically to aid monitoring of potential impacts					David Whittle, Director Strategy, Policy, Relationships and Corporate Assurance/Emma Mitchell, Director Strategic Business Development & Intelligence	
Kent Support and Assistance Service operating as the County's local welfare assistance scheme					Mark Lobban, Director of Commissioning	

Action Title	Action Owner	Planned Completion Date
Review of local welfare assistance scheme	Mark Lobban, Director Commissioning SCHW	September 2016
Policy Briefing on latest Welfare Reform changes outlined in the Welfare and Reform Act 2016.	David Whittle, Director Strategy, Policy, Relationships and Corporate Assurance	October 2016

Risk ID	CRR 17	Risk Title	Future financial and operating environment for Local Government			
Source / Cause of risk	Risk Event	Consequence	Risk Owner (s)	Current Likelihood	Current Impact	
<p>The operating environment for local government will continue to change during the coming years, presenting both opportunities and risks for the Council and its partners / service providers.</p> <p>For example, the Comprehensive Spending Review and associated Local Government settlement is expected to require a further 30% of savings in real terms during the next 4 years, which could threaten delivery of local services across the county, while the Local Government, Cities and Devolution Act could have wide-ranging implications, including the potential for significant Local Government reorganisation.</p> <p>Business rate retention may present opportunities for the Council.</p> <p>A National Living Wage was introduced from April 2016 and Govt has developed proposals to combine Local Authority pension funds.</p> <p>The EU referendum result in June 2016 adds additional uncertainty, with potentially significant impacts.</p>	<p>Additional spending demands and continued public sector austerity measures threaten financial sustainability of KCC, its partners and service providers.</p> <p>Increase in the National Living Wage could severely impact on local markets.</p> <p>Quality of KCC commissioned / delivered services suffers as financial situation continues to worsen.</p> <p>Failure to capitalise on opportunities presented by the Government's devolution agenda.</p>	<p>Unsustainable financial situation.</p> <p>Potential for partner or provider failure – including sufficiency gaps in provision.</p> <p>Reduction in resident satisfaction and reputational damage.</p>	<p>All Corporate Directors</p> <p>Responsible Cabinet Member (s): All Cabinet Members</p>	<p>Likely (4)</p> <p>Target Residual Likelihood Possible (3)</p>	<p>Major (5)</p> <p>Target Residual Impact Serious (4)</p>	

Control Title	Control Owner	
Robust budgeting and financial planning in place via Medium Term Financial Planning (MTFP) process, including stakeholder consultation.	Andy Wood, Corporate Director Finance & Procurement	
Processes in place for monitoring delivery of savings and budget as a whole.	Andy Wood, Corporate Director Finance & Procurement	
KCC Strategic Statement 2015-2020 and annual report outline key strategic outcomes that the Authority aims to achieve during this period.	Leader of the Council	
KCC Commissioning Framework promotes commissioner understanding of markets and potential signs of provider stress.	Emma Mitchell, Director Strategic Business Development and Intelligence	
KCC Quarterly Performance Report monitors key performance and activity information for KCC commissioned or delivered services. Regularly reported to Cabinet.	Richard Fitzgerald, Business Intelligence Manager – Performance	
Ongoing oversight of implications relating to proposed Local Authority pension fund changes	Nick Vickers, Head of Financial Services	
Financial analysis of medium term Kent public sector / provider landscape post-Comprehensive Spending Review conducted	Dave Shipton, Head of Financial Strategy	
Support being provided to the Leader of the County Council in his role as Chair of the County Councils Network.	David Whittle, Director Strategy, Policy, Relationships and Corporate Assurance	
Action Title	Action Owner	Planned Completion Date
Work proactively with Government regarding how the new business rate retention scheme can be most effectively implemented	Dave Shipton, Head of Financial Strategy	June 2016 (review)
Continual engagement regarding devolution between KCC, District Councils, other partners and Government	David Whittle, Director Strategy, Policy, Relationships and Corporate Assurance	July 2016
Lobby Government for a needs-led approach to Grant distribution	Andy Wood, Corporate Director Finance & Procurement	December 2016

Risk ID	CRR22	Risk Title	Implications of increased numbers of Unaccompanied Asylum seeking children (UASC)			
Source / Cause of risk		Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact
Since May 2015 there has been an unprecedented increase in the numbers of UASC arriving in Kent, which places increased pressure on all aspects of specialist children's services delivery. This issue is the source of a number of risks.		There is a risk that there will be insufficient accommodation, social work assessment capacity and support for UASC.	Serious impact on vulnerable young people.	Andrew Ireland, Corporate Director, SCHW	Very Likely (5)	Serious (4)
		Shortfall in funding the full cost associated with fulfilling the Council's statutory duties.	The Council would be unable to fulfil its statutory duties effectively.	Responsible Cabinet Member(s):	Target Residual Likelihood	Target Residual Impact
		Risk that other Local Authorities do not voluntarily accept UASC that arrive in Kent in sufficient numbers.	Additional budget pressures on the Authority if UASC costs are not fully funded by Govt.	Peter Oakford, Specialist Children's Services	Possible (3)	Serious (4)
Control Title					Control Owner	
An additional temporary reception centre has been opened to help cope with demand					Philip Segurola. Director of Specialist Children's Services	
Staffing capacity has been increased, particularly the asylum duty team, Independent Reviewing Officer (IRO) service and District teams					Philip Segurola, Director of Specialist Children's Services	
Daily updates – senior management are reviewing arrival rates, capacity and accommodation and support requirements with management action taken as required.					Philip Segurola, Director of Specialist Children's Services	
Action Title			Action Owner		Planned Completion Date	
Continue to make representations to Government for reimbursement of the full costs of fulfilling our statutory duties for UASC.			Andrew Ireland, Corporate Director SCHW		March 2017	
Continue to review staffing levels, increasing where required			Philip Segurola, Director of Specialist Children's Services		July 2016 (review)	
The Authority is looking to strengthen the position of a dispersal scheme with the Home Office			Philip Segurola, Director of Specialist Children's Services		July 2016 (review)	

Risk ID	CRR23	Risk Title	Managing and embedding sustainable change			
Source / Cause of risk	Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact	
The Authority is developing a strategic commissioning approach, as it looks to transform and respond to the challenging local government environment.	Insufficient programme control on key change activity.	Potential to fall short of achieving financial and non-financial benefits if changes introduced are not fully embedded.	All Corporate Directors	Likely (4)	Significant (3)	
This includes exploring alternative service delivery models as well as embedding commissioning principles for 'internally commissioned' services. This involves the development of appropriate 'client-side' arrangements.	Insufficient management capacity and / or capability in key skill areas to support sustained change. 'Client-side' commissioner arrangements not developed in time to drive effective relationships with, and performance management of, suppliers.	Disproportionate effort could be spent on areas of change that do not provide the greatest return on investment. Potential implications for staff wellbeing, morale and engagement.	Responsible Cabinet Member: Paul Carter, Leader of the Council	Target Residual Likelihood Unlikely (2)	Target Residual Impact Significant (3)	
Control Title			Control Owner			
Corporate Directors are providing managerial leadership for the change agenda and ensuring resources for delivering change are adequate and appropriate to ensure successful delivery and meeting regularly to ensure effective oversight and co-ordination of officer level programme management.			Corporate Directors			
Corporate Assurance function and devolved Portfolio Delivery Manager / Portfolio Management Office arrangements in place charged with managing dependencies and improving support for key programmes and projects			Mark Scrivener, Corporate Risk and Assurance Manager / Change Portfolio Delivery Managers			
Project and Programme Managers network established to support development of key project and programme management skills and knowledge and sharing of good practice. Programme and project toolkit re-launched.			Jan Hawkes, Senior Organisation Development Advisor / Diane Trollope, Head of Engagement & Consultation			
Workforce planning strategy 2015-2020 and annual report outlines how the Council is planning for the future in terms of skills development, role definitions and employee mindset. Includes action plan.			Amanda Beer, Corporate Director Engagement,			

	Organisation Development and Design
Staff development and Leadership & Management Frameworks established to further develop key skills, including commercial acumen, project management and contract management, across the organisation as an essential enabler of change.	Amanda Beer, Corporate Director Engagement, Organisation Design & Development
A suite of performance information is regularly reviewed and monitored to identify potential issues regarding staff recruitment, retention, health and engagement	Amanda Beer, Corporate Director Engagement, Organisation Design and Development
Strategic Business Development & Intelligence function brings together activities which support effective commissioning and leads on the management of KCC's large contracts.	Emma Mitchell, Director Strategic Business Development & Intelligence
Commissioning network and toolkit in place to support development of key commissioning knowledge and skills and sharing of good practice	Commercial Manager, Strategic Business Development & Intelligence
Procedures for appropriate consultation in place when decisions relating to changes in services are being considered	Diane Trollope, Head of Engagement & Consultation
Workforce and succession planning tools available to aid managers	Julie Cudmore, Head of Organisation Development
Skills transfer stipulations built into contracts of external efficiency partners / consultants to ensure internal staff develop relevant skills and build capability	Emma Mitchell, Director Strategic Business Development & Intelligence
Governance arrangements reviewed to clarify Member roles and responsibilities around becoming a strategic commissioning authority e.g. Transformation Advisory Group, Commissioning Advisory Board, Cabinet Committees etc.	David Whittle, Director Strategy, Policy, Relationships and Corporate Assurance
Best practice in relation to development of business cases has been shared with KCC project and programme managers and promoted via the project and programme management toolkit	Elizabeth Sanderson, Corporate Assurance Manager
Roles and responsibilities for Officers charged with the strategic commissioning of services and those responsible for operational delivery of services have been clarified.	Corporate Directors

Action Title	Action Owner	Planned Completion Date
Introduce programme and project management training for key stakeholders (other than programme / project managers) to promote awareness of their respective roles & responsibilities e.g. Senior Responsible Officers and those responsible for benefits realisation).	Jan Hawkes, Senior Organisation Development Advisor	September 2016
Improve mapping of dependencies and impacts across major change programmes and projects, including impacts on 'business as usual' activity.	Mark Scrivener, Corporate Risk and Assurance Manager / Change Portfolio Delivery Managers	August 2016 (review)

Risk ID	CRR24	Risk Title	Delivery of 2016/17 savings			
Source / Cause of Risk		Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact
The ongoing difficult economic climate has led to significant reductions in funding to the public sector and Local Government in particular, at a time when spending pressures on councils are increasing.		The required savings from key programmes or efficiency initiatives are not achieved.	Urgent alternative savings need to be found which could have an adverse impact on service users and/or residents of Kent.	On behalf of CMT: Andy Wood, Corporate Director Finance & Procurement	Possible (3)	Serious (4)
KCC has already made significant cost savings and still needs to make ongoing year-on-year savings in order to “balance its books.”			Potential adverse impact on whole-council transformation plans. Reputational damage to the council.	Responsible Cabinet Member(s): John Simmonds, Finance & Procurement	Target Residual Likelihood Very unlikely (1)	Target Residual Impact Moderate (2)
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	
Procedures for appropriate consultation in place when decisions relating to changes in services are being considered					Diane Trollope, Head of Engagement & Consultation/	
Controls and mechanisms remain robust					Andy Wood, Corporate Director Finance & Procurement	
Savings plans developed for all significant budget savings					Corporate Directors and Director Group	
Six monthly update reports on progress against budgeted savings presented to Governance & Audit Committee					Corporate Directors and Director Group	

Action Title	Action Owner	Planned Completion Date
NB: Risk to be managed down to target residual level via existing controls outlined above.		

Risk ID	CRR25	Risk Title	Identification of, and planning to deliver 2017/18 savings			
Source / Cause of Risk	Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact	
The ongoing difficult economic climate has led to significant reductions in funding to the public sector and Local Government in particular, at a time when spending pressures on councils are increasing.	Robust plans to achieve the required savings are not developed in time to enable implementation and realisation of benefits in 2017/18.	Urgent alternative savings need to be found which could have an adverse impact on service users and/or residents of Kent.	On behalf of CMT: Andy Wood, Corporate Director Finance & Procurement	Likely (4)	Serious (4)	
KCC has already made significant cost savings and still needs to make significant ongoing year-on-year savings in order to “balance its books”.	Plans are not aligned with Cabinet Member priorities.	Potential adverse impact on council transformation plans. Reputational damage to the council.	Responsible Cabinet Member(s): John Simmonds, Finance & Procurement	Target Residual Likelihood Very unlikely (1)	Target Residual Impact Moderate (2)	
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 Delivery 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			
Procedures for appropriate consultation in place when decisions relating to changes in services are being considered			Diane Trollope, Head of Engagement & Consultation/			
Arrangements for localisation of council tax agreed with District Councils (cross reference to Risk 12 Welfare Reform)			Dave Shipton, Head of Financial Strategy			
Controls and mechanisms remain robust			Andy Wood, Corporate Director Finance & Procurement			
Indicative cash limits and savings targets allocated to Corporate Directors to allow early planning.			Corporate Directors and Director Group			

Six monthly update reports on progress against budgeted savings presented to Governance & Audit Committee		Corporate Directors and Director Group
Action Title	Action Owner	Planned Completion Date
Directors to report back on further savings options for 2017/18	Corporate Directors	June 2016
Corporate Board to consider further savings options	Andy Wood, Corporate Director Finance & Procurement	July 2016

By: **Mark Dance**
Cabinet Member for Economic Development

David Smith
Director, Economic Development

To: **Governance and Audit Committee - Thursday, 21st July 2016**

Subject: **UPDATE ON THE GOVERNANCE OF THE DISCOVERY PARK TECHNOLOGY INVESTMENT FUND**

Classification: **Unrestricted**

1. Recommendation

- 1.1 On 23rd June 2016, the Leader of the Council approved the governance for implementing phase 2 of the Discovery Park Technology Investment Fund and the setting up of a new Investment Committee on the recommendation of the Expansion East Kent Investment Advisory Board (“IAB”). The details are set out in a report submitted by Narec Capital Limited (“NCL”) to the IAB. This report is attached (Annex 4).
- 1.2 The Committee is invited to note and ratify these arrangements.

2. Issue

- 2.1 At its meeting on 27 April 2016, the Governance and Audit Committee Trading Activities Sub-Committee considered a Report on the Discovery Park Technology Investment Fund. The Sub-Committee resolved that the proposed governance for the Fund be endorsed subject to ratification by the Governance and Audit Committee at the next available opportunity (21 July).
- 2.2 The Sub-Committee was particularly concerned to establish that the Council had unqualified legal advice that the governance arrangements were robust and protected the Council’s interests.
- 2.3 Two firms of legal advisers have signed off the arrangements (Hogan Lovells for the Fund and Geldards advising Kent County Council); the Council’s Head of Legal has reviewed the arrangements; and the Council has appointed Directors to the Company Boards.

3. The governance and management of the fund

- 3.1 Kent County Council has invested £5 million from the Expansion East Kent Regional Growth Fund (“RGF”) in the equity of companies eligible under the RGF rules applied by the Department for Business, Innovation and Skills (“BIS”). Each of those investments were made by KCC following advice from the IAB to the Leader of the Council.
- 3.2 Discovery Park Technology Investment Fund (“DPTIF”) was established as a venture capital fund recognised by the British Venture Capital Association (“BVCA”) and statutorily regulated by the Financial Conduct Authority (“FCA”) operating under the rules of the European Securities & Markets Association (“ESMA”).
- 3.3 KCC’s RGF equity investments are now held within this special vehicle company (DPTIF) to hold them in a manner that enables other investors also to invest in these companies as well as in other companies that meet the original RGF investment criteria ie companies that have significant potential to grow and create jobs in Kent and to generate future financial return to KCC as investor.
- 3.4 Narec Capital Ltd (“NCL”) was appointed by Kent County Council (“KCC”) as the fund manager for the DPTIF. The governance framework has two key features:
 - a) the RGF Investment Advisory Board (IAB) continues to advise the Leader of the Council on the RGF investment strategy, and
 - b) a new Investment Committee will manage the pool of DPTIF equity investments: this Committee will have five members two of whom are KCC appointments (Charlie Simkins and Nick Vickers) with a right of veto on all Committee decisions.
- 3.5 The DPTIF companies comprise:
 - a) A Limited Partner: KCC Initial LP Limited: this is the equity investment vehicle. This company is owned by KCC. The company has two directors appointed by KCC: the Director for Economic Development (David Smith) and KCC’s Chief Accountant (Emma Feakins).
 - b) A General Partner: Discovery Park Technology Investments (GP) Ltd: This company is the manager of the fund, and is owned by NCL. The General Manager is responsible for the day to day management of the partnership and fund: the management of this company is accountable to an independent investment committee on which KCC has two representatives each holding the right of veto.

- c) A Special Limited Partner: Discovery Park Technology Investments (SLP) Ltd. This company holds the equity 'carry' on behalf of the investment manager ie. the managers' performance incentive element. The SLP is owned by NCL.

4 Establishing the Fund

- 4.1 The report at Annex 1 submitted to the Trading Activities Sub-Group in November 2014 described the two phases for implementing these governance arrangements. In phase 1, the three DPTIF companies were set up, each wholly owned by KCC. In phase 2, the ownership of two of these companies was transferred to Narec Capital Ltd. This allowed the fund to start raising additional private capital and begin to expand the investment portfolio from the £5 million initially allocated by KCC to a target of £50 million by injecting funds from private sector investors.
- 4.2 On 23rd June 2016 the Expansion East Kent Investment Advisory Board (IAB) Chaired by the Leader of the Council approved the governance and appointment of the new DPTIF Investment Committee. The report submitted by Narec Capital Ltd (Annex 4) to the IAB explained the role of the three DPTIF companies, the terms of reference of the Investment Committee and the recruitment of the private sector members.

5. Narec Capital Limited (NCL)

- 5.1 NCL was procured by KCC to manage the DPTIF to undertake the following:
 - (a) Generate deal flow and filter investments so as to find companies which fit the specific fund mandate..
 - (b) Perform extensive commercial, financial and technical due diligence on selected companies.
 - (c) Negotiate investment terms (the term sheet) with prospective investee companies.
 - (d) Prepare due diligence reports and investment recommendations to be presented for approval to the investment committee.
 - (e) Manage investment transaction process including instructing lawyers to perform legal due diligence and negotiating and concluding investment documentation with investee companies.
 - (f) Manage external advisors to the business such as lawyers, auditors, insurance requirements and regulatory aspects
 - (g) Manage the cash flow requirement of the Fund to ensure that it remains a going concern.
 - (h) Preparation of quarterly management account and reporting to investment committee along the lines of the reporting obligations outlined below.
 - (i) Open and maintain a bank account for the partnership.

5.2 The key personnel within NCL responsible for day-to-day operations of the GP are as follows:-

- Jonathan Synett: Fund Manager DPTI and Investment Director - Narec Capital Ltd.
- Jerry Biggs: CEO - Narec Capital Ltd
- Martin Thorp: Director of Capital Markets - Narec Capital Ltd
- Alan Walker: Director of Technology – Narec Capital Ltd

5.3 NCL will report to the new Investment Committee as well as the IAB. The new Committee will consist of five members. Two of its members are being appointed by KCC; the other three will be chosen for his or her ability to assess high growth technology investments, proven track record of success and strong governance capability. The aim is to balance their skills and experience.

5.4 The job descriptions for members of the Investment Committee and the details of the selection panel are set out in Annex 4.

6. Background

6.1 Annex 1 is the paper submitted to the Sub-Committee in November 2014.

6.2 Annex 2 is the minutes of the Sub-Committee meeting held on 20 November 2014.

6.3 Annex 3 is the Report submitted to the Sub-Committee in April 2016.

6.4 Annex 4 is the Report submitted to the Investment Advisory Board by Narec Capital Ltd on DPTIF's Governance Structure.

6.5 Annex 5 is the minutes of the Trading Activities Sub-Committee meeting held on 27 April 2016.

Report author: David Smith
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30th June 2016

By: Mark Dance
Cabinet Member for Regeneration and Economic Development

David Smith
Director of Economic Development

To: Governance and Audit Committee
Trading Activities Sub Group
20th November 2014

Subject: The creation of a Discovery Park Technology Limited
Partnership (LP)

Classification: Unrestricted

Summary

This report sets out the governance arrangements for the establishment of an LP (LP) to make equity investments in small and medium enterprises where these have the potential to expand and create employment in East Kent. It is proposed that the activities of the LP will be financed by the Regional Growth Fund (RGF) and will complement existing RGF-funded loan schemes administered by KCC.

The Committee is recommended to approve the governance arrangements.

Recommendation:-

The Trading Activities Sub-Group is recommended to:-

- (a) approve the governance arrangements as detailed below.

1. Background

1.1. Kent County Council currently administers £55 million from the Government's Regional Growth Fund for products offering direct access to finance for businesses seeking to expand and create jobs. This is delivered through three programmes:-

- a) Expansion East Kent, worth £35 million operating in Ashford, Canterbury, Dover, Shepway and Thanet.
- b) TIGER (Thames Gateway Innovation, Growth and Enterprise), worth £14.5 million and operating in Dartford, Gravesham, Medway, Swale and Thurrock.
- c) Escalate (worth £5.5 million) (operating in Rother, Wealden, Hastings, Sevenoaks, Tunbridge Wells, Maidstone, Tonbridge & Malling).

- 1.2. Although Expansion East Kent, Tiger and Escalate are separate programmes with separate governance arrangements, they are all marketed as 'repayable finance' schemes. This means that they offer interest-free, normally unsecured, loans to eligible businesses on grant conditions which link the funding to a specific project and require employment and other outputs to be met. All repayments are reinvested in the programme to be recycled to future beneficiaries.
- 1.3. Expansion East Kent was launched in April 2012 and has, so far, issued loan agreements worth over £31 million, which will create over 1,800 jobs. Tiger and Escalate were launched in 2013 and have committed funds of over £19 million and will create 1,570 jobs.
- 1.4. While Expansion East Kent, Tiger and Escalate in the main offer debt finance, a number of business proposals have come forward seeking equity investment. In addition, the Expansion East Kent Investment Advisory Board¹ has considered a number of loan applications which could be better suited to equity investment. These equity investments may give a better return to the fund than the standard repayable finance model. In the case of three companies applying to Expansion East Kent, the Board has recommended equity investment as preferable.
- 1.5. Based on this, approval has been given to offer RGF-financed equity investment through the establishment of a Discovery Park Technology LP for the Expansion East Kent Programme only.
- 1.5. The proposed governance arrangements for an East Kent Investment Fund would operate according to the following principles:-

Principle 1: Source of investment

- 1.6. The company would only be able to invest Regional Growth Fund monies made available to it for the purposes of equity investment (i.e. it would not be able to invest KCC core funds or funding from other sources).
- 1.7. Because the Expansion East Kent RGF scheme is subject to separate grant agreements and governance arrangements, the company would operate separate funds for each, with the decision to make RGF funds available made by KCC as the accountable body for each scheme in accordance with the scheme investment strategy. This would mean that the LP would manage an Expansion East Kent Equity Fund in accordance with the grant agreements and investment strategy but could offer additional Equity Fund programmes if required at a future date.

Principle 2: Co-financing

¹ The Investment Advisory Board is the body established to consider applications to the Expansion East Kent fund and to make recommendations to KCC as the accountable body for the fund. It includes private sector representatives with a range of business experience and is chaired by the Leader of KCC.

- 1.8. All equity investments will need to be made on a commercial basis, with the same anticipated return as that sought by a private investor. Therefore, at least 50% of the proposed total equity funding must be secured through private sector investment.
- 1.9. There are various options available for ensuring the public sector equity funds are co-financed. Based on a preliminary assessment, it is proposed that private sector co-financing will be secured by Narec Capital prior to its application for funding². Private investment sources may include business angels and angel syndicates, venture capitalists and potentially investment by the owners of the business.

Principle 3: Return and sustainability

- 1.10. The company will seek to make a commercial return on its investments, with an expectation that most shareholdings will be sold after 5 years.
- 1.11. All returns on investment will remain within the Expansion East Kent Investment LP and made available for future rounds of investment. The equity funds managed by the LP must therefore be *sustainable*, but they are not *perpetual*, as the decision on when and whether to close the funds rests with KCC but would be based on recommendations from the Sub-Committee.
- 1.12. In order to guarantee the sustainability of each fund, and to ensure that no illegal state aid is provided to business through the operation of the company, it will be necessary to charge an arrangement fee to cover management and administration costs. Typically, arrangement fees in public sector-backed equity schemes are between 2% and 5% of the investment amount; some schemes also charge annual monitoring fees. These charges will be at the cost of the fund and not KCC.

Principle 4: Transparency

- 1.13. The creation of a Discovery Park Technology Limited Partnership (LP) will mean that additional finance products can be offered by Expansion East Kent. It is proposed that the process for applying to the LP for equity investment will be marketed in the same way as the existing loan schemes, with criteria and application details published openly.

2. The case for offering RGF-financed equity investment

- 2.1. Expansion East Kent aims to address a general market failure, as banks remain reluctant to lend despite the range of Government initiatives designed to increase general lending. It also aims to provide direct support to those businesses with the potential and appetite for growth and job creation.

² The proposed arrangement is used by a number of public-sector backed equity funds, including Finance Birmingham and the Scottish Seed Fund (managed by Scottish Enterprise). Alternative arrangements include the creation of a 100% co-financed fund with a private sector investor, or the designation of a limited number of 'approved' private investment partners. The merits of these options need to be considered in further detail, although the flexibility of the proposed option appears (on an early assessment) to be preferable.

- 2.2. Successive national surveys have demonstrated that there is a gap in the supply of limited amounts of equity finance to SMEs with high growth potential. This is because the cost of assessing the likely risk and return on smaller investments encourages private investors to focus on more established, lower risk businesses at the expense of early stage venture capital, especially in a more risk-averse general economic environment. This means that potentially high growth businesses lack access to investment, with the gap commonly thought to be in market provision of investments between £250,000 and £2 million³. Although there are no specific local surveys of the equity gap, anecdotal evidence from High Growth Kent suggests that it is as prevalent as in the rest of the country and is likely to be especially challenging in East Kent. Limited supply of equity investment also has a circular effect in limiting demand, with many businesses lacking information on equity finance⁴.

3. State aid considerations

- 3.1. Within the Government grant agreements for Expansion East Kent, Kent County Council is permitted to make equity investment with RGF funds where this is offered as 'aid in the form of risk capital'. This enables public funding to be invested in a company provided the investment is made on commercial terms. To provide assurance that that the investment is commercial, equity from the public sector fund may only be made available on an equal basis with finance from a private investor (i.e. the size of the investment made by the private investor should be at least equal to the public sector investment, and the terms of the investment should be identical). All public sector equity funds operate on this basis.

4. Legal Advice

- 4.1. Legal advice has been sought from KCC's Legal Team, Geldards (acting as a sub-contractor to KCC) and Hogan Lovell (specialist in corporate law) regarding the vehicle which would be required to enable KCC to make equity investments using RGF funding. The advice received states that the type of vehicle required depends on the purpose for which the equity investment is being made.
- 4.2. Firstly, if company shares are being acquired for a non-commercial purpose (for example, to improve general well-being), KCC could rely on Section 12(a) of the Local Government Act 2003, permitting the Council to invest directly without the need for a company to be established.
- 4.3. However, if shares are being acquired for a commercial purpose (i.e. if KCC intended to subsequently sell the shares at a commercial rate of return), Section 4(2) of the Localism Act 2011 states that a company would need to be established for that purpose.
- 4.4. Based on this legal advice, officers have considered that KCC's power to purchase shares should derive from **Section 4(2) of the Localism Act**, and that an LP should be established, for two reasons:-

³ BIS/ SQW Consulting (2009), The supply of equity finance to SMEs: Revisiting the equity gap

⁴ BIS (2012) Economics Paper 16, SME Access to External Finance

- 4.5. Firstly, the state aid rules state that public sector equity investment should be made on the '**market economy investor principle**'. This states that KCC should invest in the expectation that it will receive a return in due course at the same level as that which would be acceptable to a private investor. The state aid basis of equity investment is therefore different from the interest-free loan products currently offered by Expansion East Kent, since while the latter are explicitly non-commercial forms of state aid. Consequently, it is considered that KCC's investment should be considered commercial, even though the reasons for establishing the fund are to support wider economic growth, rather than KCC's financial gain.
- 4.6. Secondly, analysis of existing schemes in the UK shows that where local equity investment funds have been established with public funding, they have usually been set up via separate company vehicles, investing alongside a private sector investor. This includes cases (such as Finance Birmingham) where the fund capital derives from the local authority⁵.
- 4.7. Given that KCC's investment should be considered commercial to ensure compliance with state aid regulations, and based on experience elsewhere, establishing an LP as provided for in the Localism Act therefore appears preferable.
- 4.8. KCC has issued a Commitment Letter to Narec Capital ('NC') dated October 15, 2014 whereby it agrees in principle to commit £5 million into an Equity Investment fund ('Fund'), in which it will be the initial sole partner and of which Narec Capital will be manager. The Fund is to be established in accordance with the submissions and documents provided to KCC and prepared by the legal firm Hogan Lovells.

Notes

1. Narec Capital East Kent Incubator LP (the "Fund") should be established as a limited partnership. This is a tax transparent vehicle that PE and VC investors are familiar with (thereby facilitating raising third party capital in due course). The LP will also facilitate the grant of carried interest as this is in accordance with the BVCA and HMRC MoU on carried interest.
2. The General Partner and the Special Limited Partner (which receives the carried interest) will be established as wholly owned subsidiaries of KCC, so that all of the participants in the Fund are in the same corporate group. This ensures that the Fund is not a collective investment scheme for UK regulatory purposes during Phase 1.
3. ExEK Investment Advisory Board (IAB) will be the committee of the General Partner and will be responsible for the investment activities of the Fund during Phase 1. The Board will have the benefit of advice

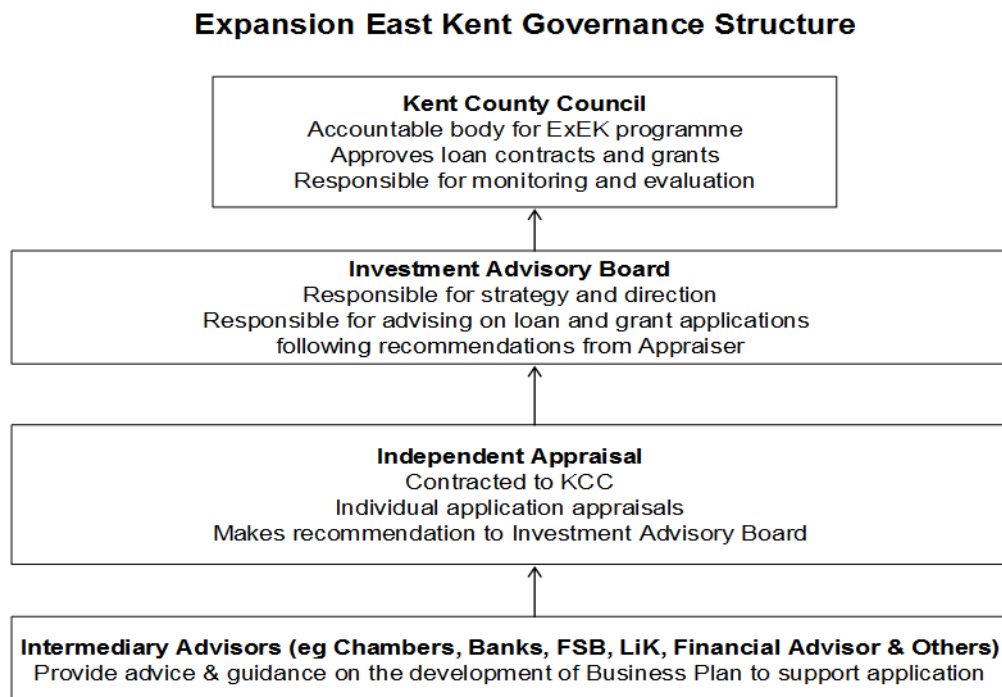
⁵ It should be noted that we have not undertaken an analysis of the legal basis for the establishment of the various publicly-backed equity schemes around the UK. However, in practice, these schemes conventionally operate through company structures.

provided by Narec Capital in its capacity as an authorised representative of its FCA regulated parent company.

4. The Special Limited Partner will assign carried interest to the intended recipients on establishment of the Fund.

5. Governance Arrangements

- 5.1 In May 2012 KCC accepted the role of accountable body for the Expansion East Kent funding programme. The governance arrangements for the programme were also approved by the Cabinet Committee on 14th May 2012. The following paragraphs set out the proposed way in which the current governance arrangements will be maintained whilst incorporating the LP. The structure was formed following consultation with Legal and Democratic Services and is in line with the principles of the fund.
- 5.2 The diagram below sets out the governance structure that has been in place since 2012. This structure maintains a balance between independent, private sector advice and clear accountability.



ExEK/Jacqui Working Docs/ExEK Governance Structure

- 5.3 The ExEK IAB will approve all investments. The proposals for equity investment will be presented to the Board (please see Annex 2 for structure diagram). The full membership of the ExEK IAB is as follows:-

Paul Carter (Chair)

Mark Dance (Vice-Chair)

David Smith

Miranda Chapman (Managing Director, Pillory Barn Creative - Media)

Ian Ellis (Director, McCabe Ford Williams - accountancy)

Professor Simon Howell (Kings College, London University)

Ron Roser (LBS Finance)

John Gilbey (Leader of Canterbury City Council)

Elias Dencker (Renewables Strategy)

Eliot Forster (Managing Director, Creabilis SA – pharmaceutical R+D)

Laura Sandys MP

- 5.4 The ExEK IAB will approve each investment and the Fund Documents must reflect that stipulation by the Board. In practice, IAB and Narec Capital shall work closely together with KCC to ensure that this process is efficient.
- 5.5 KCC has raised the prospect of grandfathering existing investments into the Fund. The Fund documents will therefore allow for the concept of KCC and Narec Capital agreeing that certain existing KCC equity investments may be grandfathered into the Fund and thus managed by Narec Capital under the Fund.

Report author:

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RGF Programme Manager

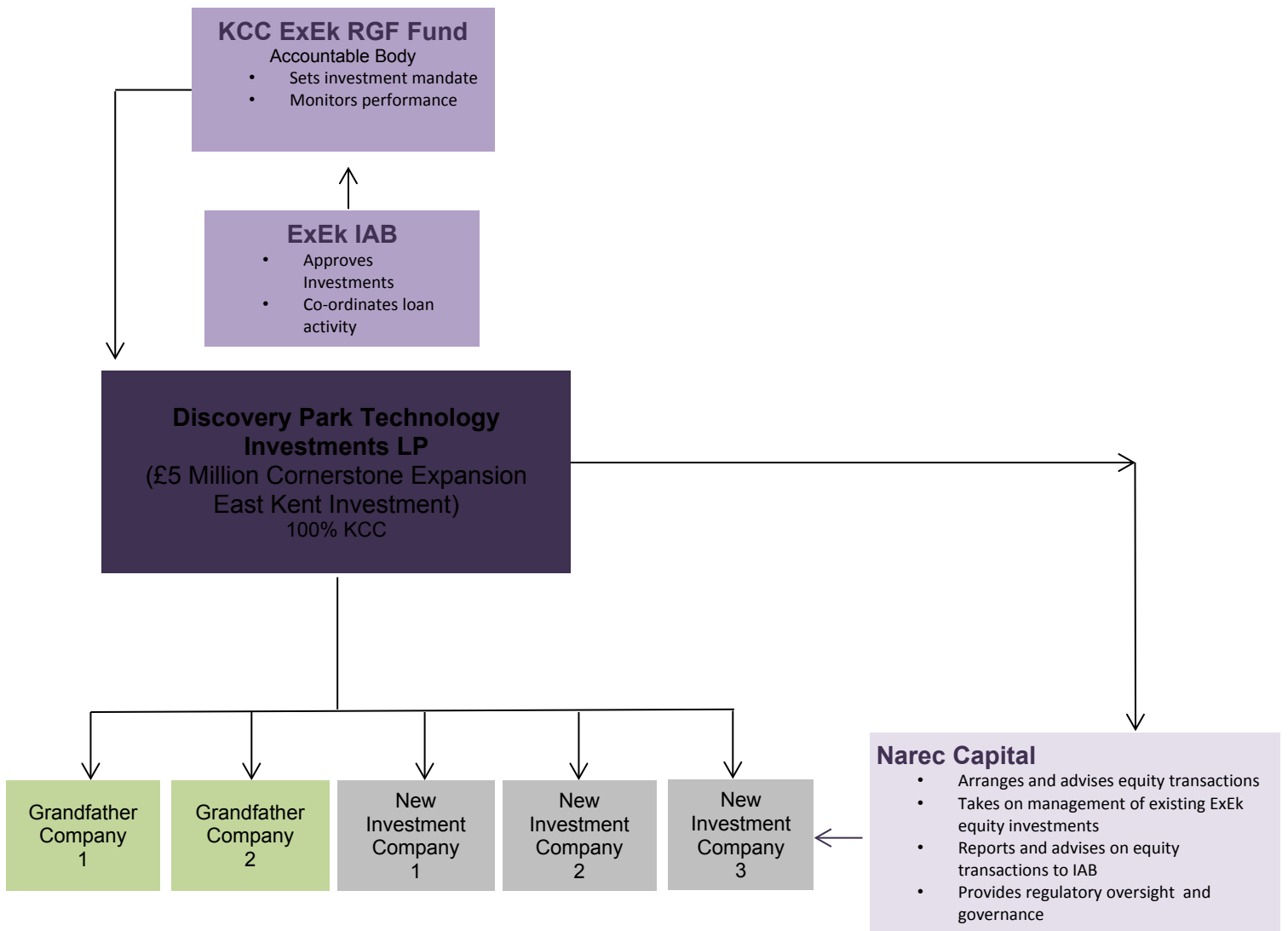
Tel: 07740-183812

ANNEX 1

Fund Structure	English (regulated by English Law) Limited Partnership. Initially contained within a captive investment vehicle for Expansion East Kent, before converting to an AIFMD approved CIS scheme.
Investment Objective	To invest in high growth sustainable energy and lifescience / medical technology SME's, focused around the East Kent area.
Location	SMEs will locate at Discovery Park or the surrounding East Kent area.
Economic Impact	The fund will seek to maximise economic impact within East Kent (inward investment, tax returns, local employment). The initial tranche of £5m from ExEK will leverage £45m of private capital into the fund (on transformation to CIS status) and £150m of captive co-investment. The investment plan will generate 500+ high value jobs on exit, within the East Kent area.
Commercialisation	SMEs will be subject to a robust commercialisation process led by Narec Capital and agreed upfront with each company
Target Fund Size	Up to £50 million (£5m initial tranche from ExEK)
Minimum Fund Size	£5 million
Minimum Commitment	Minimum investment for any future Limited Partner is £500,000 (50 Participations)
Participations	Participations will be of £10,000 each consisting of £1 of partnership capital and £9,999 of partnership loan. Commitments to the Fund are legally committed on admission to the Partnership
Carried Interest	The Founder Partner is entitled to carried interest of 20% of net profits from the Fund after amounts contributed have been returned to investors. There is no hurdle
Term	10 Years
Investment Criteria	The Fund will invest in companies producing sustainable energy and life science / medical related technologies and products. The Investment Policy will be set out in accordance with the rules of the relevant RGF fund parameters.
Reporting	Investors will receive a six monthly update report on the investments in the portfolio and an annual report and accounts which will constitute periodic statements for

	the purposes of FSMA. In addition, ExEK IAB will also receive updates regarding economic impact analysis (jobs, leveraged investment) in order to track and monitor key RGF outputs.
Set-up Costs	1% of total commitments to the Fund up to a maximum of £500,000 (limited to £50,000 during initial ExEK tranche)
Management Fees	A management fee of 3% of total commitments to the Fund per annum whilst below £15m, moving to 2% when £15m+ is achieved. <i>(Both set-up costs and management fees will be taken from the fund allocation of £5 million)</i>
Operating Expenses	The Fund will be responsible for ongoing operating expenses relating directly to the Partnership, including the annual fees of the Operator and all audit, accountancy, valuation, legal and other professional fees
Investment Committee	The Investment Committee provides final approval of all investments. KCC will have the right to assign 2 x Directors to the committee (with veto rights). Details of the Investment Committee are set out in the accompanying legal documentation.
ExEk IAB	The ExEK IAB will advise set this investment mandate, maintain oversight of the performance of the fund and key economic outputs via regular updates from the funds Investment Committee.
Target Initial Closing Date and Next Steps	Initial tranche of £5m (ExEk) by September 2014. Remaining £45m once the permissions are in place to convert the fund to CIS status by April 2015.

Annex 2 – Proposed Fund Structure & Governance (Phase 1)



KENT COUNTY COUNCIL
GOVERNANCE AND AUDIT COMMITTEE TRADING ACTIVITIES
SUB – COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee Trading Activities Sub - Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Thursday, 20 November 2014.

PRESENT: Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman) and Mr H Birkby

ALSO PRESENT: Mr R H Bird, Mr A H T Bowles, Mr M C Dance, Mr C P D Hoare, Mr D Smyth and Mr M E Whybrow

IN ATTENDANCE: Mr A Wood (Corporate Director Finance and Procurement), Ms S Buckland (Audit Manager), Mr D Smith (Director of Economic Development), Ms J Ward (Senior Partnership Officer), Mr J Burr (Director Highways, Transportation & Waste and Principal Director of Transformation), Mr N Sarrafan (County Transport & Development Manager) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

6. Minutes - 3 March 2014
(Item 3)

RESOLVED that the Minutes of the meeting held on 3 March 2014 are correctly recorded and that they be signed by the Chairman.

7. The creation of an East Kent Equity Investment Fund via a Limited Liability Partnership
(Item 4)

(1) Mr M C Dance, Cabinet Portfolio Holder for Regeneration and Economic Development introduced the report by explaining that KCC had been successful in its bid to the Regional Growth Fund (RGF) for three programmes including Expansion East Kent. This could have been funded through the straightforward mechanism of a grant. It had, however, been decided that a more positive approach would be achieved through offering a flexible 0% loan for a period of some 5 years. The best way to do this was through a bank which would take the first charge whilst KCC took the second if directors' loans were involved. There were more than 40 North American companies which were looking to locate to Kent provided that support could be offered for them to get started. He believed that Kent was already well placed to provide the right infrastructure and other incentives which would enable the county to compete with other parts of the UK for additional investment and employment. The East Kent Equity Investment Fund constituted the extra support that was needed.

(2) Mr Smith confirmed that the funding had come from central government by way of an endowment. They were managed by KCC subject to the rules prescribed by the Department of Business, Innovation and Skills. These rules permitted KCC to

make equity investments from that fund. The EU had State Aid rules (Market Economy Investment Principles) which prevented its member states unfairly subsidising businesses in their own countries. These rules required a local authority to set up a corporate vehicle if it wished to make equity investments so that such decisions were made on commercial grounds.

(3) Mr Smith went on to say that the corporate vehicle adopted in this instance had followed expensive legal advice from Hogan and Lovells, the UK's leading specialist in this particular sector. A second opinion was also taken from Geldards who were sub-contracted to KCC. The need for such external legal advice had been proven by the experience of other authorities when they had set up legal structures which had prevented them from adding other private investors to their equity fund when they had wished to do so.

(4) Mr Smith then said that as a result of the legal advice obtained, the Equity Fund had been set up in two phases. The first of these (which the Sub-Committee was being asked to examine) involved the only money invested (the £5m from the RGF) coming from KCC. Phase 2 would involve investment from other sources, requiring a changed structure and ownership.

(5) Mr Birkby asked for details of the amount being paid for legal advice. Mr Smith replied that payment to Hogan and Lovell was being made by Narec Capital. KCC itself was only paying Geldards.

(6) The Sub-Committee agreed that it did not need the full details of the actual amount paid at the meeting itself. This sum would be communicated to all Members of the Governance and Audit Committee at a later stage.

(7) Ms Ward explained that advice had been obtained from Geldards some 18 months before this meeting on structure under the Localism Act. The actual documents and legal agreements were still being awaited from Hogan and Lovells. Geldards would be asked to review these from an independent perspective.

(8) Mr Parry asked who the Members and Designated Members of the LLP would be. Mr Smith replied that the Partnership would be wholly owned by KCC. This would include all the liabilities and management responsibilities. The Leader of the Council had not yet been asked to make a decision on the actual identity of the designated Members. The recommendation to him was likely to be that there should be a mixture of KCC Members and Officers.

(9) The Chairman asked for the Governance and Audit Committee Members to be notified of the eventual Member and Designated Member appointments as well as of any changes to the governance arrangements.

(10) Mr Hoare asked how Narec had been chosen as partners of KCC. Mr Smith replied that they were wholly owned by the Department of Business, Innovation and Skills for the promotion of technology in the field of alternative and renewable energy. They were based in NE England and as a public sector body were a partner in governance to KCC. They were not a commercial body. Narec Capital had been set up for similar reasons to those which had led to KCC wishing to set up the Equity Investment Fund. Narec Capital was unique in this area as it was a combination of public sector capital finance expertise and the commercial contribution made by Ashburton (the other partner in Narec Capital). They had been selected on the

advice of the Technology Strategy Board, which was a body set up to report directly to the Department of Business, Innovation and Skills in order to provide grants and financial assistance on a non-commercial basis to companies in innovative engineering and technology sectors. Narec Capital had provided similar services to the Scottish Government. The selection process had been through a standard KCC procurement in 2012.

(11) Mr Smyth noted that paragraph 3.1 of the report stated that the public and private sectors could only provide funding on a 50/50 basis. Mr Smith had, however, suggested that this would not be the case. He also noted that the Investment Committee which approved investments would have 2 Directors who would have veto rights. He asked whether these veto rights were absolute or conditional.

(12) Mr Smith said that, in respect of the 50/50 question, a company which set itself up and was looking for equity investment would naturally have its own Board of Investors and a commercial strategy of its own. KCC would seek to invest in rather than direct that company. The EU state aid rules did not allow KCC to become a lead investor in such a company. The maximum amount that KCC could take was therefore 50%. He anticipated that KCC would only take a maximum of a 10% holding in any company in which it invested. This was a separate matter from the LLP whose funds would be 100% owned by KCC.

(13) Mr Smith then said that the veto rights in the Investment Committee were necessary because KCC would be seeking membership from people with technical expertise. KCC would have two out of the 5 members of this Committee, but they would have absolute veto rights. Every decision for this Committee would have to be considered by an Advisory Board which had already been set up, chaired by the Leader of the Council. Mr Dance was a Member of this Advisory Board which also contained a private sector Panel to advise on the overall strategy.

(14) The Chairman asked for assurance that either through shareholder agreements or through issuing different classes of equity shares with special rights, KCC would be able to ensure that matters it considered important required its consent as a shareholder. Mr Smith replied that he could give an absolute assurance to that effect. Each investment from the fund would be accompanied by a shareholder agreement.

(15) Mr Smith replied to a question from Mr Whybrow by saying that the aim was for the LLP to be operational in December 2014. He then explained that KCC had already agreed with three companies to make investments in three companies where KCC was a shareholder without going through the LLP. These three shareholdings would (subject to events proceeding as expected) be added to the Equity Fund.

(16) Mr Whybrow asked for assurance that KCC would be able to gain access to accounts direct from the company itself rather than from Companies House. Ms Ward replied that she could give that assurance because the due diligence process at the point of application required the company to make the accounts available to KCC with an update every three months.

(17) Mr Bird asked whether Narec's expertise extended to bio science, life science and other sciences in Discovery Park. Mr Smith replied by referring to the Mandate for Investments set out in paragraph 5.10 of the report which stated that the Fund would invest in companies producing sustainable energy and life science/medical

related technologies and products. Narec had considerable expertise in sustainable energy, technology and engineering, but acknowledged that it had none in bio science and medical technologies generally. It was therefore envisaged that Narec Capital's expertise would be as much in the investment management process and that, if required, they would be able to assist in identifying the necessary area of expertise from other organisations in evaluating proposals.

(18) Mr Hoare asked why KCC was getting involved so deeply in the failing renewable energy sector. Mr Smith replied that the government had set up Narec Capital ten years earlier for the purpose of investing in alternative and renewable energy. Since then it had widened its expertise and had become an engineering and technology research organisation.

(19) Mr Birkby asked how confident it was possible to be that the initial tranche of £5m from Expansion East Kent would leverage £45m from the private sector and then £150m from captive co-investment. Mr Smith replied that in the scheme, any company could fail. Early stage investment was very risky. The creation of a Fund would ensure that the successful investments would outweigh the unsuccessful ones. Although it was not possible to predict the eventual returns to the Fund, there was a financial incentive for the Fund managers to succeed rather than to make losses or simply retain the initial investment.

(20) Mr Smith replied to a question from Mr Parry by saying that there were two success factors. These were firstly that the funds allocated by the Government would be used to make an economic impact in East Kent. This would potentially be true even if a company failed after a few years of providing technological development and employment. The second success factor was that investment should increase over time. Returns from investment would be re-invested and not be used for other purposes.

(21) Mr Smith replied to a question from Mr Birkby by saying that the Internal Appraisal Board referred to in paragraph 6.3 of the report was an advisory board to the Leader of the Council. It consisted of a range of directors from a wide range of different business experiences. Should the political composition of the Council change, it would be more than likely that the composition of the Board would change too. Since publication of the agenda papers, two more appointments had been made. These were Mr John Gilbey, Leader of Canterbury CC) and Mr Ron Roser, formerly Regional Director of Barclays Bank.

(22) Mr Dance said that longevity would be provided by the structure that had been established and which was already being replicated for TIGER and Escalate.

(23) Mr Whybrow asked whether the governance arrangements in relation to job creation would allow measures to be taken if a company which had received a loan was unable to meet its job creation targets. Mr Smith replied that Equity Investment was different from Grant or Loan in that it was not a subsidy. Decisions were based on commercial considerations. Loans were given on the basis of targets being met. The monitoring of the Equity Investments was going to replicate that for the Loan to establish whether the investment had been successful. To state that an Equity Investment was conditional upon the creation of jobs would be in breach of State Aid Rules.

(24) RESOLVED that subject to those details currently unavailable being communicated to the Committee, the governance arrangements set out in the report be approved.

8. Establishment of a Transport Related Local Authority Trading Company (Item 5)

(1) Before consideration of this item commenced, Members expressed dissatisfaction that the Exempt report to Environment and Transport Cabinet Committee on this matter had been appended as an open report but with certain passages redacted. The Chairman said that it would be preferable if reports were prepared with the Sub-Committee in mind and without redaction but that, in the event that a report did have to appear in this form again, he would expect the Exempt version to be circulated to all Members of the Governance and Audit Committee in full.

(2) Mr Burr said that KCC had invested in the Trip Rate Information Computer System (TRICS) database 25 years earlier within a consortium which also consisted of Hampshire, Dorset, East Sussex, Surrey and West Sussex County Councils. This software system had been very successful, achieving a high share of the market and being nationally recognised as the best system to use in transport planning.

(3) Mr Burr continued by saying that JMP Consultants Ltd had been awarded the contract to operate the database. This company had run into financial difficulties, leading the consortium to reconsider its position. The decision had been reached by the partners to develop a LATCO. KCC would have had the option of withdrawing from the company and hiring the software whenever it wished to use it. The set-up costs would be provided by monies already in the company.

(4) Mr Burr then referred to the business case in the papers, highlighting that 4 members of staff would be employed. Three of these would TUPE transfer from the existing supplier. The other member of staff would be a manager.

(5) Mr Burr said that audited accounts would be produced annually, although this was not actually required by Law. Legal advice had been provided to the consortium by BA Beachcraft. KCC had taken its own advice from KCC Legal Services and from the Corporate Director of Finance and Procurement. The company was limited by share at an equity of £35k.

(6) Mr Burr summed up his presentation by saying that the company was limited by share, the software was a successful and well-proven product. There was very little risk attached to becoming a formal shareholder rather than stepping out of the company and buying into use of the product at a later stage.

(7) Mr Burr responded to a question from Mr Birkby by saying that as the consortium would now be delivering the product itself there would be no risk of a private company failing to deliver due to its own financial difficulties.

(8) Mr Sarrafan responded to a question from Mr Parry by saying that the legal position in respect of a potential breach of contract had been examined. There was no risk in this regard because the company to whom the contract had been awarded was no longer in existence. Although the parent company had been operating the service, there was no actual contract with them to do so. There had been no novation

clause and therefore no significant risk of challenge. Since production of the appended report in September 2014, there had been no challenge and the new company would start trading on 1 January 2015. The insolvency of the JMP Consultants Ltd had made it possible for a change of control to take place.

(9) Mr Whybrow referred to paragraph 4.4.3.5 of the appended report. He asked whether the consortium would receive the customer database system. Mr Sarrafan replied that following negotiations, the consortium now owned the database, which was currently being managed by the private company but would come over to the new company when it started trading. No important intellectual property resided with the contractor.

(10) Mr Smyth asked whether it would be possible for the current managing company to set up a company in competition with the consortium using the names that the consortium itself was not entitled to use. Mr Sarrafan replied that the trademark, brand name and website belonged to the consortium even though they had been registered by the managing company.

(11) Mr Smyth referred to paragraph 10.6 of the appended report which stated that there was a requirement for decisions taken by the new company to be unanimous, whereas the next paragraph set out the requirement for the decisions made by the Board of Directors to be made by a majority decision.

(12) The Chairman suggested that the answer might be that decisions made by the parties as shareholders would need to be unanimous, whereas decisions made by directors (in a different forum) would be by a majority. Mr Burr said that he believed this to be the case and would confirm at a later stage.

(13) Mr Bird said that he was concerned that if all parties were obliged to agree, there was a possibility that the result could be an impasse. He asked what would happen if three of the parties had confidence in the managing director whilst the other three did not.

(14) Mr Bird then asked whether there was absolute certainty that all the intellectual properties would be transferred to the consortium in time. Mr Burr replied that he was confident that this would be the case because only the consortium would have the entitlement to use it. Anyone aiming to compete would need to start from scratch when the consortium itself had a two thirds market share.

(15) In response to a question from the chairman, Mr Burr confirmed that this would be a transfer of undertaking to which TUPE would apply. The three staff concerned would have the right to transfer if they so wished.

(16) Mr Birkby explained that he wished to abstain on the recommendation in the report as he was concerned over the redactions in the Appendix.

By: Mark Dance
Cabinet Member for Economic Development

David Smith
Director, Economic Development

To: Governance and Audit Committee
Trading Activities Sub-Committee
27 April 2016

Subject: DISCOVERY PARK TECHNOLOGY INVESTMENT FUND:
DEVELOPMENT OF THE FUND AND CHANGES TO GOVERNANCE
STRUCTURE

Classification: Unrestricted

Summary

Following the Governance and Audit Trading Activities Sub-committee held on 20th November 2014, *“The Chairman asked for the Governance and Audit Committee Members to be notified of the eventual Member and Designated Member appointments as well as of any changes to the governance arrangements”*

This report provides details of the changes to the Governance structure of the Discovery Park Technology Investment Fund (The Fund).

It is proposed that the governance and structure of The Fund are changed to enable it to raise additional private capital and expand on investment.

This report sets out the business case for changing the structure of The Fund and details the proposed structure, the risks to KCC and how these will be mitigated; and the next steps in taking the proposed structure forward.

Recommendations

The Trading Activities Sub-Committee is recommended to:-

- a) ENDORSE the proposed Governance structure for The Fund.
-

1. Introduction: Equity Investments

- 1.1 On 30th April 2013 the Expansion East Kent Investment Advisory Board approved amendments to the Investment Strategy to allow applicants the opportunity to apply for equity investment finance. The Expansion East Kent programme has offered equity investments from May 2013 to the present day. The aim of the investments from this Regional Growth Fund allocation to KCC is to bring forward products from the research and development stage to

commercialisation. This finance enables companies to upscale their developments when loan finance is not appropriate or available.

- 1.2 The other two Regional Growth Fund programmes, TIGER and Escalate, have adopted the same strategy as the Expansion East Kent programme. All three programmes are under the same KCC governance arrangements.
- 1.3 The Governance and Audit Committee taking place on Wednesday, 27th April at 2.00 pm has been presented with a report on KCC's investment strategy in respect of equity investments from its Regional Growth Fund.

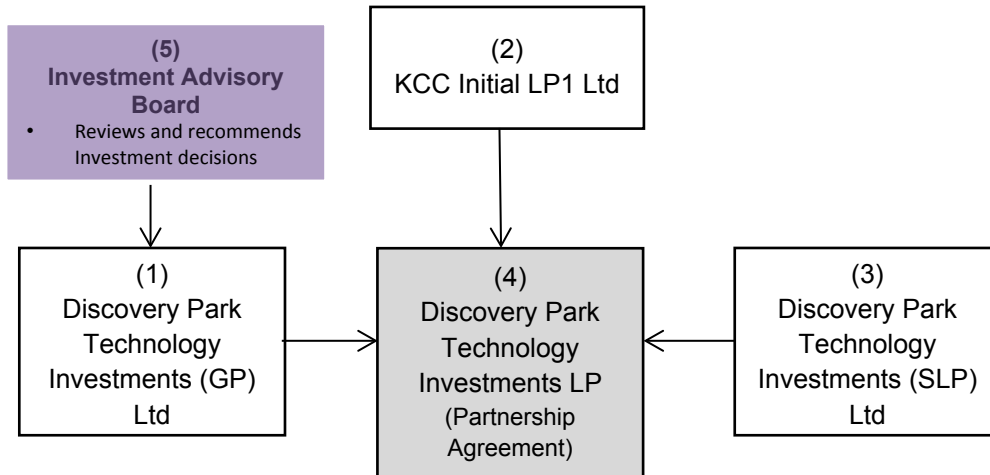
2. Expansion East Kent equity funding allocation

- 2.1. The Investment Advisory Board agreed in 2014 to allocate £5 million from the overall Regional Growth Fund allocation to offer equity investments in accordance with the EU regulations governing state aid for industry.
- 2.2. In September 2014, the Investment Advisory Board endorsed an application from Narec Capital Ltd. (a fund manager regulated by the Financial Conduct Authority) to advise and to manage KCC's investments from the £5 million allocation, with a view to leveraging additional private funding in future years. Following independent appraisal, the Leader of the Council approved the commitment of £5 million in October 2014 for equity investments under Narec Capital's management, subject to individual approval of each equity investment by Kent County Council.
- 2.3. As the proposal required the creation of special purpose companies by KCC. This was reported to and endorsed by the Trading Activities Sub-Committee in November 2014.
- 2.4. The investments are made in the name of Kent County Council and Narec Capital Ltd. is overseeing the management of these investments. By June this year, it is anticipated that all of the allocation will have been invested.

The Discovery Park Technology Investment Fund

- 2.5. The **Discovery Park Technology Investment Fund (The Fund)** was formally agreed between KCC and Narec Capital Limited in December 2015. This structure has required the creation of three special purpose companies and a partnership agreement, the details of which are as follows:-

Fig. 1: Current Governance Structure



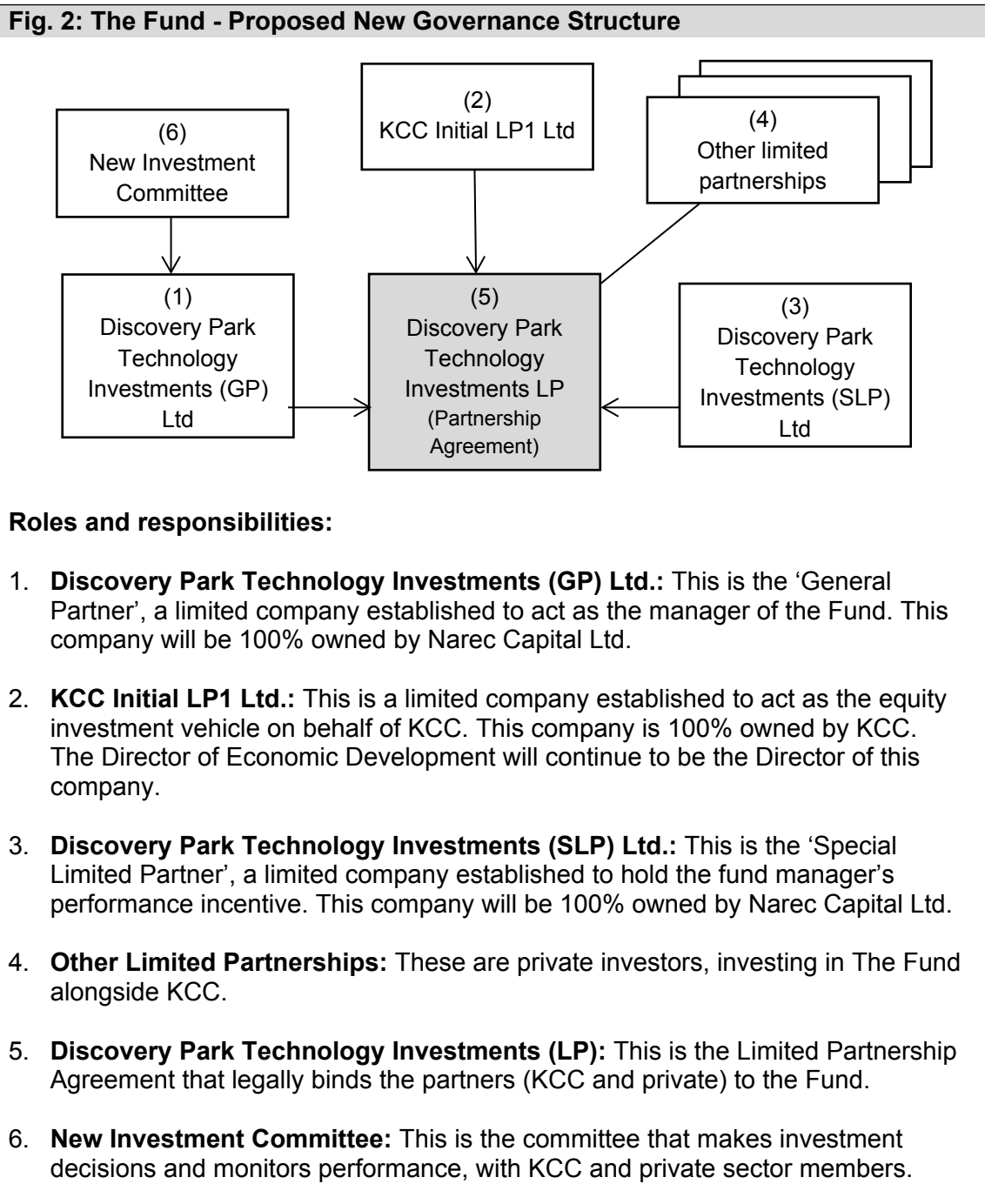
Roles and responsibilities:

1. **Discovery Park Technology Investments (GP) Ltd:** This is the ‘General Partner’, a limited company established to act as the manager of the Fund. This company is 100% owned by KCC, with investment advice provided by Narec Capital Ltd. The Director of Economic Development is the sole director of this company.
2. **KCC Initial LP1 Ltd:** This is a limited company established to act as the equity investment vehicle on behalf of KCC. This company is 100% owned by KCC. The Director of Economic Development is the sole director of this company.
3. **Discovery Park Technology Investments (SLP) Ltd.:** This is the ‘Special Limited Partner’, a limited company established to hold the fund manager’s performance incentive. This company is 100% owned by KCC. The Director of Economic Development is the sole director of this company.
4. **Discovery Park Technology Investments (LP):** This is the Limited Partnership Agreement that legally connects the Companies (1, 2 & 3 above) and a separate agreement sets out the arrangements between Narec Capital and KCC.
5. **Investment Committee:** This is the Expansion East Kent Investment Advisory Board, chaired by the Leader. The IAB considers and recommends possible investments. Kent County Council is the accountable body.

3. The Discovery Park Technology Investment Fund: Proposed Changes

- 3.1. It is proposed as of 1st May 2016 that the governance of the Fund is changed, so that it can become open to external private investors, as well as KCC. The proposed structure is illustrated below. The structure is designed to preserve KCC’s interests in respect of its RGF investment, while providing a legal framework which is familiar to private investors. We have been advised by Hogan Lovells that this structure is the same as that adopted by Venture Capital and other equity funds.

- 3.2. In order to open the fund to external investors, the ownership of the General Partner (1 above), responsible for fund management, and the Special Limited Partner (SLP) (3 above) will transfer from KCC to Narec Capital Ltd.
- 3.3. KCC will retain 100% ownership of KCC Initial LP1 Ltd., which holds KCC's investment in The Fund. Other limited partnerships can then invest in The Fund, alongside KCC, as investment agreements are reached with Discovery Park Technology Investments LP (see 5 below).
- 3.4. A new Investment Committee will be established to look after the interests of all limited partners, including (but not exclusively) KCC.
- 3.5.



- 3.6. As The Fund will no longer be in the sole ownership of KCC, it is intended that Narec Capital will report into a new, independent, Investment Committee. The Leader will nominate two members

for this Committee. In total, the Committee will be made up of up to five members, with a chairman who has a successful background in venture capital.

- 3.7. The members appointed by KCC will have veto rights over any investment made using KCC funds, and will report back to the Investment Advisory Board (or other structures that KCC may establish) to monitor KCC's investment portfolio.
- 3.8. Narec Capital Ltd. has initiated a recruitment process to appoint members of the Investment Committee. It is envisaged that private sector members of the Committee will receive remuneration, with a view to incentivising sustainable fund growth. This is likely to mean that remuneration will be based on a combination of monthly retainer, success fees for raising additional capital and equity carry.
- 3.9. The terms of reference for the Investment Committee will include assessing and making decisions on investments, ensuring that the Fund operates within FCA and other regulatory principles and ensuring regular performance reports.
- 3.10. Currently, Narec Capital Ltd. is required to provide monitoring reports on the investment portfolio to KCC via the Investment Advisory Board at least twice a year and the KCC members will report to the Investment Advisory Board and the Leader.
- 3.11. While KCC's representation on (and control over) the Investment Committee will be diluted, this will be compensated by the enhanced venture capital expertise that the Investment Committee is likely to attract, and by private sector investors joining The Fund. KCC will retain control in the new structure of decisions relating to those investments that are made utilising KCC funds.
- 3.12. As the Fund is structured as a limited company, it will be required to file publicly available audited accounts. The arrangements also require it to produce regular management accounts. It will also be required to procure an independent audit of all of its activities in accordance with company law.

4. Legal, procurement and matters relating to KCC's wider corporate responsibility

- 4.1. The proposed structure has been developed with advice from KCC Legal, Geldards (acting on KCC's behalf) and Hogan Lovells, a corporate law specialist. Prior to the transfer of ownership that the proposed new structure envisages, detailed terms of reference and operating procedures will be developed with KCC Legal and with Procurement advice.

5. Recommendation

- 5.1. The Trading Activities Sub-Committee is recommended to:-
 - a) ENDORSE the proposed governance structure for The Fund.

Report author

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5 April 2016

Discovery Park Technology Investment Fund

Governance and Appointment of Investment Committee

June 2016

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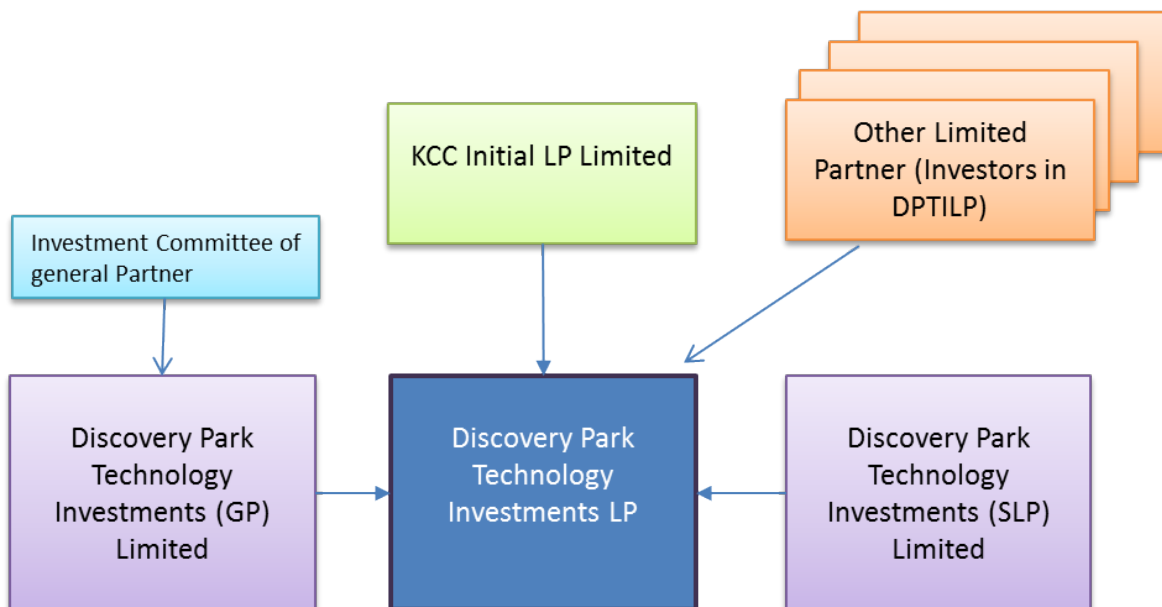
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Section 1: Introduction

Discovery Park Technology Investments LP (“DPTI” or “Fund”), has been established to assist Expansion East Kent, in the deployment of equity capital into high technology SME’s based in East Kent and to maximise the potential to attract inward investment via private funding sources. Narec Capital Ltd (“NCL”) has been procured by KCC to act as the discretionary fund manager for the DPTI.

To successfully attract private finance, the DPTI has been established as a typical venture capital fund, as recognised by the British Venture Capital Association (BVCA) and Financial Conduct Authority (FCA). The fund has been established under a EuVECA structure and is governed by both the European Securities & Markets Association (ESMA) and the FCA. NCL is a Registered Alternative Investment Manager with the FCA.

The legal documentation has been prepared independently by Hogan Lovells Fund Management practice. The DPTIF is governed under a Limited Partnership Agreement (“LPA”), as shown in by the blue box, entitled Discovery Park Technology Investments LP. The LPA legally binds the partners to the fund.



There are three companies set up which form the partnership are as follows:

Limited Partner: KCC Initial LP Limited: A limited company established to act as the equity investment vehicle on behalf of KCC/ExEk. This company is owned by KCC.

General Partner: Discovery Park Technology Investments (GP) Ltd: A limited company established to act as the manager of the fund, owned by NCL. The General Manager is responsible for the day to day management of the partnership and fund and within its structure, the management are accountable to an independent investment committee (shown in the light blue box in the chart above). The details of this committee and the governance of that are outlined in Section 2 below.

Special Limited Partner: Discovery Park Technology Investments (SLP) Ltd: A limited company established to hold the equity 'carry' on behalf of the investment manager ie. the managers performance incentive element of their remuneration entitlement. The vehicle is owned by NCL.

One of the reasons that the structure has been set up in this way is to allow for other funders to join the limited partnership as shown in the orange box in the chart above. Those funds would then be co-mingled with KCC within the DPTI structure and be subject to the same governance provisions.

The DPTI has made 5 investments to date and the Investment Advisory Board of ExEK have approved a further three investments due to take place over the coming weeks and months, one of which is a second investment into a business in which the DPTI is already an investor.

Section 2: The General Partner

The General Partners is responsible for the management of the fund with a set of rights and obligations as set out in the LPA. Governance of the GP is broken down into three categories. Operational Management, Investment Committee and External Advisors

Operational Management

NCL were procured by KCC to manage the DPTI and have been doing so on an arms length basis via an investment advisory agreement for the last 18 months. The team at NCL is made up of seasoned investment professionals with skills across a variety of disciplines including investment management, corporate finance, commercialisation and engineering.

The key functions of NCL as owner and operator of the GP are as follows:

1. Generate deal flow and filter investments so as to find companies which fit the specific fund mandate as outlined in the LPA
2. Perform extensive commercial, financial and technical due diligence on selected companies.
3. Negotiate investment terms (term sheet) with prospective investee companies.
4. Prepare due diligence reports and investment recommendations to be presented for approval to the investment committee.
5. Manage investment transaction process including instructing lawyers to perform legal due diligence and negotiating and concluding investment documentation with investee companies.
6. Manage external advisors to the business such as lawyers, auditors, insurance requirements and regulatory aspects
7. Manage the cash flow requirement of the Fund to ensure that it remains a going concern.
8. Preparation of quarterly management account and reporting to investment committee along the lines of the reporting obligations outlined below.
9. Open and maintain a bank account for the partnership.

The key personnel within NCL responsible for day-to-day operations of the GP are as follows:

Jonathan Synett: Fund Manager DPTI and Investment Director - Narec Capital Ltd.

- Managed investment portfolios for two Ultra High Net Worth's, investing across a variety of sectors including technology, renewables and healthcare
- Selection and active Board Membership through to exit of several successful SME's
- Founder of high growth health and wellness business, EasyGroup new ventures business manager and developer of UKs first reverse auction website
- Holds an MBA from INSEAD.

Jerry Biggs: CEO - Narec Capital Ltd

- 15 years of investment management and direct technology investing experience
- Previously a founding partner of Ashberg Ltd, a private investment office focusing on technology and infrastructure projects
- Founded NCL after creating a spin out from the National Renewable Energy Centre
- Actively worked on the successful commercialisation of multiple disruptive technology SME's and projects,
- Holds various Board positions on a number of portfolio companies
- Previous experience as Sales Director with NTGI, HSBC and HBOS
- Holds the IMC, IAQ and is an FCA Approved Person (CF1/CF30).

Martin Thorp: Director of Capital Markets - Narec Capital Ltd

- 40 years of investment experience with technology SME's
- Founded and became Global MD of Arthur Andersen's global corporate finance practice, where he led numerous high growth SME transactions, debt structuring, IPOs and public placements, creating over \$2bn in shareholder value; including start-up to FTSE 100 (Psion, Ultra Electronics) and numerous other private and public high growth, roll-up, MBO, MBI, trade sales and IPOs, restructurings and turnarounds.
- Has been an executive director and shareholder in several disruptive technology public and private companies, in both high growth and restructuring situations.

Alan Walker: Director of Technology – Narec Capital Ltd

- 35 years as an applied engineer, with a wide breadth of practical technology experience
- Previously Technology Innovation Director at Narec and was one of the founders of Narec Capital, before its spin out into NCL
- Specialist in rotating machinery, condition monitoring, process/pharmaceutical filtration and the integration of energy technology both conventional / renewable
- Acted as a technology diligence specialist for both public and private sector funds, with Pera Technologies
- Holds a degree in Aerospace systems.

Reporting Obligations

NCL are already mandated to monitor the portfolio on an ongoing basis via the Investment Advisory Agreement to KCC. In principle this means that we interact daily with the management teams of all of the companies, particularly as most of them have a physical presence within our incubator programme at Discovery Park.

Each investment made, under the shareholders agreement and articles of association for the company, imposes and acts on a series of investor rights. These rights are mainly to do with the disclosure of the relevant information necessary to make informed opinions about the state of the company and the risk to the investment at any particular point in time e.g. regular management accounts, financial forecasts, sales pipelines etc.

NCL imposes and acts on its right with each portfolio company to place either a Non-Executive Director, or observer on the Board of the portfolio company. The type of role and level of responsibility is negotiated with the company and other investors but typically depends on the size of the investment made and quantum of risk that the DPTIF is exposed too.

Within the legal constitution of the DPTIF, NCL is mandated to report to the Investment Committee (IC) or the IAB at present, at least twice annually. This report covers performance and risk within the portfolio. The fund will be audited by an independent auditor, whose report will also be included as part of the process.

NCL also report into the IC/IAB on a monthly basis to update them on fund progress, new investments, issues etc. The IC/IAB have full discretion over any investment decision taken and can veto an investment proposed by NCL at any stage.

The Investment Committee

NCL will report into an independent Investment Committee. The committee will be made up of five members and overseen by an experienced Chairman. Each member will be chosen for their ability to assess high growth technology investments, proven track record of success and strong governance capability. The members of the Investment Committee should complement each other in terms of their skills and experience.

The investment committee will have the following functions:

1. To monitor performance of the GP and the fund
2. To ensure adherence to the investment mandate and that veto's are taken into account
3. To assess and make decisions on any investment, as presented by the GP
4. To ensure that appropriate third parties (e.g. lawyers, auditors, accountants) are appointed by the GP on behalf of the fund
5. To ensure that audited reports and accounts are presented by the GP and scrutinised, as per the requirements set out for the GP on an annual basis
6. To ensure that formal reports are given by the GP every quarter outlining:
 - a. Performance
 - b. Financial statements
 - c. Valuations
 - d. Any other information reasonably requested by the LP's
7. To ensure that the fund and its partners remain solvent at all times and that appropriate fees and expenses are dispersed
8. To decide on any distributions by the fund made from investment income, in line with the investment mandate
9. Ensure that the fund and its partners operate inside the regulatory principles as set out by both the FCA and ESMA at all times
10. To ensure good governance and best practice is maintained for the fund and its partners

Of the five members of the investment committee, 3 of them, including the Chairman will be appointed by NCL. The remaining 2 will be appointed by KCC. These two members will be charged with overseeing any investments made utilising monies invested by KCC/ExEk, as well as providing public sector balance to the committee. The members appointed by KCC will have veto rights for any investment made, using monies from KCC/ExEk. The two members will report back to KCC/ExEk, either via the IAB or any future structure established to monitor KCC's ongoing investment portfolio.

A recruitment process will be run and managed by NCL to appoint the remaining three members of the investment committee. The full recruitment process together with job specifications for each position and an existing shortlist of candidates is detailed in the appendices to this document.

The target completion date for the recruitment of the investment committee is July 31st 2016. Until the full investment committee is in place, the Fund will not be authorised to make any new investments with the exception of those already agreed by the ExEK Investment Advisory Board.

The Investment Committee will, at a minimum, meet 9 times a year but may be requested to meet more regularly by NCL if it is necessary to assess a specific investment. Other than in situations described above where the KCC members have a veto right, the Investment Committee will act by majority with the Chairman carrying the casting vote.

External Advisors and Service Providers to the General Partner

Banking

Barclays Bank: Narec Capital Ltd are in the process of setting up a bank account in the name of the DPTI with Barclays Bank.

Legal

Hogan Lovells: An international law firm that specialises in fund structuring (Hogan Lovells) was appointed to give independent legal oversight for the establishment of the fund. Hogan Lovells prepared all the paperwork and contractual agreements which set out the legal framework for the operation and governance of the Fund.

Geldards: A second law firm - Geldards - were also appointed by KCC to give further independent legal opinion on the commercial terms being agreed with the manager.

Cripps: On a transactional level, Cripps have been performing due diligence on the investee companies and preparing the investment paperwork on behalf of the investee companies and the Fund. It is possible that in future the legal representation used by the Fund will change and if so, this will be on the recommendation of NCL and authorised by the Investment Committee.

Auditors

The GP is required to appoint an auditor the fund and ensure that the Fund accounts are audited annually. A shortlist of 3 possible auditors will shortly be drawn up based on their experience and suitability for the role and the most suitable of the three will be appointed on the recommendation of NCL and with the authorisation of the Investment Committee.

Regulatory

CPA Audit provide regulatory advice and framework to NCL and the Fund.

Appendices

Appendix 1: Job Specification – Chairman of the Investment Committee

Role Description

The Chairman of the Investment Committee is expected to lead the committee in performing the following functions:

- To monitor performance of the GP and the fund
- To ensure adherence to the investment mandate and that any veto's are taken into account
- To assess and make decisions on any investment, as presented by the GP
- To ensure that appropriate third parties (e.g. lawyers, auditors, accountants) are appointed by the GP on behalf of the fund
- To ensure that audited reports and accounts are presented by the GP and scrutinised, as per the requirements set out for the GP on an annual basis
- To ensure that formal reports are given by the GP every quarter outlining:
 - Performance
 - Financial statements
 - Valuations
 - Any other information reasonably requested by the LP's
- To ensure that the fund and its partners remain solvent at all times and that appropriate fees and expenses are dispersed
- To decide on any distributions by the fund made from investment income, in line with the investment mandate
- Ensure that the fund and its partners operate inside the regulatory principles as set out by both the FCA and ESMA at all times
- To ensure good governance and best practice is maintained for the Fund and its partners

Person Specification

- Track record of experience in strategic business leadership
- A strong understanding of corporate governance gained at board level
- Financial acumen and experience of the process of identifying, managing and mitigating risk in early stage businesses.
- Strong networking skills and a willingness to promote the activities of the Fund and seek new investors
- Experience and track record in the venture capital investment space, particularly working with small, early stage technology driven businesses.
- Ability to remain independent
- Experience of acting as a Non-Executive Chairman at Board level.

Commitment: The Chairman will be expected to attend all Investment Committee meetings, a minimum of 9 per annum.

Appendix 2: Job Specification – Member of the Investment Committee

Role Description

Members of the Investment Committee are expected to work together to ensure that the following functions are adequately performed.

- To monitor performance of the GP and the fund
- To ensure adherence to the investment mandate and that any veto's are taken into account
- To assess and make decisions on any investment, as presented by the GP
- To ensure that appropriate third parties (e.g. lawyers, auditors, accountants) are appointed by the GP on behalf of the fund
- To ensure that audited reports and accounts are presented by the GP and scrutinised, as per the requirements set out for the GP on an annual basis
- To ensure that formal reports are given by the GP every quarter outlining:
 - Performance
 - Financial statements
 - Valuations
 - Any other information reasonably requested by the LP's
- To ensure that the fund and its partners remain solvent at all times and that appropriate fees and expenses are dispersed
- To decide on any distributions by the fund made from investment income, in line with the investment mandate
- Ensure that the fund and its partners operate inside the regulatory principles as set out by both the FCA and ESMA at all times
- To ensure good governance and best practice is maintained for the Fund and its partners

Person Specification

- Track record of experience in strategic business leadership
- A strong understanding of corporate governance gained at board level
- Financial acumen and experience of the process of identifying, managing and mitigating risk in early stage businesses.
- Strong networking skills and a willingness to promote the activities of the Fund and seek new investors
- Experience and track record in the venture capital investment space, particularly working with small, early stage technology driven businesses.
- Ability to remain independent

Commitment: Members will be expected to attend all Investment Committee meetings, a minimum of 9 per annum.

Appendix 3: Remuneration

The members of the investment committee appointed by KCC will not receive remuneration. Those appointed by NCL will be remunerated for performing their duties in the following ways.

1. Low monthly retainer expected to start at £500 per month.
2. Equity carry in SLP to ensure that members are aligned to the success of the fund.
3. Success fees will be paid to members if they are able to raise additional capital into the fund.

All three members appointed by NCL will receive the same level of remuneration which will be negotiated in full with the members once a shortlist is identified. It is further anticipated that in time, as the fund grows in size, the level of retainer received by the members will increase.

Out of pocket expenses incurred by members whilst on fund business will also be reimbursed.

Appendix 4: Recruitment of the Investment Committee.

Process

Narec Capital are conducting a recruitment process to hire the members of the investment committee. At the present time external search firms have not been appointed as Narec Capital has a network of significant contacts within the industry and would prefer to keep costs to a minimum for the fund, unless this proves necessary at a later stage.

Candidates who express an interest in applying for the role of either Chairman or Committee Member will be asked to submit the following documents to cspring@nareccapital.com

- Full CV
- Supporting Statement
- Details of two references (though NCL will not make contact with the referees before speaking with the candidates and gaining their permission to do so.

The supporting statement should give evidence of how the candidate meets the requirements of the Person Specification relating to the role that they are applying for. The statement should also state clearly which role is being applied for and whether the applicant would consider either role.

Applicants that meet the criteria will be invited to meet an assessment panel made up of one representative from KCC and two representatives from NCL who will decide unanimously on the appointment of the Chairman and 2 additional members of the investment committee.

Timetable

July 8th: Deadline for applications

w/c July 11th: Discussion with panel

w/c July 18th: Appointment of Chairman and members

Appendix 5: NCL Potential candidates who have already expressed an interest in the role



Chris Phillips – Potential Chair or Member

Chris is currently Chairman of People for Places. Previously Chris was Managing Director of PB Securities, the UK subsidiary of Prudential Bache, for three years, before joining Lombard Odier as the Managing Director of its London broking business. He then joined Colliers International and after heading its residential consultancy business, became the first Managing Director of Colliers Capital (UK).

Chris has chaired a number of companies listed in the UK and Germany, and is currently non-executive Chairman of Hadleigh Waymoth, an independent advisory and fund management business, and London & Newcastle, a leading London-based mixed-use property development company.

Chris joined the Places for People Group Board in 2006 and was a senior independent director from 2008. He became Chairman in 2010.



Gilbert Chalk – Potential Chair or Member

Gilbert is the Chairman of Castle Private Equity. He is formerly the Chairman of the Baring English Growth Fund and prior to that the Managing Director of Hambro European Ventures (subsequently Duke Street Capital).



Professor Alan Lowdon – Potential Member

Professor Lowdon has more than 25 years' experience in the international energy and utilities markets working for multinationals including Shell, Suez, British Gas, Rolls Royce Industrial Power, Mott MacDonald and SKM as well as heading up three university spin-off companies. He currently acts as an advisor on energy to the UK and US governments and various UK universities and is a visiting professor at the University of Durham.

Appendix 6: KCC appointed candidates

Candidate 1: Nick Vickers - Member



Nick Vickers is a Man of Kent who joined Kent County Council in 1983. Since then Nick has undertaken a wide range of different posts in the finance function including, since 1997, the responsibility for the day-to-day management of the £3bn Kent County Council Superannuation Fund. As well as his KCC responsibilities Nick is also Chief Financial Officer of Swale Borough Council on a part time secondment arrangement.

Candidate 2: To be confirmed

KENT COUNTY COUNCIL

GOVERNANCE AND AUDIT COMMITTEE TRADING ACTIVITIES SUB - COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee Trading Activities Sub - Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Wednesday, 27 April 2016.

PRESENT: Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman) and Mr C P D Hoare

ALSO PRESENT: Mr R H Bird and Mr D Smyth

IN ATTENDANCE: Mr A Wood (Corporate Director Finance and Procurement), Mr G Wild (Director of Governance and Law), Mr J Pigott (Head of Law), Mr D Smith (Director of Economic Development), Ms J Ward (Regional Growth Fund Programme Manager), Mr J Burr (Managing Director of Commercial Services), Mr G Singh (Barrister), Mr R Patterson (Head of Internal Audit) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS**5. Minutes - 29 February 2016**

(Item 3)

RESOLVED that the Minutes of the meeting held on 29 February 2016 are correctly recorded and that they be signed by the Chairman.

6. Protocol relating to companies in which KCC has an Interest

(Item 4)

(1) The Director of Governance and Law introduced the report on the Companies Protocol which had last been reviewed in 2012. The current review needed to take account of the changes to the County Council's approach to commissioning.

(2) The Sub-Committee noted that paragraph 7 (d) of the revised protocol listed certain policies and procedures. It considered that as this could lead to a mistaken view that those which were not mentioned were relatively insignificant, this passage should be reinforced by the addition of the words "but not exclusively" after "with particular" at the end of the paragraph.

(3) The Sub-Committee also considered that new paragraph 17 should include a reference to the action that should be taken in the event that if a director who was also a Member or officer of KCC should have a conflict of interest. It therefore agreed to recommend the re-writing of the paragraph after "or an officer of KCC" to read "If it were to give rise to a conflict with the interests of KCC then reference should be made to *the Guidance on Local Authority Companies* referred to in paragraph (2) above."

(4) The Sub-Committee decided that its own role should be further clarified in paragraph 7 (d) through the specification that it "must be assured" that adequate policies and procedures were in place before a company commenced trading.

(5) RESOLVED that:-

- (a) the draft amendments to the *Protocol for Companies in which KCC has an Interest* be recommended to the Governance and Audit Committee for approval subject to the revised paragraphs 7 (d) and 17 as set out below:-
 - (i) Paragraph 7 (d): “what Council policies (if any) are to apply to the company. Where a company adopts its own policies, before it commences trading the Governance and Audit Committee must be assured that adequate policies and procedures are in place with particular (but not exclusive) reference to anti-fraud, bribery, corruption, gifts and hospitality”; and
 - (ii) Paragraph 17: “As a matter of general principle, the overriding duty of any director in considering an item before the company is to vote in accordance with the interests of that company. In the case of a director who is also an elected Member, or an officer of KCC, if it were to give rise to a conflict with the interests of KCC, then reference should be made to *the Guidance on Local Authority Companies* referred to in paragraph (2) above”; and
- (b) The Protocol and Guidance continue to be reviewed bi-annually, unless fundamental changes (for example, legislative changes) necessitate a review during the intervening period.

7. Discovery Park Investment Fund - Development of the Fund and changes to governance structure
(Item 6)

(1) The report which was unavailable on the date of publication had been circulated to all Members of the Sub-Committee as well as to Governance and Audit Committee Members.

(2) The Chairman declared this item to be Urgent as the governance arrangements needed to be in place by 1 May 2016 and this was the only opportunity for them to be considered by the Sub-Committee.

(3) The Director of Economic Development introduced the report which set out the changes to the governance structure of the Discovery Park Technology Investment Fund since the Committee had last approved the original governance arrangements in November 2014 (*Minute 2014/7*). At that time, KCC had allocated £5m from the overall Regional Growth Fund allocation to offer equity investments. KCC had not wished to be the sole equity provider and had therefore established the governance structure set out in Figure 1 of the report.

(4) The Director of Economic Development continued by saying that the point had now been reached where the new goal was to enable other private sector investors to invest in the fund.

(5) The Director of Economic Development replied to a question from Mr Bird by saying that each of the private investors was registered in England at Companies House. There was no intention to avoid any tax on the investments made by KCC. He could also give a complete assurance that the partner companies would remain subject to English tax and British legal procedures.

(6) The Director of Economic Development explained that due to state aid rules, KCC could not be a majority partner or shareholder in any of the companies. He agreed with the Chairman’s understanding that whilst KCC could not control the affairs of the companies which invested, it would have the ability to withdraw its funding in the event that its registration or tax strategy did not comply with the standards that KCC was obliged to uphold.

Kent County Council took great pains to ensure that the companies in which it invested were of the utmost propriety and reputation. It would also have a veto and control over where that money was

invested. KCC had already turned down the opportunity to make some apparently attractive investments due to concerns over some aspect of the company's operation. This approach would continue. KCC could not approve the other shareholders. It could only approve the companies in which it invested. This always included scrutiny of the other shareholders whenever KCC was considering whether to invest.

(7) The Director of Economic Development replied to a question from Mr Hoare by saying that KCC's investment strategy was to take a minority shareholding of no more than 10% in order to ensure that the risk was shared. KCC was also constrained by the rules on state aid which specified that any investment by a public authority had to be on commercial terms using an independent manager who could decide what was and was not a commercial investment. KCC had committed itself to only make commercial investments.

(8) The Director of Economic Development then said that the new structure set out in Figure 2 of the report was recognised by the British Venture Capital Association and complied with the guidance of the European Venture Capital Industry. The reason that other authorities had failed in their attempts to create public authority investment companies was because they had not followed the commercial pattern. The advice obtained was that the structure was robust, both in terms of protecting the public authority and its interests as well as being recognisable to the market place. The structure avoided the pitfalls which often arose when a public authority attempted to upset the balance between its commercial and public goals by over-emphasising the latter.

(9) The Director of Economic Development replied to a question by Mr Parry by saying that the Independent Advisory Board would advise the Leader of the Council who would agree the detailed terms of reference and operating procedures. The advice provided to him (including on compliance) would be given by KCC Legal, KCC Procurement, Geldards and Hogan Lovells.

(10) The Chairman asked whether it was intended that the detailed terms of reference and operating procedures would be submitted to the Sub-Committee. The Director replied that it was not envisaged that they would be in conflict with the report that was under consideration. It was therefore not proposed to bring a further report. He offered to make them available after they had been put into effect. They would continue to be regularly audited by Internal Audit.

(11) It was agreed that the results of Internal Audit's audit of the detailed terms of reference and operating procedures would be reported either to the Sub-Committee or to its parent Committee.

(12) The Director of Economic Development replied to a question from the Chairman by saying that consideration had been given to the question of whether there should be more than one Director of the various companies. He said that Company Law did not require a company to have more than one Director or even a Company Secretary. He anticipated that once the new arrangements were in place there would be an increase in the number. This was because the current structure had been put in place to best enable KCC to transfer to the new structure. The new Directors of the company into which the assets were to be transferred had not yet been identified and would be carefully vetted before their appointment.

(13) The Director of Economic Development replied to a question from Mr Parry by confirming that one of the 5 members of the New Investment Committee would be an elected Member of Kent County Council, another would be a KCC officer. The other 3 members would be people with a private sector background drawn from outside KCC. Their eventual appointments would be made by the Leader following advice from the present Advisory Board. The recruitment process was currently underway

(14) Mr Parry asked for detail on the advertisement process for the three private sector members of the New Investment Committee as well as the qualities and skills that were being sought. This applied, too to the KCC representatives. He also asked who would chair the Company and how that appointment would be made.

(15) The Director of Economic Development replied that the specification was looking for people with the highest level of the requisite skills. This would include experience of successfully running large private sector funds. He was not sure whether the prospective elected KCC Member had actually been approached and could not therefore be identified. He did have considerable experience in the investment management world. The KCC officer was a very senior member of the Finance Team.

(16) Mr Bird said that performance assessment of the members of the New Investment Committee would be a key issue and that it was particularly important that the mechanism was in place to ensure timely replacement if the need arose.

(17) The Director of Economic Development replied that the County Council in the form of the Investment Advisory Board would receive quarterly reports from the Fund Manager. The Fund would last for 5 years (extendable to 10). An internal rate of return of at least 15% was expected. The remuneration rate for the managers was linked to the performance of the Fund and they would only receive remuneration once a trigger point had been achieved. There was also a separate mechanism for removing people if they failed to perform in other respects. He could give an assurance that, in respect of the new Investment Committee there would be absolutely no reward for failure.

(18) The Director of Economic Development said that the Investment Advisory Board was a long-standing informal body which had been set up when KCC first received its allocation of 35 m from the Regional Growth Fund in order that the County Council's decisions could be informed by a broad group of individuals acting in a personal capacity utilising their backgrounds in banking, the Law and a variety of commercial activities. It reported to the Economic Development Board on the loans that had been made using RGF monies as well as to the Leader.

(19) The Sub-Committee agreed the resolution set out in (20) below by 2 votes to 1. The Director of Governance and Law confirmed that this decision did not prevent the Director of Economic Development from putting the new governance arrangements into operation. The Director of Economic Development also confirmed that although there would be a change of ownership, this would not affect the ability to make any required changes to the way in which the process was managed.

(20) RESOLVED that the proposed governance for the Discovery Park Technology Investment Fund be endorsed subject to ratification by the Governance and Audit Committee at the next available opportunity.

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 paragraphs 3 and 5 of Part 1 of Schedule 12A of the Act.)

8. Legal Services - Alternative Business Structure

(Item 5)

- (1) The Chairman informed the Sub-Committee that he had been invited to sit on the Board of the company which would be set up under the Alternative Business Structure. This was not a matter which qualified either as a Disclosable Pecuniary Interest or as an Other Significant Interest.
- (2) The Director of Governance and Law briefly introduced the report on the Legal Services Alternative Business Structure (ABS) and confirmed that it would conform to the *Protocol for Companies in which KCC has an Interest* if the draft revisions to the Protocol (see *Minute 6 above*) received approval from the Governance and Audit Committee at its next meeting. He also drew the Sub-Committee's attention to the Section 151 Officer's Value for Money Report which was appended to the main report.
- (3) During discussion of this item, the Sub-Committee asked for the Shareholder Board chart set out in Appendix 1 of the report to be amended to clarify that it was the Chairman of the Company who would report to the Chairman Head of Paid Service and for those members of the Senior Management Team who were also members of the Board of Directors to be identified with an asterisk. The Director of Governance and Law agreed to make these amendments.
- (4) Members also asked for assurance in respect of the impact of the creation of the ABS on the overall Legal Services operation including those members of staff who were to remain in-house. This should include steps taken to ensure staff retention. It was therefore agreed that a progress report would be presented to the Governance and Audit Committee at its meeting in October 2016.
- (5) RESOLVED that:-
 - (a) approval be given to the governance arrangements for the Alternative Business Structure as set out in the report and its Appendices; and
 - (b) a progress report be submitted to the October 2016 meeting of the Governance and Audit Committee with a particular emphasis on those issues set out in (4) above.

9. Consolidated Commercial Services 2014-15

(Item 9)

- (1) The Managing Director of Commercial Services presented a report which had arisen out of the Sub-Committee's consideration of Statutory accounts for companies in which KCC has an interest (*Minute 2/2016*). He briefly summarised the current structure of the Commercial Services business.
- (2) The Managing Director of Commercial Services reported that customers of the LASER frameworks had indicated that they placed strong value on KCC being the contracting authority for those frameworks.
- (3) RESOLVED that the report be noted for assurance.

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By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 21st July 2016

Subject: **Future Appointment of External Auditors**

Classification: Unrestricted

Summary: This report provides an update on the proposed procurement arrangements for appointing External Auditors at the conclusion of the 2017/18 audits.

FOR INFORMATION

1. Introduction and background

- 1.1. Prior to its closure on 31st March 2015, the Audit Commission was responsible for appointing external auditors for all local public bodies, including Local Authorities. Transitional arrangements, whereby Public Sector Audit Appointments Ltd (a Local Government Association owned company) set fees and made appointments, will come to an end on 31st March 2018, by which time public bodies must have appointed their own external auditor.
- 1.2. Members will recall from the report to this Committee on 27th January 2016 that there are three options available to the Council, as detailed in the Local Audit and Accountability Act 2014 Schedule 4. This is shown diagrammatically in Appendix 1. The options are summarised below for ease.

Option 1 KCC could establish its own independent auditor panel

- 1.3. The Council could set up its own Auditor Panel. This would need to consist of a majority or even entirely of independent members who have not been a member or officer of the Council within the period of five years.
- 1.4. This would enable KCC to have local input to the decision of an appointment. However, this would be a costly exercise in terms of recruitment and maintaining the Auditor Panel, and it is not evident whether there would be a sufficient availability of independent members. It would also mean no option for KCC to take advantage of possible savings through economies of scale in a larger joint procurement process.

Option 2 KCC could join with other local authorities to set up a joint independent auditor panel

- 1.5. The Act enables KCC to join with other authorities to establish a joint auditor panel, which would also need to be compiled of wholly or a majority of independent members either by establishing a joint auditor panel or by asking another local authority's auditor panel to also act as KCC auditor panel.
- 1.6. This has the advantage of spreading the cost across a number of local authorities and may also result in a more substantive contract with a greater

ability to negotiate a lower cost with audit providers. Clearly this option is dependent upon the co-operation and partnership of a substantial number of Kent local authorities.

Option 3 Opt-in to a sector led body

- 1.7 The third option would be to opt-in to a sector led body that will negotiate contracts and make the appointments on behalf of councils, removing the need to set up an independent Auditor Panel. The Local Government Association (LGA) is proposing the Public Sector Audit Appointments Ltd (PSAA), the LGA owned company that has been making audit appointments during the transitional arrangements, could take on the role of the sector led body.
- 1.8 This has the advantage of reducing the cost to the Council as it would not be necessary to set up or be involved in an independent Auditor Panel and, depending on the participants, the cost savings could be significant. A larger procurement arrangement also reduces the risk of a lack of competition in the procurement process and takes advantage of central expertise.
- 1.9 Following discussion it was agreed at the meeting of this Committee on 27th January 2016 that either a joint panel or a sector led body was the preferred procurement option and that an update would be provided at the July meeting.

2 Update on the sector led body option

- 2.1 Discussions have taken place with other public sector bodies in Kent, including District Councils, Kent Pension Fund, Kent Fire, Kent Police and Medway Council. The general consensus appears to be in favour of opting into the sector led body proposed by the LGA.
- 2.2 Since April the LGA has invited authorities to informally express an interest in joining a sector led body in order to gauge the level of interest and feasibility of proceeding with this proposal.
- 2.3 To date, the LGA has received informal expressions of interest from over 200 authorities who are in favour of opting into the LGA sector led body. This includes all of the local authorities in Kent.
- 2.4 PSAA consequently submitted an application to the Department of Communities and Local Government (DCLG) on 2nd June 2016 to officially express an interest in being specified as a sector led body. The number of other applicants will determine the next stage of the process and the timescales for further action.
- 2.5 It is currently anticipated that a formal invitation to opt-in will be made to public sector bodies in September or October 2016. Kent County Council will therefore need to be in a position to respond to this formal invitation by that time.

3. Going Forward

- 3.1 Clearly the momentum across Kent is for opting into the PSAA sector led body. As such this makes all other options for procuring external auditors unviable or expensive.

3.2 Until the PSAA receive formal approval from the DCLG, details as to how this procurement will operate in practice remain vague. Clearly discussions will need to take place over;

- a) The procurement route and selection
- b) Lots and geographical spread
- c) Fees
- d) Detailed timetable

3.3 It is anticipated that these issues will be resolved by the autumn.

3.4 In relation to external audit procurement, the Local Audit (Appointing Person) Regulations 2015 provide that an authority can opt in to a sector led body by the "members of the authority meeting as a whole". Therefore, despite the terms of reference of this Committee, the decision to opt into the PSAA sector led body will need to be ratified by the full Council.

Recommendations

Members are asked to resolve:

- That the preferred external audit procurement route is via the proposed PSAA sector led body.
- That should DCLG approve the application of PSAA to be specified as a sector led body and the issues in paragraph 3.2 being satisfactorily resolved, that this decision be ratified by the full Council in September 2016.

Appendices

Appendix 1 Decision Process Chart

Robert Patterson
Head of Internal Audit
(03000 416554)

Appendix 1 Decision Process Chart

