GOVERNANCE AND AUDIT COMMITTEE

Wednesday, 19th July, 2017

10.30 am

Darent Room, Sessions House, County Hall, Maidstone

There will be a training session for Members of the Committee at 10am on the morning of the meeting on "The role of the Governance and Audit Committee."

Kent County Council
kent.gov.uk

AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Wednesday, 19th July, 2017, at 10.30 am		Ask for:	**Andrew Tait**
Darent Room, Sessions House, County Hall, Maidstone		Telephone:	**03000 416749**

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

Membership (10)

Conservative (7) Mr N J D Chard (Chairman), Mr G Cooke, Mrs S V Hohler, Mr M J Horwood, Mr R A Marsh and Miss C Rankin plus 1 Vacancy

Liberal Democrat (1): Mr R H Bird

Labour (1) Mr T Dhesi

Independents (1): Mr M E Whybrow

Webcasting Notice

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

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

UNRESTRICTED ITEMS

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

1. Introduction/Webcasting
2. Substitutes
3. Declarations of Interest in items on the agenda for this meeting
4. Election of Vice-Chairman

5. Minutes - 11 April 2017 (Pages 5 - 14)

6. Dates of future meetings

   Wednesday, 1 November 2017
   Thursday, 25 January 2018
   Tuesday, 24 April 2017

   These meetings will be held in the morning with the start time dependent on whether training will be provided to Members of the Committee before the meeting itself commences.

7. Committee Work and Member Development Programme (Pages 15 - 18)

8. External Audit Annual Findings Report 2016/17 (Pages 19 - 56)

9. External Audit Pension Fund Audit Findings Report 2016/17 (Pages 57 - 84)

10. Draft Statement of Accounts 2016/17 (Pages 85 - 262)

11. Schools Audit Annual Report (Pages 263 - 268)

12. Internal Audit Annual Report and Opinion for 2016/17 (Pages 269 - 360)

13. Update on 2017/18 Savings Programme (Pages 361 - 362)

14. Treasury Management Annual Review (Pages 363 - 374)

15. Debt Management (Pages 375 - 386)

16. Corporate Risk Register (Pages 387 - 428)

17. RIPA Report on surveillance, covert human intelligence source and telecommunications data requests carried out by KCC between 1 April 2016 and 31 March 2017 (Pages 429 - 446)

18. 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)

John Lynch
Head of Democratic.Services
03000 410466

Tuesday, 11 July 2017

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.

TERMS OF REFERENCE

Governance and Audit Committee

10 Members

Conservative: 7; Liberal Democrat: 1; Labour: 1; Independent: 1.

The purpose of this Committee is to:

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

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

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

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

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

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

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

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

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

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

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

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

(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 at Council Chamber, Sessions House, County Hall, Maidstone on Tuesday, 11th April, 2017.

PRESENT: Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman), Mr R H Bird, Mr D L Brazier, Mr C P D Hoare, Mr E E C Hotson, Mr A J King, MBE, Mr B E MacDowall (Substitute for Mr M Heale), Mr S C Manion, Mr R A Marsh, Mr J E Scholes, Mr W Scobie and Mr D Smyth

OTHER MEMBERS: John Simmonds, MBE

OFFICERS: Andy Wood (Corporate Director of Finance), Alison Mings (Treasury and Investments Manager), Emma Feakins (Chief Accountant), Benjamin Watts (General Counsel) and Andrew Tait (Democratic Services Officer)

ALSO PRESENT were Mr P Hughes and Mr M Dean from Grant Thornton UK LLP

UNRESTRICTED ITEMS

12. Minutes.
(Item. 4)

(1) The Head of Internal Audit made the following statement to the Committee in respect of Minute 3 (2):-

"*At the January G&A meeting Councillor Hoare alleged that the County Council was not collecting enough developer contributions for education provision due to 'false and fraudulent' data being supplied by a Company engaged by the County Council. I was tasked with investigating these claims and reporting back to the Committee. Mr Hoare was requested to supply any information to me as soon as possible.*

Subsequent to meetings with Mr Hoare, receipt of information and instigating our own independent analysis, in summary I can find no evidence of fraud or corruption.

In relation to the contractor cited (and no longer used as the service was brought back in – house) , the system in place was for the information to be supplied directly to the contractor by officers within KCC and the contractor gave over these figures to the relevant District Council in good faith. As such the statement made was incorrect.

Our subsequent investigation found no evidence that staff employed by, or contracted to, KCC had committed fraud or deliberately misrepresented figures used in the 2008 developer contribution calculations Mr Hoare had alleged were deliberately altered to favour the developers.

Our investigation has revealed that there were errors in these calculations supplied to the contractor by KCC, but there was no evidence that these figures had been *deliberately altered to minimise developer contributions. We have met with both Mr Hoare and the Chairman of the G&A Committee and provided a summary of the investigations and informed them of our findings in advance of the meeting.*

As a result of this work and unless any new materially different evidence emerges, our investigations have now been concluded."

(2) Mr C P D Hoare replied to the statement by saying that he remained dissatisfied and had now raised the issues described with the Police.

(3) RESOLVED that:-

(a) the Minutes of the meeting of the Committee held on 25 January 2017 are correctly recorded and that they be signed by the Chairman; and

(b) the Minutes of the Trading Activities Sub-Committee meeting on 28 February 2017 be noted.

13. 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 Committee work and Member Development programme to April 2018.

14. Internal Audit and Counter Fraud Plan 2017-18.
(Item. 6)

1) The Head of Internal Audit presented the proposed Internal Audit and Counter Fraud Plan for 2017/18. He drew the Committee's attention to the main audit themes for the year which were set out in paragraph 8 of the report.

(2) RESOLVED that agreement be given to the proposed Internal Audit and Counter Fraud Annual Plan as set out in the Appendix to the report.

15. 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 2016/17 financial year to date.

(2) The Committee thanked the Internal Audit Team for its effective and diligent work over the previous four years.

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

(a) progress and outcomes against the 2016/17 Audit Plan and proposed amendments;

(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.

16. Treasury Management Update.
(Item. 8)

(1) The Treasury and Investments Manager gave an update report on Treasury Management activity for the 9 months up to 31 December 2016 and on developments thereafter up to the date of the report.

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

17. Revised Accounting Policies.
(Item. 9)

(1) The Head of Financial Management asked the Committee to approve the adoption of "Telling the Story" as a change in presentation to the financial statements. She explained that this represented a change in accounting policy.

(2) RESOLVED that approval be given to the additions and amendments to the accounting policies in respect of the adoption of "Telling the Story."

18. Updated Financial Regulations.
(Item. 10)

(1) The Chief Accountant introduced a report recommending proposed updates 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.

19. External Audit - Audit Plans for Kent County Council and Kent Superannuation Fund 2016-17.
(Item. 11)

(1) Mr Paul Hughes 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 2016/17 financial statements including the Kent Superannuation Fund.

(2) RESOLVED that:-

(a) current progress on external audit work be noted;

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

(c) approval be given to the audit plans for Kent County Council and Kent Superannuation Fund for 2016/17.

20. External Audit Fee Letter 2017-18.
(Item. 12)

(1) The Head of Internal Audit reported the estimated planned total audit fee of £ 155,925 for 2017/18, which was the same fee as in 2016/17.

(2) RESOLVED that the planned audit fee for 2017/18 be noted.

21. Fraud Law and Regulations and Going Concerns Considerations.
(Item. 13)

(1) The Corporate Director of Finance 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 Paul Hughes from Grant Thornton UK LLP confirmed that the external auditors were satisfied with the responses provided subject to the views of the Committee.

(3) The Committee asked for the first sentence of the response to the first question to be amended to: "Procedures are in place to minimise the risk."

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

22. Other Items.
(Item. 14)

(1) The Committee expressed its appreciation for the work of all the officers who had contributed to the work of the Committee over the previous four years and also thanked Mr Richard Long for the manner in which he had chaired its meetings during the same period. Mr Long in turn thanked the Committee.

EXEMPT ITEMS
(Open access to Minutes)

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

23. Senior Information Risk Owner (SIRO) Update.
(Item. 16)

(1) The General Counsel provided an update report regarding recent issues around an information governance breach that Members of the Committee had sought reassurance upon. He explained that there were a number of continuing pressures in relation to information governance which were being reviewed pending a report to the June meeting of the Policy and Resources Cabinet Committee.

(2) In response to Members' question, the General Counsel agreed to consider whether mandatory information governance should be regular and whether there should be testing to ensure compliance.

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

This page is intentionally left blank

KENT COUNTY COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Thursday, 25 May 2017.

PRESENT: Mr N J D Chard (Chairman), Mr R H Bird, Mr G Cooke, Mr T Dhesi, Mrs S V Hohler, Mr M J Horwood, Mr R A Marsh and Miss C Rankin

IN ATTENDANCE: Mr J Lynch (Head of Democratic Services)

UNRESTRICTED ITEMS

24. Election of Chairman
(Item 3)

(1) It was duly proposed and seconded that Mr N Chard be elected Chairman of the Committee.

(2) RESOLVED that Mr N Chard be elected Chairman of the Committee.

This page is intentionally left blank

By:	Nick Chard, Chairman of Governance and Audit Committee Robert Patterson, Head of Internal Audit
To:	Governance and Audit Committee – 19th July 2017
Subject:	**COMMITTEE WORK & MEMBER DEVELOPMENT PROGRAMME**
Classification:	Unrestricted

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

FOR DECISION

Introduction and background

1. In December 2013, CIPFA published updated best practice guidance on the function and operation of audit committees in Local Government. The guidance recommends that this Committee's work programme is designed to ensure that it can fulfil its terms of reference and that adequate arrangements are in place to support the Committee with relevant briefings and training.

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

Current Work Programme

3. Appendix 1 shows the latest programme of work for the Committee, up to July 2018. The content of the programme is matched to the Committee Terms of Reference and aims to provide at least the minimum coverage necessary to meet the responsibilities set out. This does not preclude Members asking for additional items to be added during the course of the year.

Member Development Programme

4. It is good practice for the Committee to embrace a Member development programme through a series of pre-meeting briefings, focusing on areas that are of specific relevance to this Committee. This has been successfully implemented over the last few years and is particularly relevant with a newly formed Committee with many new Members.

5. Before the start of today's meeting a presentation was given on the role of the Governance and Audit Committee and it is suggested that during the year training should take place around

- Risk management (November)
- Internal audit and counter fraud (January 2018)
- Internal and external audit planning and sources of assurance (April)

6. Members can request alternative or additional training if they wish, via the Chairman.

Recommendations

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

Robert Patterson
Head of Internal Audit (03000 416554)

Committee Work Programme **Appendix 1**

Category / Item	Owner	Jul - 17	Oct - 17	Jan -18	Apr -18	Jul-18
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	DC					
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	BW	If material changes to the code				
LATCo Policies	AW	If informed of material changes to policies				

Committee Work Programme **Appendix 1**

Category / Item	Owner	Jul 17	Oct 17	Jan 18	Apr 18	Jul-18
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 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:	John Simmonds, Deputy Leader and Cabinet Member for Finance Andy Wood, Corporate Director of Finance and Procurement
To:	Governance and Audit Committee – 19th July 2017
Subject:	**External Audit – Annual Findings Report 2016/17**
Classification:	Unrestricted

Summary: This paper sets the context to the External Auditor's Annual 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 2016/17 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 2017. 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 2016/17 financial statements (except for the Annual Governance Statement) were provided to Grant Thornton for audit during June 2017. The audit of the financial statements started shortly afterwards and the work was substantially complete by early July 2017.
4. Members will have the opportunity to ask questions about the audits and reports to help inform their decision before formally approving the 2016/17 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)

This page is intentionally left blank

Grant Thornton

The Audit Findings for Kent County Council

Year ended 31 March 2017

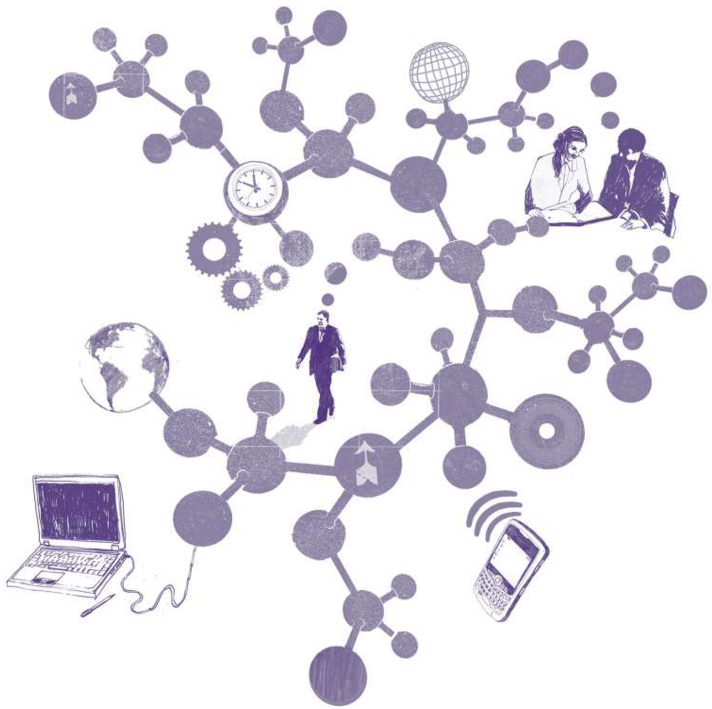
19th July 2017

Paul Hughes
Engagement Lead
T 07792 897403
E paul.hughes@uk.gt.com

Nicholas White
Senior Manager
T 0207 728 3357
E nicholas.j.white@uk.gt.com

Andy Conlan
Assistant Manager
T 07393 762 443
E andy.n.conlan@uk.gt.com

Yawar Malik
Executive
T 07859 013 368
E yawar.malik@uk.gt.com



Private and Confidential

Kent County Council
County Hall
Maidstone
Kent
ME14 1XQ

Grant Thornton UK LLP
Grant Thornton House
22 Melton Street
London
NW1 2EP
T +44 (0) 20 7383 5100
www.grant-thornton.co.uk

19 July 2017

Dear Members of the Governance and Audit Committee

Audit Findings for Kent County Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Kent County Council, 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 officers.

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

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

Yours sincerely

Paul Hughes

Engagement lead

Contents

Page 23

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Kent County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of 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 Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

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

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

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

Introduction

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

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

- completion of our testing of a sample of cash balances to bank reconciliations and statements;
- completion of our testing of investment balances to external confirmations;
- completion of our testing of a sample of schools capital additions;
- review of any issues coming out of a technical review of the financial statements;
- work to confirm the completeness of the transactions in the general ledger reports provided and completeness of the manual journals listing;
- completion of our file review by the Engagement Lead and Quality Review Partner and clearance of any queries coming out of those reviews;
- review of the Annual Governance Statement;
- review of the Whole of Government Accounts consolidation schedule; and
- review of the final version financial statements to agree all amendments have been correctly made.

We have also received objections on 10th July 2017 in relation to borrowing, financing and payment data which we are currently assessing.

We received draft financial statements on 2 June 2017 and accompanying working papers at the commencement of our work on 5 June 2017, in accordance with the agreed timetable. This was brought forward by a week from the prior year.

Key audit and financial reporting issues

Financial statements opinion
We have identified one adjustment affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net expenditure on services of £1,015,060k and the audited financial statements recorded £1,015,123k. We have recommended a number of disclosure and misclassification adjustments to improve the presentation of the financial statements.

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

Other financial statement responsibilities
As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements.

This includes if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

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

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

Findings

We draw your attention in particular to control issues identified in relation to the timely review and write off of older receivables and payables balances.

Further details are provided within section two of this report.

Value for Money

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

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

Other statutory powers and duties

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

We are currently dealing with some queries from electors, upon the closure of these matters we will issue our audit certificate. Our audit certificates in relation to 2014/15 and 2015/16 are still open due to dealing with these ongoing matters.

Further details of our work on other statutory powers and duties is set out in section four of this report.

The way forward

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

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Corporate Director of Finance and the finance team. We will follow up on the recommendations made during the interim audit visit in 2017/18.

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
19 June 2017

Section 2: Audit findings

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 £44,033,000 (being 2% of gross revenue expenditure). 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 £2,201,000. This remains the same as reported in our audit.

We did not identify any items where a separate materiality level was deemed appropriate.

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.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Kent County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Kent County Council, mean that all forms of fraud are seen as unacceptable.	Subject to completion of the final quality reviews on our audit file, our audit work has not identified any issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	Work performed in response to this risk is as follows: • review of entity controls; • testing of journal entries; • review of accounting estimates, judgements and decisions made by management; and • review of unusual significant transactions.	Subject to completion of the final quality reviews on our audit file, 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. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Page 30

Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the Council. 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.	**Property, plant and equipment** Revaluation measurements not correct (valuation)	We have undertaken the following work in relation to this risk: • review of management's processes and assumptions for the calculation of the estimate; • review of the competence, expertise and objectivity of any management experts used; • review of the instructions issued to valuation experts and the scope of their work; • review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding; and • testing of revaluations made during the year to ensure they were input correctly into the Council's asset register.	Subject to completion of the work outlined on page 5, our audit work has not identified any significant issues in relation to this risk and we are satisfied that PPE is materially correct.
4.	**Valuation of Pension Fund Net Liability** The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements	We have undertaken the following work in relation to this risk: • documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated; • walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements; • review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and • review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary.	Subject to completion of the final quality reviews on our audit file, our audit work has not identified any significant issues in relation to this risk and we are satisfied that pension fund net liability is materially correct.

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle; • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; • reviewed the reconciliation of the payroll system to the general ledger, including trend analysis for the financial year; and • performed sample testing of payroll records to gain assurance that employees have been remunerated correctly during 2016/17.	Subject to completion of the final quality reviews on our audit file, our work is complete. Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	Payables understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle; • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; and • Sample testing of expenditure, payables, unrecorded liabilities,	Subject to completion of the final quality reviews on our audit file, our work is complete. Two issues have been identified in relation to the risk identified. See further details on page 14.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, Plant and Equipment (PPE)	Activity not valid (PPE)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle; • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; and • verification of the capital programme to the additions recorded in the asset register in the financial year.	Subject to completion of the work outlined on page 5, our audit work has not identified any significant issues in relation to the risk identified
Changes to the presentation of local authority financial statements	Potential misstatements associated with changes affecting the presentation of the income and expenditure in the financial statements and associated disclosure notes and the prior period adjustment (PPA) to restate the 2015/16 comparative figures	We have undertaken the following work in relation to this risk: • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements; • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure, reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS); • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES; • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger; • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements; and • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.	Subject to completion of the final quality reviews on our audit file, our audit work has not identified any significant issues in relation to the risk identified.

New issues identified during the course of the audit

This section provides commentary on new issues which were identified during the course of the audit and were not previously communicated in the Audit Plan

	Issue	Commentary
1.	The regular review and writing off of older unrecoverable/no longer due receivables and payables balances	Testing of receivables and payables balances at the year-end identified some balances that have not moved for several years. The recoverability of these receivables balances (£280k) is not being pursued by the Council, and they do not form part of the provision for bad debts, they should therefore be written off at 31/3/17. Similarly the liability associated with these payables balances (£186k) should be removed from the balance sheet at 31/3/17. The net impact on cost of services in the CIES will be an increase of £94k. We have suggested a controls recommendation which is detailed in Appendix A.

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• 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 Council. • 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 Council. • 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.	Overall, the Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting in the UK 2016/17.	● Green
Judgements and estimates	• Key estimates and judgements include: – useful life of PPE; – revaluations; – impairments; – accruals; – valuation of pension fund net liability; and – other provisions.	The Council's use of accounting estimates is disclosed in note 5 (Assumptions made about the future and other major sources of estimation uncertainty). Our review of the judgements and estimates has not identified any significant issues.	● Green

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

Accounting policies, estimates and judgements (continued)

.

Accounting area	Summary of policy	Comments	Assessment
Going concern	Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● **Green**
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	The Council's accounting policies are appropriate and consistent with previous years.	● **Green**

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

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**	We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	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**	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**	A standard letter of representation has been requested from the Council.
5.	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to banks and lenders. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however where requests were not received we undertook alternative procedures.
6.	**Disclosures**	Our audit work identified no material omissions in the financial statements. A number of amendments have been discussed with the Council to enhance the disclosures made within the draft accounts (details are included within page 22 of this report).

Other communication requirements (continued)

	Issue	Commentary
7.	**Matters on which we report by exception**	We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. We are required to report by exception if the Narrative Statement is inconsistent with the Financial Statements. We have not identified any issues we would be required to report by exception.
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed and the planned timescale for the work is planned for September 2016.

Page 38

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	A review in the 2015/16 year of the schools salaries bank reconciliation found that there were reconciling items dating back to 2011/12 amounting to £159,483. We recommended that reconciling items should be investigated and cleared on a timely basis.	There has been an improvement in the reconciliations and work continues to improve the process. The responsibility for reconciliation and clearing of outstanding balances still lies with the BSC Operational Services Manager.
2.	✓	A review in the 2015/16 found that open purchase order accruals remained on the system. We recommended that all open orders should be reviewed on a regular (or at least annual) basis to ensure when the final invoice associated with the order is received the remaining amounts on the order are closed down.	Management continues to review open orders on an annual basis. This year's audit did not highlight any older purchase order accruals which did not represent genuine payables.

Assessment
✓ Action completed
X Not yet addressed

Internal controls

	Issue and risk communicated	Recommendations
1.	Audit field work on year end receivables and payables balances revealed historic outstanding receivables and payables balances that are unlikely to be recovered, with accounts have no activity on them for a number of year.	Receivables and payables balances should be regularly reviewed to ensure they represent genuine assets and liabilities. This reconciliation of old balances should be completed at least on an annual basis and should be reviewed reciprocally by the Chief Accountant.

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £	Balance Sheet £	Impact on total net expenditure £
Note. 35 Audit Costs – Fees payable in respect of other services provided by the appointed auditor line to include other fees charged during the year and to be accrued for	62, 862	62, 862	62, 682
Overall impact	**£62, 862**	**£62, 862**	**£62, 682**

Misclassifications and disclosure changes

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

	Adjustment type	Value £	Account balance	Impact on the financial statements
1	Misclassification	£21,921,000	Note 11 and Note 16	£21,921k of schools grants in 'Fees, charges and other income' was reclassified into 'Government grants and contributions'.
2	Disclosure	£466,000	Note 27	The EKO figure of £466k was shown separately and also included in the General receivables figure meaning the total did not agree with the balance sheet. General receivables was therefore reduced by £466k to £120,194k and the total for note 27 was reduced by £466k to £168,203k.
3	Various minor disclosure amendments	N/a	Various	We have recommended a number of minor disclosure amendments to improve the presentation of the financial statements, and to correct minor typographical errors and casting issues.

Section 3: Value for Money

Value for money conclusion

Background

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

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

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

> *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.*

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

Risk assessment

We carried out an initial risk assessment in March 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated April 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

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

Value for money conclusion (continued)

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 26 and 27.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Key findings

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

Significant risk	Work to address	Findings and conclusions
Health & Social Care Integration The Kent and Medway Sustainability and Transformation Plan (STP) was published in November 2016. There is recognition that healthcare needs dramatic transformation in when and where care is delivered and integration of the social care system with the NHS structures. Kent County Council has a major role to plan in developing the whole of the STP across Kent with the key measure of medium/long term success being a reduced demand for hospital care and emergency services which is achieve through better social care in the community, better signposting in public health to the right care at the right time, and effective partnership relationships between different public bodies facilitated by the Council. Kent County Council, being at the forefront of the social care redesign and in an important facilitator position, will need to make significant investment in service redesign within its own social care services, ensure through participation in shared governance bodies such as the STP Programme Board that it's efforts are in line with other bodies and that collaboration/sharing takes place wherever possible. This will clearly be a significant challenge for the Council in the medium and long term – transformation and collaboration take time to plan and implement, but the mindset needs to become embedded in Kent's Health Economy. Your central role in this transformation project means it will present one of the most significant risks for Value for Money.	- reviewed the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks; - reviewed your plans for transformation of social services and integration with other services in the Kent Health Economy; - reviewed your plans for participation in shared governance structures and shared monitoring of expenditure and outcomes within the Kent and Medway STP .	Our discussions with management and review of the minutes and actions of the Health and Wellbeing Board, and the proposed governance and decision-making structures set out in the internal STP board meetings, shows that detailed planning and preparation are taking place. Initial financial modelling in the STP plans demonstrate that there are potential efficiency and savings benefits that will benefit the whole region which are significant even if they are only partially delivered. Our discussions with management show that care is being taken to assess the financial impact of changes on Kent County Council taxpayers and protect value for money. Detailed plans and costings for Kent County Council are still in the very early stages, so it is too early to fully assess the impact of the changes or the likelihood of the benefits being realised. **Against this risk, it is too early to fully conclude but the evidence of planning and modelling processes suggest you have appropriate arrangements in place for securing value for money.**

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Medium Term Financial Sustainability At Month 10 of the 2016/17 year you were forecasting a small £2.7m overspend, but this result was improved in the last 2 months of the year to an approximate £3.7m revenue budget underspend (excluding schools). You have set a balanced budget for 2017/18 with a net budget requirement of £906m, and this requirement rises to £928m in 2019-20. The reduced central government funding and grants will mean that there are continuous pressures on you medium term financial planning, and this is clearly shown by the residual £97m budget gap in 2017/18 which you are bridging with efficiency saving, increased revenue generation and one-off use of your reserves. The government has allowed a 6% increase in Council Tax over 3 years towards the cost of adult social care which will help the medium term budget assumptions, but the position still remains extremely challenging, reflecting the nationwide picture.	We reviewed your arrangements over medium term financial planning including the reasonableness of significant assumptions around inflation, growth and savings. We considered your plans to close the projected budget gap from 2017/18 to 2019/20, including identification of savings plans, additional revenue generation plans, arrangements for monitoring and managing delivery of budgets and the potential impact on service delivery.	Our review of your Medium Term Financial Plan (MTFP - approved on 9th February 2017), including consideration of the key assumptions therein in relation to our knowledge of the Council and assumptions applied by other similar bodies, has shown you have sound financial planning processes in place and robust financial control. In the 2016/17 year your revenue expenditure was again contained within budgeted levels, and your were again able to made a small growth in your reserves. There was a significant capital underspend of £81m (increased from £28m in 2015/16). This is largely due to rephasing of projects. Significant savings and efficiency demands are factored into your MTFP; £55m between 2018/19 and 2019/20. The unidentified portions of these savings (currently £18.7m) is clearly a key uncertainty within the plan, but you have a good track record of delivering savings and closing previous budget gaps to remain in financial balance. Announcements in the Chancellor's Spring Budget have resulted in an additional £26m of adult social care funding for Kent County Council. This has moved your net budget requirement to £933m, but has not impacted other areas of your MTFP, particularly as you had not planned to use the additional power to raise up to 3% in Council Tax through a supplementary social care precept. **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for securing value for money.**

Section 4: Fees, non-audit services and independence

Fees, non audit services and independence

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

Fees

	Proposed fee £	Final fee £
Council audit *	155,925	155,925
Total audit fees (excluding VAT)	**155,925**	**155,925**

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

There are also estimated fees of £30,000 for work completed in relation to an objection relating to schools provision.

As described on page 5 to this report we have received a new objection in relation to the 2016-17 Financial Statements, and there could be additional fee implications. The amount of additional work which may be necessary is currently unclear.

Fees for other services

Service	Fees £
Fees for other services:	
• Journey Time Improvement RGF	8,240
• Teachers Pensions	4,120
• CFO Insights license	3,333
• RGF Scheme Evaluation	42,019
• Tax advisory – group issues	5,150
Total	**62,862**

Independence and ethics

We facilitated some workshops as part of your Behavioural Change Programme for which we did not charge a fee.

We confirm that there are no other 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 on all of the above mentioned services, and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 5: Communication of audit matters

Communication to those charged with governance

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

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.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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

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

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

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

Appendices

Page 52

Appendix A: Action plan

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Receivables and payables balances should be regularly reviewed to ensure they represent genuine assets and liabilities. This reconciliation of old balances should be completed at least on an annual basis and should be reviewed reciprocally by the Chief Accountant.	Low	Agreed	31 March 2018 Chief Accountant

Appendix B: Audit opinion

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

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

We have audited the financial statements of Kent County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the 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 auditor

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities, the Corporate Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law 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 the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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

Opinion on other matters

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

Matters on which we are required to report by exception

We are required to report to you if:
in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: 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 to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its 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 2017.

Page 55

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 2017.

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 2017. 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.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code until we have completed our consideration of objections brought to our attention by local authority electors under Section 27 of the Act. We are satisfied that these matters do 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

** July XXXX

By:	John Simmonds, Deputy Leader and Cabinet Member for Finance Andy Wood, Corporate Director of Finance and Procurement
To:	Governance and Audit Committee – 19th July 2017
Subject:	**External Audit – Pension Fund Audit Findings Report 2016/17**
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 2016/17 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 2017.

Process

3. The 2016/17 Pension Fund financial statements were provided to Grant Thornton for audit in June 2017 and the audit of the financial statements progressed shortly after. with completion by early July 2017.

4. Members will have the opportunity to ask questions about the audit and report to help inform their decision before formally approving the 2016/17 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)

This page is intentionally left blank

The Audit Findings Report for the Kent Superannuation Fund

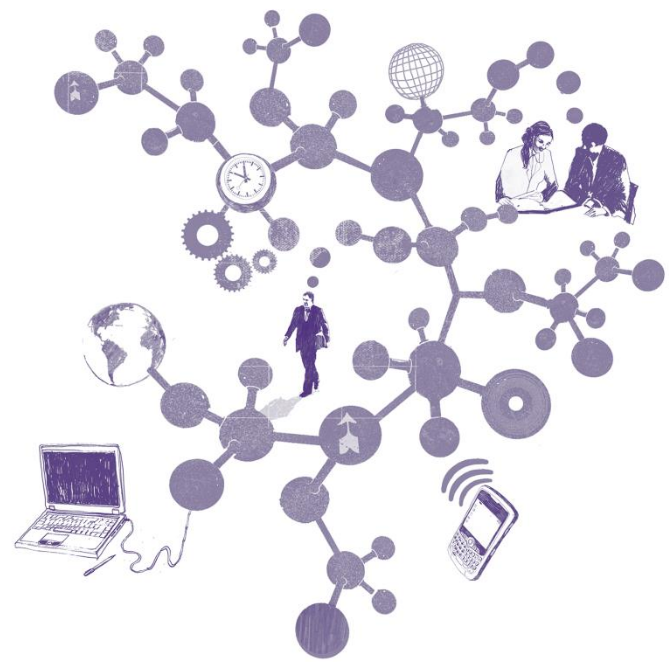
Year ended 31 March 2017

19 July 2017

Elizabeth Jackson
Engagement Lead
T 020 7728 3329
E elizabeth.l.jackson@uk.gt.com

Matt Dean
Engagement Manager
T 020 7728 3181
E matthew.dean@uk.gt.com

Keith Mungadzi
In-Charge Accountant
T 020 7728 2393
E keith.mungadzi@uk.gt.com



Private and Confidential

The Governance and Audit Committee
Kent County Council
County Hall
Maidstone
Kent
ME14 1XQ

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

020 7383 5100
www.grant-thornton.co.uk

19 July 2017

Dear Members of the Governance and Audit Committee

Audit Findings Report for Kent Superannuation Fund for the year ending 31 March 2017

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

Elizabeth Jackson

Engagement Lead

Contents

Section 1: Executive summary

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 2017. 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 11 April 2017.

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

- review of the final version of the Annual Report
- review of the final version of the financial statements
- 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 2017 recorded net assets of £5,565,175k 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 knowledgably 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.

Controls (continued)

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 2017

Section 2: Audit findings

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 revised our materiality upwards to take account of the increase in the Net Assets during 2016-17, which generates a revised materiality of £55,652k (being 1% of net assets from the draft 2016-17 accounts).

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. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation, which has thus increased to £2,783k.

As we reported in our audit plan, we did not identify any items where we decided that separate materiality levels were appropriate, and have made no changes to this assessment during the course of our audit.

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 forwhich 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.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	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: • 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.	Our audit work has not identified any material issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA(UK&I)240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have completed the following work in respect of this risk: • review of entity-level controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions	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. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Page 67

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.	**Level 3 Investments – Valuation is incorrect** 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.	• 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.	Our audit work has not identified any issues around the valuation of the Level 3 Investments reported at year end.

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** • 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:** • 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)	**We have undertaken the following work in relation to this risk:** • 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)	**We have undertaken the following work in relation to this risk:** • 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
Member Data	Member data not correct. (Rights and Obligations)	**We have undertaken the following work in relation to this risk:** • 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.	Our audit work has not identified any significant issues in relation to the risk identified.

Page 71

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	The financial statements include policies for recognition of the following: • Investment income • Contribution income • Transfers in to the scheme 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.	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. Our testing has confirmed that these policies have been correctly and consistently applied.	● Green
Judgements and estimates	Key estimates and judgements include: • Valuation of private equity, property and infrastructure investments • Present value of future retirement benefits	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.	● Green
Going concern	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.	We have reviewed officers' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● Green

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

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 and accounting standards.	The Fund's accounting policies are appropriate and consistent with previous years.	● Green

Page 73

Assessment

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

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**	• 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**	• 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**	• 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**	• A standard letter of representation has been requested from the Fund.
5.	**Confirmation requests from third parties**	• 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**	• 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**	• 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	n/a	Various notes within the Accounts	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

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

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.psaa.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 unmodified audit report.

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

We have audited the superannuation fund financial statements of Kent County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The superannuation 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the 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 auditor

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

Scope of the audit of the superannuation fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statementssufficient 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 superannuation 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 the overall presentation of the superannuation 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 withthe audited superannuation 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 ofperforming the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the superannuation fund financial statements

In our opinion:

- the superannuation fund financial statements present a true and fair view of the financial transactions of the superannuation fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- the superannuation fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited superannuation fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited superannuation fund financial statements.

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

30 Finsbury Square
London
EC2P 2YU

XX July 2017

Appendix B: Proposed audit opinion on the annual report

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

Independent auditor's report to the members of Kent County Council on the consistency of the superannuation fund financial statements included in the superannuation fund annual report

Opinion

The superannuation fund financial statements of Kent County Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of the Kent Superannuation Fund are derived from the audited superannuation fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").
In our opinion, the accompanying superannuation fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Superannuation fund annual report - Superannuation fund financial statements

The superannuation fund annual report and the superannuation fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the superannuation fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 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 work has been undertaken so that we might state to the members of the Authority 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.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the superannuation fund financial statements in the Statement of Accounts in our report dated xx July 2017.

Director of Corporate Finance's responsibilities for the superannuation fund financial statements in the superannuation fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Director of Corporate Finance's responsibilities of the Authority is responsible for the preparation of the superannuation fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the superannuation fund financial statements in both the Statement of Accounts and the superannuation fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Auditor's responsibility

Our responsibility is to express an opinion on whether the superannuation fund financial statements in the superannuation fund annual report are consistent, in all material respects, with the audited superannuation fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Signature

Elizabeth Jackson

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

30 Finsbury Square
London
EC2P 2YU

xx July 2017

grant-thornton.co.uk

This page is intentionally left blank

By: Cabinet Member for Finance – John Simmonds
Corporate Director of Finance
– Andy Wood

To: Governance and Audit Committee – 19 July 2017

Subject: DRAFT STATEMENT OF ACCOUNTS 2016-17

Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2016-17.

FOR DECISION AND APPROVAL

---

1. INTRODUCTION

1.1 The draft Statement of Accounts of the County Council for 2016-17 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 2016-17 Statement of Accounts has a new presentation of the Comprehensive Income and Expenditure Statement (CIES) and there are new disclosure notes in respect of Expenditure and Funding Analysis.

1.3 The CIES presentation has moved away from aligning with the Service Reporting Code of Practice and is now based on the Council's organisational structure.

1.4 The new funding analysis note explains the movement between the revenue outturn position and the Surplus or Deficit on the Provision of Services shown in the CIES.

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 2016-17 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 2016-17 narrative provides information on the funding strategy applied during 2016-17 and the direction of travel for 2017-18 onwards.

2.5 The details of the revenue outturn are shown on Pages 7 to 9. This shows an underspend of £3.8m 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 26 June. After committed roll forwards and bids approved by Cabinet on 26 June, the resulting underspend was £0.6m.

2.6 The level of general revenue reserves remains 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.

2.7 Capital expenditure excluding that incurred by schools under devolved arrangements was £81.1m less than the latest revised cash limits. Of this, £77.18m reflects re-phasing of capital expenditure plans across all services and £3.93m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2017-18 and beyond in order to accommodate the revised profiles of capital expenditure. The details can be found on page 10.

2.8 The 2016-17 IAS 19 report shows an increase in the Pensions Reserve deficit of £322m. 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 in relation to the production of the final accounts.

Financial Statements Pages 14-19

Comprehensive Income and Expenditure Statement

2.10 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.

2.11 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.

Movement in Reserves Statement (MiRS)

2.12 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 £9m in 2016-17. The main movements are:

	£m
Unapplied Capital Grants, reflecting re-phasing of the projects these grants are funding	14
Earmarked Reserves	-2
Schools Reserves	-18
Total of major movements in usable reserves	**-6**

2.13 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.

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 £64m. The majority of this increase relates to revaluation movements (+£75m), and net capital additions (+£207m). These increases are offset by the annual depreciation charge (-£144m) and disposals (-£74m) which included £62m due to schools transferring to academy status.

2.16 Long term liabilities have increased by £347m. £322m of this is due to an increase in the liability related to defined benefit pensions schemes under IAS 19 reporting. The note to explain the increase can be found in Note 38 on page 101 of the Accounts.

2.17 Our net worth has decreased from £245.2m to -£36.9m. This is mainly due to the increase 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 £47.4m of the £47.8m on the balance sheet.

The Expenditure and Funding Analysis

2.19 The Expenditure and Funding Analysis detailed on pages 20 to 21 shows how the Council's expenditure is allocated for decision making purposes between the directorates. It also shows how the annual expenditure is used and funded from resources by the Council compared with the resources consumed or earned in accordance with generally accepted accounting practices.

Significant Notes to the Accounts pages 22-120

Adjustments between accounting basis and funding basis under regulations

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

Officers Remuneration

2.21 Note 6 on pages 27-36 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.

Note to the Expenditure and Funding Analysis

2.22 Note 10a on pages 38 to 40 provides an analysis and explanation of the main adjustments to the Net Expenditure Chargeable to the General Fund and Adjustments between the Funding and Accounting Basis that were set out in the Expenditure and Funding Analysis explained in paragraph 2.19.

Property, Plant and Equipment

2.23 Note 17 on pages 48-63 shows the movements on these assets, which have increased in value (relatively) from £2.38bn to £2.44bn.

Reserves

2.24 Details of reserves can be found in the following notes, usable reserves in Note 23 which also include earmarked reserves, unusable reserves in Note 24, and earmarked reserves in Note 25 on pages 88-92. Earmarked reserves have decreased by £2.1m; the remainder of usable reserves have decreased by £7.1m and unusable reserves have decreased by £272.8m.

Pension Fund Accounts pages 121-148

2.25 Pages 121-148 contain a summarised extract of a more detailed statement produced for the Pension Fund.

Auditor's Report Pages 149-152

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 2016-17 Accounts commenced on the 1st June and ended on the 12th 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 2017 and its income and expenditure for the year ended 31 March 2017. The audit started in June and finished 7th 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 (19th July), with an unqualified opinion.

Annual Governance Statement Pages 153-168

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 153 to 168 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 2016-17, 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 169-170.

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 8 of this Committee.

3. <u>RECOMMENDATION</u>

Members are asked to:

3.1 Consider and approve the Statement of Accounts for 2016-17.

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 Finance Operations
Ext: 416934

Contents	Page

Notes to the Accounting Statements index

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 2016-17 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 2016-17.
- The Statement of Responsibilities - this details the responsibilities of the Council and the Corporate Director of Finance concerning the Council's financial affairs and the actual Statement of Accounts.
- The main Accounting Statements, comprise:

~ 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 14 and 15)

~ 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 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)

- The Expenditure and Funding Analysis - this note brings together the Council's performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund presented on the basis of how the Council is structured for decision making purposes. (See pages 20 to 21)
- Accounting Policies - notes relating to specific accounting statement lines as identified in the main statements of the accounts 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 22 to 120)
- The Pension Fund Accounts -the Kent County Council Superannuation Fund (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 121 to 148)
- The Independent Auditor's Report to the Council - this is provided by the external auditors, Grant Thornton UK LLP, following the completion of the annual audit. (see pages 149 to 152)
- 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 2016-17. (See pages 153 to 168)
- 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 on pages 169 and 170 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 2016-17 are prepared on an IFRS basis.

The Code of Practice on Local Authority Accounting 2016-17 (the Code) highlights the following most significant key changes in accounting practice:

- Amendments relating to the Disclosure Initiatives under IAS 1 Presentation of Financial Statements - the initiative clarifies materiality, presentation of main statements and the order of the notes.
- Amendments to IAS 19 Employee Benefits (Defined Benefits Plans: Employees Contributions) - clarification on how contributions from employees that are linked to services should be attributed to periods of service.
- Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - clarification of acceptable methods of depreciation and amortisation.
- Amendments to IFRS 11 - accounting for acquisitions of Interests in Joint Operations.
- For 2016-17 there is a change in presentation of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of a new Expenditure and Funding Analysis note. These changes have required the 2015-16 statements to be restated.

Financial Report

Setting the Revenue Budget for 2016-17 - the budget strategy

The Council has continued to be in an era of the greatest financial challenge ever faced by local government. The Spending Review and Autumn Statement 2015 set out the Government's plan to repair public finances over the period of the next Parliament and to deliver a small budget surplus by 2019-20, although these plans have subsequently been revised. Local government and the wider public sector has had to respond to this and continue to manage spending within the available funding. The spending review identified 'flat cash' for local government between 2015-16 and 2019-20, with a drop in 2016-17 followed by a gradual recovery to 2015-16 levels. The Council has made £433m of savings between 2011-12 to 2015-16 in response to reduced government funding and the requirement to cover additional spending demands. We are planning to make additional savings of a proportionate magnitude up to 2019-20, which will see an unprecedented period of sustained reductions in public spending.

The significant savings have arisen due to the national framework and are necessary despite the increasing Council Tax. Without the increase we would not have been able to fund the vital investment in adult social care services and even greater cuts in spending on other services would have been required.

The Revenue budget relates to the day to day spending on services provided by the Council. The strategy has had to respond to the national context of fiscal consolidation whilst also ensuring that individual budgets have kept up to date and allowed for cost and demand changes, impact of legislation, and local decisions on investment and service improvements. The revenue strategy has had to take in to account the one-off use of reserves that have funded base budget activity in the previous year as part of managing the transition required under the national context.

The revenue strategy has addressed the conflicting impact of reductions in central government funding and finding money to cover additional spending demands. These were balanced through raising income locally (principally from council tax) and delivering savings to reduce spending to the affordable level within the overall funding that was available. The 2016-17 revenue equation is shown below:

	£m		£m
Additional spending demands	75.3	Savings and income	80.8
Central Government Funding Reductions	42.9	Council tax and business rates	37.4
TOTAL	**118.2**	**TOTAL**	**118.2**

Narrative

Risk Strategy

Effective risk management has continued to be essential in ensuring we have been able to deal with these difficult times. An environment of relentless financial and operational challenge can create greater risk and the Council is required to accept higher levels of risk in order to meet its desired outcomes.

Our revenue and capital Medium Term Financial Plan (MTFP) covered a three year period and is updated annually. 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 2016-17 began during Summer 2015. The budget setting process involved the Corporate Management Team (CMT) and Cabinet. The final budget was approved at County Council in February 2016.

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 2016-17 revenue budget income came from these principal sources:

- From Government - Revenue Support Grant, Business Rate Top-up, Business Rate Compensation Grant, New Homes Bonus, Transitional Grant 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 2016-17 was £911m, a reduction of £5.4m from the 2015-16 budget, details of the funding estimate including 2015-16 budget, for comparator purposes, are detailed in the table below:

	2015-16 Budget £'000	2016-17 Estimate £'000	Movement £'000
Council Tax			
Tax Base (incl previous year tax increase)	549,034	560,771	11,737
Assumed annual increase		11,205	11,205
Social Care Levy		11,205	11,205
Collection Fund Balance	7,079	11,203	4,124
Local Share of Business Rates			
Business Rates	49,227	51,413	2,186
Business Rates Collection Fund (deficit)	451	-2,136	-2,587
Un-ring fenced grants			
Revenue Support Grant	161,005	111,425	-49,580
Transitional Grant		5,682	5,682
Business Rate Top-Up	122,939	123,963	1,024
Business Rate Compensation Grant	3,342	3,342	0
New Homes Bonus	7,886	9,306	1,420
Education Services Grant	13,750	12,375	-1,375
Other Grants	1,766	1,296	-470
Total	**916,479**	**911,050**	**-5,429**

- Business rates have increased by 0.833% in 2016-17 in line with September 2015 RPI. We have been compensated by an additional un-ring-fenced grant.
- Council Tax - the final tax base from district councils showed a 2.1% increase over 2015-16. 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.
- Residents will have seen an increase in the County Council's element of the council tax for 2016-17 of 1.99% and an additional 2% for the Social Care Precept Levy.

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 2015-16 budget, were also shown as additional spending demand.

The final budget showed £75.3m of additional spending demands in 2016-17, the breakdown of spending demands is as follows:

- £25.8m as a result of pay and price rises
- £4.9m arising from government and legislation decisions.
- £10.3m arising from additional demand and demographic changes
- £12.4m to replace one-off savings in the previous year
- £10.9m for Service Strategies and Improvements
- £11.0m for Net budget realignments from previous years

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 £80.8m of savings and income in 2016-17, the main savings and income generation are as follows:

- £7.0m 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
- £27.2m from efficiency savings
- £16.6m from Transformation Savings
- £30.0m from Financial and Policy savings

Revenue Budget and Outturn

In February 2016 the Council approved a net revenue budget for 2016-17 of £911.050m. In addition £7.610m of 2015-16 underspending was rolled forward and added to the budget. During the year, there were some adjustments to our funding levels, totalling an additional £2.387m, largely one-off, which were also added to the budget. The final outturn position for the year against the revised budget is set out in the table below together with the sources of income from which the Council's net revenue expenditure was financed.

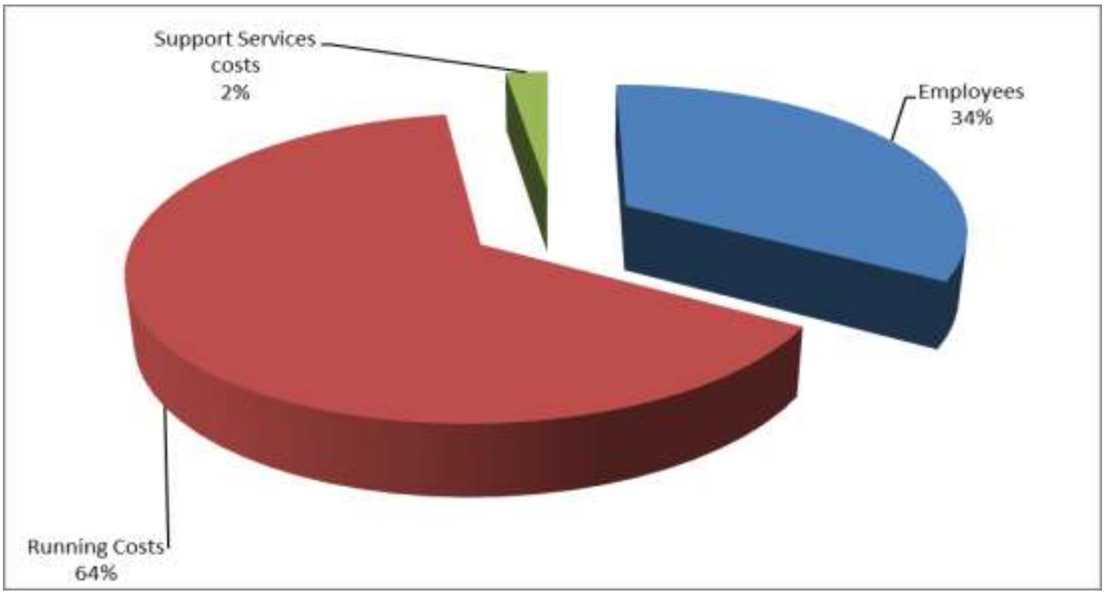
DIRECTORATE	Budget	Outturn	Variance
	£000's	£000's	£000's
Education & Young People	49,078	48,373	-705
Social Care, Health & Wellbeing:			
- Specialist Children's Services	129,015	134,480	5,465
- Adult Social Care	362,182	361,941	-241
- Public Health	0	0	0
Growth, Environment & Transport	166,948	165,846	-1,102
Strategic & Corporate Services	71,113	69,659	-1,454
Financing Items	142,711	137,062	-5,649
	921,047	917,361	-3,686
Delegated Schools Budgets	0	23,645	23,645
	921,047	941,006	19,959
FUNDED BY:-			
Reserves (2015-16 revenue budget underspend)	-7,610	-7,610	0
Formula Grant	-111,425	-111,425	0
Council Tax	-594,384	-594,384	0
Retained Business Rates incl retained levy	-50,119	-50,205	-86
Business Rate Top Up	-123,964	-123,964	0
Business Rate Compensation Grant	-2,643	-2,643	0
Business Rates Flood Relief Grant	-26	-26	0
Small Business Rate Compensation Grant	-1,488	-1,488	0
New Homes Bonus Grant & Top Up	-9,306	-9,306	0
Transitional Grant	-5,682	-5,682	0
Education Services Grant	-13,007	-13,007	0
Local Services Support Grant	-1,393	-1,393	0
Total Funding	-921,047	-921,133	-86
NET OUTTURN POSITION	0	19,873	19,873

Narrative

The net underspending within the directorates of £3.772m, being £3.686m and £0.086m funding variance (excluding £23.625m delegated schools overspend) has been carried forward and will be added to the 2017-18 budget to support the rescheduling of projects and to fund County Council and Cabinet decisions affecting the 2017-18 and future year's budgets.

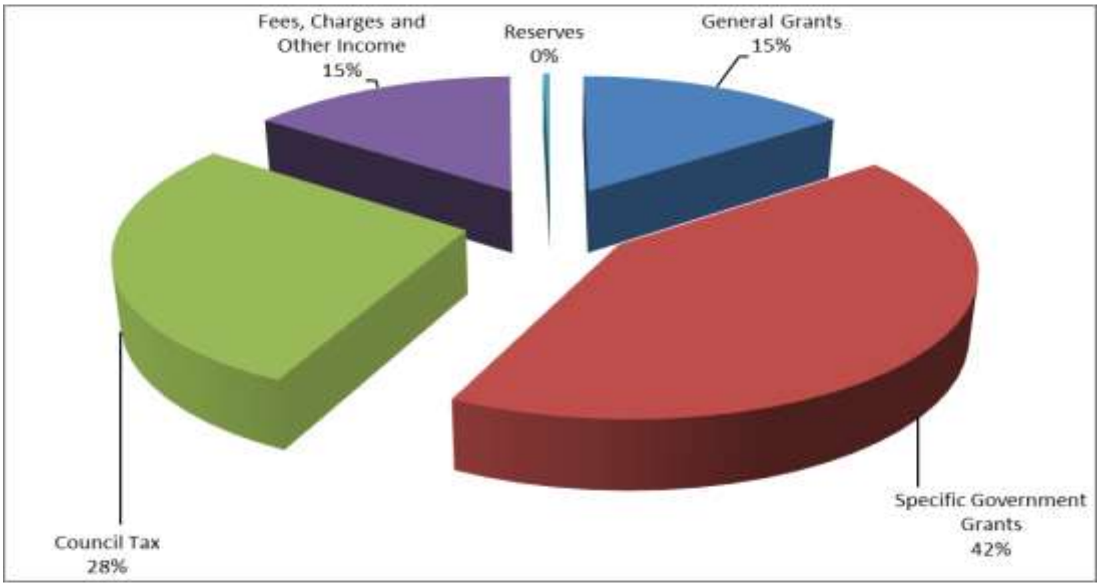
The charts below present a breakdown of the figures shown in the table above:

What the money is spent on



Employees costs account for 34% (38% in 2015-16) of the Council's expenditure. Running costs including cost of premises, transport, supplies and services and third party payments account for 64% (58% in 2015-16) of the expenditure.

Where the money came from



42% of our income came from Specific Government Grants which includes the Dedicated Schools Grant (42% in 2015-16), 28% of our income came from residents through council tax (26% in 2015-16), 15% of our income came from general grants, including business rates (17% in 2015-16), and 15% of our income came from users of our services (15% in 2015-16)

Schools

In total, schools overspent against their delegated budgets by £9.339m, which has been drawn down from school reserves. This includes a £2.219m drawdown from school reserves as a result of 21 schools converting to new style academy status which allows them to take their reserves with them, and a £7.120m overspend against delegated budgets for the remaining Kent schools. In addition, there was a £10.303m net overspend on the unallocated schools budget, particularly in relation to growth in both high needs and mainstream pupil numbers within Kent schools and academies of £9.936m, partially offset by an underspend on maintained early years placements of £0.793m due to a shift in demand to the private, voluntary and independent sector. There was also increased demand for placements for pupils with health needs of £0.250m and other net pressures totalling £0.910m.

In addition, there is a further movement in the unallocated schools budget reserves of £4.003m in relation to the non delegated budgets as a result of an overspend on Early Years Education of £0.768m, which is due to the shift in demand for placements for three and four year olds from maintained schools to the private, voluntary and independent sector mentioned above and an increase in parental demand for places for two year olds, together with an overspend on High Needs education for Kent children in non KCC schools and colleges of £3.235m due to additional pupils requiring this service. 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 £23.645m in 2016-17. However, in order to consolidate all Dedicated Schools Grant reserves, £5.624m has been transferred to the unallocated schools budget reserve from the Dedicated Schools Grant - Central Expenditure earmarked reserve, resulting in a net reduction of £18.021 in schools reserves as reflected in note 23 on page 79. Schools now have some £30.171m of revenue reserves and there is deficit balance of £1.830m in the unallocated schools budget reserve.

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 £163.182m and Note 25 on pages 88 to 92 provides an explanation of the purpose of each significant reserve along with the balance held at 31 March 2017. The general reserve position at 31 March 2017 is £37.213m, which is unchanged from the position as at 31 March 2016.

At 31 March 2017 the Council has usable capital reserves of £86.071m as shown on page 79.

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 2017 totalled £30.476m, see Note 26 on pages 93 to 94.

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 2016-17 budget setting process. Our Corporate Director of Finance, 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, which includes a 100% recovery from Glitnir and Landsbanki and 100% recovery is now forecast for Heritable. As part of the recovery £2.96m was received in Icelandic Kroner (ISK) and has been held in Escrow accounts since 2011-12, the Council will be going to auction to sell the ISK during 2017-18.

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 £241.263m. The expenditure analysed by portfolio was:-

PORTFOLIO	Revised Budget £'000s	Outturn £'000s	Variance £'000s
Education & Young People	147,247	121,659	-25,588
Social Care, Health & Wellbeing:			
- Specialist Children's Services	109	150	41
- Adult Social Care	7,090	2,082	-5,008
- Public Health	360	0	-360
Growth, Environment & Transport	135,314	89,500	-45,814
Strategic & Corporate Services	20,442	16,061	-4,381
	310,562	229,452	-81,110
Devolved Capital to Schools	10,861	11,811	950
TOTAL	321,423	241,263	-80,160

Expenditure excluding that incurred by schools under devolved arrangements was £81.110m less than cash limits. Of this, £77.180m reflected re-phasing of capital expenditure plans across all services and £3.930m was due to real variations on a small number of projects. These unspent capital resources will be carried forward into 2017-18 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2016-17 was £11.811m.

Details of the financing of capital expenditure are on pages 68 and 69.

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 2017 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 93.

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 2016-17 IAS 19 report shows that the Kent County Council Pension Fund now has a deficit of £1,536m. This is an increase in the deficit of £322m in year.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2016-17, earlier years and for future years. The balance currently stands at £978m 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 2016-17 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.

2017-18 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 2017-20 MTFP was approved by County Council on 9 February 2017. The MTFP highlighted that the outlook for the next few years remains unchanged from last year, with the overall picture for local government spending showing 'flat cash' between 2015-16 and 2019-20. The Chancellor of the Exchequer announced in his Autumn Budget Statement in November 2016 that despite a recalibration of the national fiscal targets for the deficit reduction, government departmental spending plans (which include local government) remain unchanged from the Spending Review announced in autumn 2015. Within this flat cash over the 4 years of the Spending Review were reductions for 2016-17 and 2017-18 followed by a recovery in the latter years. The Spending Review includes further reductions in central government Revenue Support Grant, assumed annual increases in council tax (including the social care levy introduced in 2016-17) and the Improved Better Care Fund to assist better collaboration between social care and health.

Adult social care is right at the top of the Council's priorities and County Council agreed to raise an additional 2% social care council tax levy which will raise an additional £12m specifically for social care. The government has also recognised the severe pressures on social care budgets. Initially in the Spending Review this included an Improved Better Care Fund (iBCF) as part of the local government settlement which saw £2.43bn nationally provided to local authorities with social care responsibilities over the 3 years from 2017 to 2020 (with allocations rising from £0.1bn in 2017-18 to £1.5bn in 2019-20). The December 2016 Local Government Finance Settlement saw a further £0.24bn made available as one-off funding for social care in 2017-18. This still left many authorities expressing concerns about social care spending. In the March 2017 Budget the Chancellor of The Exchequer announced a further £2.02bn to increase the iBCF, with half of this made available in 2017-18. This increased the iBCF for 2017-18 to £1.115bn, rising to £1.499bn in 2018-19 and £1.837bn in 2019-20. KCC, like all other authorities, had set its budget for 2017-18 before this grant was announced, for KCC the new iBCF amounted to an increase of £26.1m in 2017-18. These subsequent announcements of additional funding for social care have slightly improved the 4 year flat cash position and reduced the dip in funding originally scheduled in the Spending Review.

Other priorities include:

- Pressures in children's social care due to the increasing complexity of cases
- Significant numbers of unaccompanied asylum seeking children which the Council are supporting in care and the grant funding for 2017-18 is unresolved
- Outstanding issues regarding the reception centre process for the national transfer scheme
- The cost of care leavers, who now outnumber those under 18

The Council continues to have statutory responsibilities in other services that must be complied with. In particular our responsibilities in relation to schools remain, most notably supporting school improvement, despite the fact that government has removed a large element of the Education Services Grant from September (on a presumption earlier in the year that our responsibilities in relation to schools would significantly reduce). Effectively this amounts to a further (and significant) reduction in central government funding. Other vital services in relation to environment, economic development, highways, local community services, public transport and waste recycling and disposal must not be overlooked.

The budget for 2017-18 includes a 1.99% Council Tax increase (the maximum permitted without a formal referendum) to help fund the additional spending requirements across the full range of services.

Our council tax increase, which will see KCC's share for a band C property increase from £1,007.60 in 2016-17 to £1,047.87 in 2017-18 is seen as justifiable. Although the Council would have liked to keep increases lower, these are in line with the government's spending plans, but it has been essential to raise additional funds towards rising costs and to protect front line services.

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)
- 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.

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Corporate Director of Finance;
- 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 19 July 2017 on behalf of Kent County Council and have been re-signed as authorisation to issue.

Councillor Nick Chard
Chairman of the Governance and Audit Committee

The Corporate Director of Finance's Responsibilities

The Corporate Director of Finance 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 2017.

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

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

The Corporate Director of Finance has also:

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

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 2017.

Certificate of the Corporate Director of Finance

Andy Wood
Corporate Director of Finance
11 July 2017

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

	Notes	**Year ended 31 March 2017**		
		Gross Expenditure	**Gross Income**	**Net Expenditure**
Service		**£'000**	**£'000**	**£'000**
Education and Young People		1,034,404	880,779	153,625
Growth, Environment and Transport		304,206	49,186	255,020
Social Care, Health and Wellbeing				
- Specialist Children's Services		145,794	8,810	136,984
- Asylum Seekers		33,506	31,986	1,520
- Adult Services		493,571	122,854	370,717
- Public Health		75,856	77,426	-1,570
Strategic and Corporate Services		120,585	26,070	94,515
Financing Items		4,742	493	4,249
Cost of Services		**2,212,664**	**1,197,604**	**1,015,060**
Other operating Expenditure	**13**			65,351
Net Surplus on trading accounts	**34**			-4,494
Financing and Investment Inc and Exp	**14**			81,641
Taxation and Non Specific Grant Income	**15**			-1,048,215
(Surplus) or deficit on Provision of Services				**109,343**
(Surplus)/deficit arising on revaluation of non current assets			*	-91,924
Remeasurement of the net defined benefit liability			*	264,345
(Surplus)/deficit on revaluation of available for sale financial assets			*	313
Other Comprehensive Income and Expenditure				**172,734**
Total Comprehensive Income and Expenditure				**282,077**

Comprehensive Income and Expenditure Statement

Service	Notes	Restated Year ended 31 March 2016 Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Education and Young People		1,013,104	930,519	82,585
Growth, Environment and Transport		318,000	44,397	273,603
Social Care, Health and Wellbeing				
- Specialist Children's Services		145,981	8,704	137,277
- Asylum Seekers		29,447	27,651	1,796
- Adult Services		485,851	124,842	361,009
- Public Health		70,359	66,574	3,785
Strategic and Corporate Services		133,396	24,598	108,798
Financing Items		3,808	635	3,173
Cost of Services		**2,199,946**	**1,227,920**	**972,026**
Other operating Expenditure	**13**			26,401
Net Surplus on trading accounts	**34**			-4,360
Financing and Investment Inc and Exp	**14**			80,299
Taxation and Non Specific Grant Income	**15**			-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**

The Comprehensive Income and Expenditure Statement (CIES) for 2015-16 has been restated following the implementation of the 'Telling the Story' project which requires the CIES to be presented based on organisational structure. There has been no impact on the Total Comprehensive Income and Expenditure amount reported last year.

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. 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.

	Year ended 31 March 2016				
	General Fund Balance	Earmarked GF Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves
	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2015	**-33,294**	**-226,665**	**-23,229**	**-87,760**	**-370,948**
Movement in reserves during 2015-16					
Total Comprehensive Expenditure & Income	**43,365**	**0**	**0**	**0**	**43,365**
Adjustments between accounting basis & funding basis under regulations - Note 12	-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 23)	-14,402	14,402			**0**
Increase/Decrease (movement) in Year	**-3,110**	**14,402**	**-300**	**36,433**	**47,425**
	Year ended 31 March 2017				
Balance at 31 March 2016 carried forward	**-36,404**	**-212,263**	**-23,529**	**-51,327**	**-323,523**
Movement in reserves during 2016-17					
Total Comprehensive Expenditure & Income	**109,343**				**109,343**
Adjustments between accounting basis & funding basis under regulations - Note 12	-88,869		2,654	-13,869	**-100,084**
Net increase/Decrease before Transfers to Earmarked Reserves	**20,474**	**0**	**2,654**	**-13,869**	**9,259**
Transfers to/from Earmarked Reserves (total of *s on Note 23)	-20,741	20,741			**0**
Increase/Decrease (movement) in Year	**-267**	**20,741**	**2,654**	**-13,869**	**9,259**
Balance at 31 March 2017 carried forward	**-36,671**	**-191,522**	**-20,875**	**-65,196**	**-314,264**

Movement in Reserves Statement

	Total Usable Reserves	Unusable reserves	Total Council Reserves
	Year ended 31 March 2016		
	£'000	**£'000**	**£'000**
Balance at 31 March 2015	**-370,948**	**466,842**	**95,894**
Movement in Reserves during 2015-16			
Total Comprehensive Expenditure and Income	**43,365**	**-384,439**	**-341,074**
Adjustments between accounting basis & funding basis under regulations	4,060	-4,060	0
Net increase/Decrease before Transfers to Earmarked Reserves	**47,425**	**-388,499**	**-341,074**
Transfers to/from Earmarked Reserves (total of *s on Note 23)	0	0	0
Increase/Decrease (movement) in Year	**47,425**	**-388,499**	**-341,074**
	Year ended 31 March 2017		
Balance at 31 March 2016 carried forward	**-323,523**	**78,341**	**-245,182**
Movement in reserves during 2016-17			
Total Comprehensive Expenditure & Income	**109,343**	**172,734**	**282,077**
Adjustments between accounting basis & funding basis under regulations	-100,084	100,084	0
Net increase/Decrease before Transfers to Earmarked Reserves	**9,259**	**272,818**	**282,077**
Transfers to/from Earmarked Reserves (total of *s on Note 23)	0	0	0
Increase/Decrease (movement) in Year	**9,259**	**272,818**	**282,077**
Balance at 31 March 2017 carried forward	**-314,264**	**351,159**	**36,895**

Balance Sheet

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

		31 March 2017		31 March 16
	Notes	**£'000**	**£'000**	**£'000**
Property Plant & Equipment	**17**	2,444,492		2,380,546
Heritage Assets	**21**	7,779		7,663
Investment Property	**18**	47,212		48,649
Intangible assets		4,294		5,400
Long-term investments	**39**	176,763		130,782
Long-term debtors	**27**	83,883		89,921
Total long-term assets			2,764,423	2,662,961
Inventories		3,957		5,235
Assets held for sale (<1yr)		1,713		2,332
Short term debtors	**27**	183,607		168,203
Short-term investments	**39**	72,483		127,965
Cash and Cash equivalents	**29**	47,787		51,469
Total current assets			309,547	355,204
Temporary borrowing	**39**	-104,952		-32,943
Short term Lease Liability	**39**	-5,982		-5,403
Short term provisions	**26**	-18,955		-19,906
Creditors	**28**	-245,817		-229,348
Total Current liabilities			-375,706	-287,600
Creditors due after one year	**28**	-35		-47
Provisions	**26**	-11,520		-13,184
Long-term borrowing	**39**	-873,440		-959,991
Other Long Term Liabilities	**38/39**	-1,806,526		-1,459,035
Capital Grants Receipts in Advance	**16**	-43,638		-53,128
Long Term Liabilities			-2,735,159	-2,485,385
Net Assets/(Liabilities)			-36,895	245,180
Usable Reserves	**23**	-314,264		-323,523
Unusable Reserve	**24**	351,159		78,343
Total Reserves			36,895	-245,180

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	2016-2017 £'000	2015-2016 £'000
Net (Surplus) or deficit on the provision of services		109,343	43,365
Adjustments to net surplus or deficit on the provision of services for non cash movements	**30**	-359,092	-298,549
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**30**	191,682	194,182
Net cash flows from operating activities		-58,067	-61,002
Investing Activities	**32**	44,928	105,462
Financing Activities	**33**	16,821	6,842
Net increase(-) or decrease in cash and cash equivalents		3,682	51,302
Cash and cash equivalents at the beginning of the reporting period		51,469	102,771
Cash and cash equivalents at the end of the reporting period	**29**	47,787	51,469

Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates/services/departments. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	Year ended 31 March 2017				
	As reported to Management	**Adjustments to arrive at the net amount chargeable to the General Fund Balance**	**Net Expenditure Chargeable to the General Fund**	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Education and Young People	48,373	29,363	77,736	75,889	**153,625**
Growth, Environment and Transport	165,846	810	166,656	88,364	**255,020**
Social Care, Health and Wellbeing					
- Specialist Children's Services	132,964	1,527	134,491	2,493	**136,984**
- Asylum Seekers	1,516	0	1,516	4	**1,520**
- Adult Services	361,941	-448	361,493	9,224	**370,717**
- Public Health	0	-1,652	-1,652	82	**-1,570**
Strategic and Corporate Services	69,659	6,276	75,935	18,580	**94,515**
Financing Items	137,062	-132,814	4,248	1	**4,249**
Delegated Schools Budget	23,645	-23,645	0	0	**0**
Cost of Services	**941,006**	**-120,583**	**820,423**	**194,637**	**1,015,060**
Other Income and Expenditure	-921,133	121,184	-799,949	-105,768	**-905,717**
Surplus or Deficit	**19,873**	**601**	**20,474**	**88,869**	**109,343**
Opening General Fund Balance			-248,667		
Less/Plus Surplus or (Deficit) on General Fund in Year			20,474		
Closing General Fund Balance at 31 March			**-228,193**		

Note 10a on pages 38 to 40 provides a explanation of the main adjustments to the Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

Expenditure and Funding Analysis

	Year ended 31 March 2016				
	As reported to Management	Adjustments to arrive at the net amount chargeable to the General Fund Balance	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Education and Young People	53,887	11,937	65,824	16,761	**82,585**
Growth, Environment and Transport	170,790	1,111	171,901	101,702	**273,603**
Social Care, Health and Wellbeing					
- Specialist Children's Services	130,640	3,538	134,178	3,099	**137,277**
- Asylum Seekers	1,655	131	1,786	10	**1,796**
- Adult Services	347,868	3,770	351,638	9,371	**361,009**
- Public Health	0	3,785	3,785	0	**3,785**
Strategic and Corporate Services	69,195	8,644	77,839	30,959	**108,798**
Financing Items	149,167	-146,061	3,106	67	**3,173**
Delegated Schools Budget	6,967	-6,967	0		**0**
Net Cost of Services	**930,169**	**-120,112**	**810,057**	**161,969**	**972,026**
Other Income and Expenditure	-930,812	132,047	-798,765	-129,896	**-928,661**
Surplus or Deficit	**-643**	**11,935**	**11,292**	**32,073**	**43,365**
Opening General Fund Balance			-259,959		
Less/Plus Surplus or (Deficit) on General Fund in Year			11,292		
Closing General Fund Balance at 31 March			**-248,667**		

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 2016-17 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.

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 assets, including its share of any assets held jointly
- its expenses, including its share of any expenses incurred jointly.

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 2017-18 there are amendments to the following accounting standards:

There are reporting amendments in respect of the Pension Fund accounts - these amendments relate to pension fund transaction costs and investment concentration.

The impact of the above amendments will be reflected in the 2017-18 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 where 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 2016-17 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. £357m worth of assets in the balance sheet have not been revalued in 2016-17. 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.

Eight schools on the balance sheet as at 31 March 2017 are due to convert to academy status between 1 June 2017 and 1 September 2017. The net book value of these assets as at 31 March 2017 is £51.4m. An additional £0.2m included in the balance sheet as at 31 March 2017 relates to playing fields at Voluntary Aided/Church schools that have or will convert to academy status in 2017-18.

- 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 £15.2m, of which £6m is held in wholly-owned subsidiaries 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.

- The implementation of the 'Telling the Story' project has required the Comprehensive Income and Expenditure Statement to be presented based on the Council's organisational structure. The previous year's Comprehensive Income and Expenditure Statement has been restated for comparator purposes. This change has not been deemed as a prior year adjustment as there is no impact on the Total Comprehensive Income and Expenditure amount reported last year.

- The Council received £2.96m in Icelandic Kroner (ISK) for Iceland-domiciled accounts and this has been placed in Escrow accounts. The Council is going to auction to sell the ISK during 2017-18 but due to uncertainty around the value that will be achieved the Council has judged that a post balance sheet event is not required.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.
The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £4.36m 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 £13.07m - this is not material.
	Under component accounting the authority has applied a de minimus threshold for each category of asset that is revalued in the current year. In 2016-17 the following de minimus thresholds were applied: 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	If all assets had been componentised the difference between depreciation under componentisation and non componentisation is £9.199m. Over 3 years this would give a difference of £27.6m - this is not material.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and 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.	The increase 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 decreased from 0.4% to -0.9% 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 2016-17, the Council's actuaries advised that the net pensions liability had decreased by £110m as a result of estimates being corrected due to experience and decreased by £806m attributable to the updating of the assumptions.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Leases	For a number of leases identified by schools and directorates we have had to make assumptions on the fair value of the assets. This has been obtained by identifying the current costs of similar assets.	As the total depreciated value of leases is only £826k the effect of the estimation is not material.
Fair Value measurements	Surplus and Investment Properties cannot be measured based on quoted prices in active markets (i.e. 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. Information about valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes 17, 18 and 39 below.	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 revenue debtors and creditors from £1,000 to £5,000.	Implementing the changes have caused no significant issues.

Note 6. Officers Remuneration

<u>Accounting Policy</u>

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 former 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 former 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.

– net interest on the net defined benefit liability (asset), i.e. the net interest expense for the Council - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (assets) during the period as a result of contribution and benefit payments.

Remeasurement comprising:
– net return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

– actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve.

– contributions paid to the Kent Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2016 to 31 March 2017

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 2016-17, was £50,000 or more.

Remuneration includes:-

a) all sums paid to or receivable by an employee including non-taxable termination payments, redundancy payments and pay in lieu of notice. This includes all payments, regardless of whether or not they were due in the year e.g. advance payment of salary in lieu of notice.

b) expense allowances chargeable to tax i.e. the profit element of car allowances; and

c) the money value of benefits such as leased cars and health insurance

d) but excludes Employer's Pension contributions

Remuneration	**Total number of employees**			
(£)	Non-Schools 31 March 2017	Schools 31 March 2017	Non-Schools 31 March 2016	Schools 31 March 2016
50,000 - 54,999	184	192	188	180
55,000 - 59,999	122	134	115	154
60,000 - 64,999	50	119	48	103
65,000 - 69,999	42	64	44	52
70,000 - 74,999	28	39	31	32
75,000 - 79,999	7	18	15	19
80,000 - 84,999	12	18	19	7
85,000 - 89,999	6	12	10	6
90,000 - 94,999	9	4	14	7

Note 6 - Officers Remuneration

Remuneration	**Total number of employees**			
(£)	Non-Schools 31 March 2017	Schools 31 March 2017	Non-Schools 31 March 2016	Schools 31 March 2016
95,000 - 99,999	9	8	8	6
100,000 - 104,999	0	4	4	2
105,000 - 109,999	3	4	6	4
110,000 - 114,999	5	1	4	3
115,000 - 119,999	1	4	0	3
120,000 - 124,999	1	1	3	0
125,000 - 129,999	1	0	0	0
130,000 - 134,999	1	0	2	1
135,000 - 139,999	1	0	2	0
140,000 - 144,999	2	0	0	0
145,000 - 149,999	0	0	1	0
150,000 - 154,999	1	1	0	0
155,000 - 159,999	1	0	0	0
160,000 - 164,999	0	0	1	0
165,000 - 169,999	0	0	1	0
170,000 - 174,999	1	0	0	0
175,000 - 179,999	0	1	0	0
180,000 - 184,999	0	0	1	0
185,000 - 189,999	1	0	0	0
190,000 - 194,999	0	0	0	0
195,000 - 199,999	0	0	0	0
200,000 - 204,999	1	0	1	0
Total	**489**	**624**	**518**	**579**

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 £150,000 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 remuneration paid to the Authority's senior employees for 2016-17 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remun-eration excl pension Contributions £	Employer Pension Contributions £	Total Remun-eration incl pension Contributions £
Corporate Director Business Strategy & Support - David Cockburn		193,385				7,660	201,045	42,219	243,264
Corporate Director Families & Social Care - Andrew Ireland		189,381					189,381	39,770	229,151
Corporate Director Education Learning & Skills - Patrick Leeson		160,804		7,212		2,707	170,723	35,852	206,575
Director of Governance & Law - Geoff Wild	1	37,821				2,347	40,168	7,815	47,983
Corporate Director Growth, Environment & Transport -Barbara Cooper		143,236					143,236	30,079	173,315

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2016-17 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remun-eration excl pension Contributions £	Employer Pension Contributions £	Total Remun-eration incl pension Contributions £
Corporate Director Finance - Andy Wood		139,469				5,523	144,992	30,448	175,440
Corporate Director Human Resources - Amanda Beer		136,020					136,020	28,564	164,584
Director Public Health - Andrew Scott-Clark		108,070					108,070		108,070
General Counsel - Ben Watts	2	70,995					70,995	14,909	85,904

* This includes all contractual entitlements.

Note 6 - Officers Remuneration

Notes **The remuneration paid to the Authority's senior employees for 2016-17 is as follows:**

1 Mr Wild left the post of Director of Governance and Law on 30 June 2016. The annualised salary for this post was £146,292.

2 Mr Watts has been General Counsel since 1 July 2016. The annualised salary for this post is £96,649.

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 Remun-eration excl pension Contributions £	Employer Pension Contributions £	Total Remun-eration incl pension Contributions £
Corporate Director Business Strategy & Support - David Cockburn		191,471				9,479	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		159,212		7,141		1,577	167,930	35,265	203,195
Director of Governance & Law - Geoff Wild		142,563				3,418	145,981	29,716	175,697
Corporate Director Growth, Environment & Transport -Barbara Cooper		139,456					139,456	29,586	169,042

Note 6 - Officers Remuneration

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 Remun-eration excl pension Contributions £	Employer Pension Contributions £	Total Remun-eration incl pension Contributions £
Corporate Director Finance - Andy Wood		138,088				199	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

* This includes all contractual entitlements.

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 74% of those are compulsory redundancies. We do not have detail across bands £0 - £20,000 and £20,001 - £150,000 and have applied this percentage equally to both of these bands. The total cost in 2016-17 of £2.3m includes schools and commitments in 2017-18. The increase in the number of exit packages is largely the result of the imminent closure of Pent Valley School.

(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	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £	2016/17 £
20,001-150,000	9	21	27	7	36	28	985,596	848,757
0-20,000	35	183	103	64	138	247	1,257,397	1,464,645
Total	**44**	**204**	**130**	**71**	**174**	**275**	**2,242,993**	**2,313,402**

Note 7. Members Allowances

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

	2016-17 £'000	2015-16 £'000
Salaries	0	0
Allowances	1,629	1,641
Expenses	121	127
Total	**1,750**	**1,768**

In 2016-17 the cost of the County Cars was £35.7k (£48.2k in 2015-16).

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.

All the Icelandic banks deposits have been repaid with the exceptions of an £300,000 relating to Heritable Bank where the final dividend is delayed due to litigation involving a property development.

As part of the 100% recovery we received £2.96m in Icelandic Kroner for Iceland-domiciled accounts during 2011-12. This is placed in Escrow accounts and is reflected in the balance sheet as a short term investment.

Note 9. Material Items of Income and Expense

<u>Accounting Policy</u>

Exceptional Items

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

Material Items of Income and Expense

The net loss on disposal of non-current assets of £64.6m includes a loss of £62m which relates to schools transferring to academy status, at nil value, as instructed by the Secretary of State for Education.

Note 10a - Note to the Expenditure and Funding Analysis

Note 10a. Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to the Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

2016-17	**Drawdown to/from Reserves (Note 1)**	**Investment Income reported at Directorate Level (Note 1)**	**Strategic & Corporate Services Recharges (Note 1)**	**Realignment of Financing Items for Accounting Purposes (Note 1)**	**Adjustments for Trading Activities (Note 1)**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Education and Young People	26,030	2,422	445	466	
Growth, Environment and Transport	-1,521	116	2,078		137
Social Care, Health and Wellbeing					
- Specialist Children's Services	1,459		68		
- Asylum Seekers					
- Adult Services	-601		153		
- Public Health	-1,652				
Strategic and Corporate Services	7,919	1,101	-2,744		
Financing Items	-16,358	7,213		-123,669	
Delegated Schools Budgets	-23,645				
Net Cost of Services	**-8,369**	**10,852**	**0**	**-123,203**	**137**
Other income and expenditure from the Expenditure and Funding Analysis	7,611	-10,852		123,203	1,222
Total	**-758**	**0**	**0**	**0**	**1,359**

2016-17	**Total to arrive at amount charged to the General Fund**	**Adjustments for Capital Purposes (Note 2)**	**Net change for the Pensions Adjustments (Note 3)**	**Other Differences (Note 4)**	**Total Adjustment between Funding and Accounting Basis**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Education and Young People	**29,363**	66,389	9,891	-391	**75,889**
Growth, Environment and Transport	**810**	85,234	2,246	884	**88,364**
Social Care, Health and Wellbeing					
- Specialist Children's Services	**1,527**	283	2,229	-19	**2,493**
- Asylum Seekers	**0**		4		**4**
- Adult Services	**-448**	5,326	3,993	-95	**9,224**
- Public Health	**-1,652**		82		**82**
Strategic and Corporate Services	**6,276**	13,431	4,533	616	**18,580**
Financing Items	**-132,814**		1		**1**
Delegated Schools Budgets	**-23,645**				**0**
Net Cost of Services	**-120,583**	**170,663**	**22,979**	**995**	**194,637**
Other income and expenditure from the Expenditure and Funding Analysis	**121,184**	-133,163	34,473	-7,078	**-105,768**
Total	**601**	**37,500**	**57,452**	**-6,083**	**88,869**

Note 10a - Note to the Expenditure and Funding Analysis

2015-16	Drawdown to/from Reserves (Note 1)	Investment Income reported at Directorate Level (Note 1)	Strategic & Corporate Services Recharges (Note 1)	Realignment of Financing Items for Accounting Purposes (Note 1)	Adjustments for Trading Activities (Note 1)
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Education and Young People	8,595	2,434	221	687	
Growth, Environment and Transport	-360	238	1,047	72	114
Social Care, Health and Wellbeing					
- Specialist Children's Services	3,368		34	136	
- Asylum Seekers	131				
- Adult Services	3,561		76	133	
- Public Health	3,777	7		1	
Strategic and Corporate Services	9,365	515	-1,378	142	
Financing Items	-22,192	6,031		-129,900	
Delegated Schools Budgets	-6,967				
Net Cost of Services	**-722**	**9,225**	**0**	**-128,729**	**114**
Other income and expenditure from the Expenditure and Funding Analysis	10,910	-9,225		128,729	1,633
Total	**10,188**	**0**	**0**	**0**	**1,747**

2015-16	Total to arrive at amount charged to the General Fund	Adjustments for Capital Purposes (Note 2)	Net change for the Pensions Adjustments (Note 3)	Other Differences (Note 4)	Total Adjustment between Funding and Accounting Basis
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Education and Young People	**11,937**	798	15,838	125	**16,761**
Growth, Environment and Transport	**1,111**	98,378	2,420	904	**101,702**
Social Care, Health and Wellbeing					
- Specialist Children's Services	**3,538**	167	3,117	-185	**3,099**
- Asylum Seekers	**131**		10		**10**
- Adult Services	**3,770**	2,481	4,744	2,146	**9,371**
- Public Health	**3,785**				**0**
Strategic and Corporate Services	**8,644**	23,901	6,515	543	**30,959**
Financing Items	**-146,061**		67		**67**
Delegated Schools Budgets	**-6,967**				**0**
Net Cost of Services	**-120,112**	**125,725**	**32,711**	**3,533**	**161,969**
Other income and expenditure from the Expenditure and Funding Analysis	**132,047**	-159,467	30,675	-1,104	**-129,896**
Total	**11,935**	**-33,742**	**63,386**	**2,429**	**32,073**

1. Adjustments to arrive at amount charged to the General Fund

Drawdown to and from Reserves – for management reporting purposes the Council includes drawdowns to and from reserves, this needs reversing to arrive at amount chargeable to the General Fund.

Investment Income and realignment of Financing Items for Accounting Purposes – the Council also includes investment income in its directorate reporting and within Financing Items are such items as interest payable, Minimum Revenue Provision (MRP) and bank fees, however this is reported in the financial statements below the cost of services line and the table above shows these items being reallocated.

Note 10a - Note to the Expenditure and Funding Analysis

Strategic & Corporate Recharges – for management reporting purposes the Council records Members Grants to Strategic and Corporate Services, however for accounting purposes this is reallocated across the other directorates.

Trading Activities – for management reporting purposes the Council includes the contribution received from its trading activities, however this needs adjusting to reflect the surplus or deficit of the trading activities. The Council also is required to consolidate a joint operation into its accounts.

2. Adjustments for Capital Purposes

Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

3. Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For **Financing and investment income and expenditure** –- the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement.

4. Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

For services this represents the following:

i) The finance costs charged to the Comprehensive Income and Expenditure Statement that are different from the finance chargeable in the year in accordance with statutory requirements.

ii) The officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis that is different from the remuneration charged in the year in accordance with statutory requirements.

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Note 10b - Segmental Income and Note 11 - Expenditure and Income Analysed by Nature

Note 10b. Segmental Income

Income from Sales, Fees and Charges, including Internal Recharges, are analysed on a segmental basis below:

	2016-17 £000's	2015-16 £000's
Education and Young People	-75,622	-76,320
Growth, Environment and Transport	-31,908	-32,799
Social Care, Health and Wellbeing		
- Specialist Children's Services	-13,565	-12,395
- Asylum Seekers	-1	-1
- Adult Services	-70,254	-68,331
- Public Health	-190	-58
Strategic and Corporate Services	-59,466	-70,110
Financing Items	-200	-171
Total Income analysed on a segmental basis	**-251,206**	**-260,185**

Note 11. Expenditure and Income Analysed by Nature

The authority’s expenditure and income is analysed as follows:

	2016-17	2015-16
Expenditure/Income	**£000's**	**£000's**
Expenditure		
Employee benefits expenses	834,145	851,015
Other services expenses	1,519,963	1,557,025
Support service recharges	75,646	82,964
Depreciation, amortisation, impairment	163,229	117,458
Interest payments including interest on Defined Liability of the Pension Fund	113,316	116,590
Precepts and levies	753	735
Gain on the disposal of assets	64,563	25,783
Total expenditure	**2,771,615**	**2,751,570**
Income		
Fees, charges and other service income	-548,259	-576,908
Interest and investment income	-24,511	-24,650
Income from council tax and non domestic rates	-648,931	-608,324
Government grants and contributions	-1,440,571	-1,498,323
Total income	**-2,662,272**	**-2,708,205**
Surplus or Deficit on the Provision of Services	**109,343**	**43,365**

Note 12. Adjustments between accounting basis and funding basis under regulations

31 March 2017	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	-144,436			144,436
Revaluation losses on Property Plant and Equipment and Assets held for Sale	-16,385			16,385
Movements in the fair value of Investment Properties	-2,692			2,692
Amortisation of intangible assets	-2,407			2,407
Capital Grants and contributions applied	121,925			-121,925
Income in relation to donated assets	7,152			-7,152
In year revenue expenditure funded from capital under statute	-58,946			58,946
Prior year revenue expenditure funded from capital under statute	-7,375			7,375
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	-74,152			74,152
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	62,032			-62,032
Capital expenditure charged against the General Fund	15,400			-15,400
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	44,205		-44,205	0
Application of grants to capital financing transferred to the Capital Adjustment Account			30,336	-30,336
Cessation of recyclable grant repaid to accountable body	-219	219		0
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	9,569	-9,569		0

Note 12 - 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
Transfer of cash sale proceeds from disposal of investment property credited to the Comprehensive Income and Expenditure Statement	8,422	-8,422		0
Use of the Capital Receipts Reserve to finance new capital expenditure		31,592		-31,592
Loan repayments	20	-11,166		11,146
Movement in Donated Asset Account	388			-388
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	1,902			-1,902
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-128,183			128,183
Employer's pensions contributions and direct payments to pensioners payable in the year	70,731			-70,731
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	4,342			-4,342
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	-162			162
Total Adjustments	**-88,869**	**2,654**	**-13,869**	**100,084**

Note 12. 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	-1229		0

Note 12 - 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 13. Other Operating Expenditure

	2016-17 £000's	2015-16 £000's
Levies	753	735
Gains/Losses on the disposal of non-current assets	64,563	25,782
Assets held for Sale - revaluation movements	35	-116
	65,351	26,401

Note 14. Financing and investment income and expenditure

	2016-17 £000's	2015-16 £000's
Interest payable and similar charges	71,410	73,894
Net interest on the net defined benefit liability	42,225	43,041
(Gain)/loss from settlements	-9,044	-13,758
Pensions - Administration expenses	1,292	1,392
Interest receivable and similar income	-14,408	-8,660
Income and expenditure in relation to investment properties and changes in their fair value	-6,344	-11,916
Other investment income	-3,490	-3,694
	81,641	80,299

Note 15. 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 2017 the Council's estimated share of these liabilities is £6.2m.

Note 15 - Taxation and non specific grant income and Note 16 - Grant Income

	2016-17 £000's	2015-16 £000's
Income from Council Tax	-595,939	-560,377
Non-domestic rates income and expenditure	-52,992	-47,947
Non-ringfenced government grants	-399,284	-422,677
	-1,048,215	-1,031,001

KCC's share of surplus on the Council Tax has increased by £1.5m (2015-16 surplus increased by £4.3m). For 2016-17 the Business Rate Collection Fund deficit decreased by £2.8m. See the Collection Fund Adjustment Account detailed in Note 24.

Note 16. 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 2016-17:

	2016-17 £'000	2015-16 £'000
Credited to Taxation and Non Specific Grant Income		
Council Tax	-595,939	-560,377
Business Rates	-52,992	-47,947
Revenue Support Grant	-235,388	-283,944
Local Services Support Grant	-1,393	-1,766
Other Grants	-18,719	-14,619
New Homes Bonus Grant	-9,306	-7,880
Business Rate Compensation Grant	-4,158	-4,474
Capital Government Grants and Contributions	-130,320	-109,994
Total	-1,048,215	-1,031,001
Credited to Services		
Dedicated Schools Grant	-664,000	-677,826
Education Funding Agency	-77,883	-82,446
Other DFES Grants	-42,068	-76,457
Department of Health Grants	-72,481	-65,878
Asylum	-31,814	-27,651
Other	-77,474	-74,381
Total	-965,720	-1,004,639

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 donor. The balances at the year-end are as follows:

	2016-17	2015-16
	£'000	£'000
Capital Grants Receipts in Advance		
Department for Education	0	-4,865
Other Grants	-13,843	-14,821
Other Contributions	-29,795	-33,442
Total	-43,638	-53,128

Note 17. 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 17 - 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 26.

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 17 - 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 £64.6m includes a loss of £62m 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 normally only be used for new capital investment. There are certain circumstances that allow revenue expenditure to be funded from capital receipts, for example the revenue costs associated with transformation. 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 17. Property, Plant & Equipment

Movement on balances - Movements in 2016-2017

	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 2016	1,590,175	89,210	1,580,400	9,864	89,275	38,910	3,397,834	278,170
Additions	115,504	6,172	51,908	0	77,440	3,886	254,910	37,637
Donations	0					610	610	
Revaluation increases / (decreases) recognised in the Revaluation Reserve	39,016					11,119	50,135	9,348
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-26,058					-2,877	-28,935	-10,518
Derecognition - Disposals	-64,837	-3,890			-5,679	-5,270	-79,676	

Property, Plant & Equipment - Movements in 2016-2017

	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	0				0	0	
Assets reclassified (to) / from Held for Sale	-371					-870	-1,241	
Other Movements in cost or valuation*	-4,588	-1	0	177	-53,785	10,344	-47,853	3,996
At 31 March 2017	**1,648,841**	**91,491**	**1,632,308**	**10,041**	**107,251**	**55,852**	**3,545,784**	**318,633**

* This line shows a movement of -£47,853k which includes -£53,785k which relates to amounts removed from the AUC balance following our annual review of AUC and completed capital works.

Property, Plant & Equipment - Movements in 2016-2017

	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 2016	-32,158	-70,038	-915,084	0	0	-8	-1,017,288	-8,420
Depreciation Charge	-58,531	-5,371	-79,020			-1,177	-144,099	-8,010
Depreciation written out to the Revaluation Reserve	41,361					313	41,674	5,723
Depreciation written out to the Surplus / Deficit on the Provision of Services	12,355					229	12,584	2,428
Impairment (losses) / reversals recognised in the Revaluation Reserve							0	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	-128				-209		-337	

Property, Plant & Equipment - Movements in 2016-2017

	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	2,177	3,661				0	5,838	
Derecognition - Other	0	0				0	0	
Other movements in Depreciation and Impairment	218	-1	0		209	-90	336	
At 31 March 2017	**-34,706**	**-71,749**	**-994,104**	**0**	**0**	**-733**	**-1,101,292**	**-8,279**
Net Book Value								
At 31 March 2017	**1,614,135**	**19,742**	**638,204**	**10,041**	**107,251**	**55,119**	**2,444,492**	**310,354**
At 31 March 2016	**1,558,017**	**19,172**	**665,316**	**9,864**	**89,275**	**38,902**	**2,380,546**	**269,750**

Note 17. 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 - Comparative 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 - Comparative 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 - Comparative Movements in 2015-2016

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Communit y 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 17 - 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 2017 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 £'000
Valued at current value as at:	
1 April 2012	350,976
Restated 1 April 2013	905,326
31 March 2015	1,304,025
31 March 2016	1,288,023
31 March 2017	1,269,486

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 2016-17 all land and buildings which have not had a valuation within the last four years have been valued. All schools, adult education centres, youth centres and children's centres 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 2016-17 and are confident that the carrying amount of these assets as at 31 March 2017 is not materially different to their current value as at 31 March 2017.

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

Note 17 - 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 2017 (excluding in year additions) are as follows:

Recurring fair value measurements using:	**Level 2 inputs**	**Level 3 inputs**	**Fair value as at 31 March 2017**	**Level 2 Valuation Technique**	**Level 3 Valuation Technique**
	£000's	**£000's**	**£000's**		
Residential developments	10,715	22,160	32,875	*Market approach*	*Market approach*
Non-residential institutions	0	5,955	5,955		*Income approach*
Over 55 sheltered housing	0	0	0		*N/A*
Industrial development/commercial development/amenity land/educational land/woodland	0	10,056	10,056		*Market approach*
Residential dwellings	0	2,346	2,346		*Market approach*
	10,715	**40,517**	**51,232**		

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

NB The council does not have any Level 1 valuations

Note 17 - Property, Plant and Equipment

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:

	2016-17 £000's	2015-16 £000's
Opening balance	31,478	31,478
Transfers into Level 3	8,274	
Transfers out of Level 3	-4,145	
Additions	0	
Donations	129	0
Derecognition	-3,175	0
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	-2,648	0
Total gains or (losses) for the period included in Other Comprehensive Income and Expenditure resulting from changes in the fair value	11,432	0
Depreciation charge	-828	0
Closing balance	40,517	31,478

£2.6m 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 £11.4m 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 31/03/17 £000's	Unobservable input	Quantitative Information	Sensitivity
Residential Developments	22,160	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	5,955	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	0	N/A	N/A	N/A
Industrial development/commercial development/amenity land/educational land/woodland	10,056	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	2,346	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	40,517			

Valuation Process for Surplus Assets

The fair value of the council's surplus assets is measured at least every four years in line with our 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 76 assets is their current use. Of the remaining 57 assets, 51 are vacant, 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:

	2016-17
	£000
LED Conversion	19,000

Note 18 - 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:

	2016-17	**2015-16**
	£000's	**£000's**
Rental income from Investment Property	613	696
Direct operating expenses arising from Investment Property	-434	-262
Net gain/(loss)	179	434

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 18 - Investment Property

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

	2016-17 £000's	2015-16 £000's
Balance at start of the year	48,649	34,151
Additions:		
• Purchases	494	3,235
• Construction		
• Subsequent expenditure		
Disposals	-8,765	-76
Net gains/losses from fair value adjustments	6,205	10,096
Transfers:		
• to/from Inventories		
• to/from Property, Plant & Equipment	629	1,243
Other Changes		
Balance at end of the year	**47,212**	**48,649**

Fair Value Hierarchy

Details of the authority's investment properties and information about the fair value hierarchy as at 31 March 2017 (excluding in year additions) are as follows:

Recurring fair value measurements using:	Level 2 inputs £000's	Level 3 inputs £000's	Fair value as at 31 March 2017 £000's	Level 2 Valuation Technique	Level 3 Valuation Technique
Residential developments	16,251	5,428	21,679	*Market approach*	*Market approach*
Offices	8,441		8,441	*Income approach*	
Industrial development/commercial development/amenity land	2,270	3,186	5,456	*Market approach*	*Market approach*
Residential dwellings		2,658	2,658		*Market approach*
Non-residential institutions		6,456	6,456		*Income approach*
Age related assisted living			0		
Key Worker Accommodation		1,140	1,140		*Market approach*
Ransom Strip	1,000		1,000	*Market approach*	
Golf Course	330		330	*Income approach*	
Commercial Property	-938		-938	*Income approach*	
Agricultural Land		15	15		*Income approach*
	27,354	**18,883**	**46,237**		

Note 18 - Investment Property

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

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 investment property held at fair value, are analysed below:

	2016-17	2016-17
	£000's	£000's
Opening balance	10,964	10,964
Transfers into Level 3	148	
Transfers out of Level 3		
Additions	2,852	
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	4,919	0
Closing balance	18,883	10,964

£4.9m 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 31/03/17 £000's	Unobservable input	Quantitative Information	Sensitivity
Residential Developments	5,428	1) Estimated revenue streams 2) Estimated construction costs 3) Estimated profit margins	1) £90,000 - £400,000 per unit 2) £129.00 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	3,187	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	2,658	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	6,455	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	15	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

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

	Fair Value as at 31/03/17 £000's	Unobservable input	Quantitative Information	Sensitivity
Key Worker Accommodation	1,140	1) Estimated sales value 2) Estimated yield	1) £90 pw per unit 2) £65,000 per unit	Significant changes in unobservable inputs could result in a significantly lower or higher fair value
Total	18,883			

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 48 of the 58 properties is their current use. Of the remaining 10 properties, 4 are held for capital appreciation as investments, 2 are vacant and 4 have alternative uses as a result of existing lease arrangements.

Note 19. 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 19 - Capital Expenditure and Financing and Note 20 - PFI and Similar Contracts

	2016-17 £000's	2015-16 £000's
Opening Capital financing requirement	1,348,259	1,382,856
Capital investment		
Property, Plant and Equipment	208,868	134,183
Revenue expenditure funded from capital under statute	58,946	97,544
Long Term Debtors	3,449	16,475
Other	4,156	7,113
	1,623,678	1,638,171
Sources of finance		
Capital receipts	-31,592	-16,874
Government grants and other contributions	-152,261	-193,670
Direct revenue contributions	-15,401	-14,857
(MRP/loans fund principal)	-62,032	-64,511
Closing Capital Financing Requirement	1,362,392	1,348,259
Movement	**14,133**	**-34,597**

	2016-17 £000's	2015-16 £000's
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	0	0
Increase in underlying need to borrow (unsupported by Government financial assistance)	-19,902	-38,339
Assets acquired under PFI contracts	34,035	3,742
Increase/(decrease) in Capital Financing Requirement	**14,133**	**-34,597**

Note 20. PFI and Similar Contracts

<u>Accounting Policy</u>

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 20. 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 2016	119,801	3,528	9,528	83,260	42,870	4,119	263,106
Additions	1,304	94	138	415	332	35,354	37,637
Transfers in						3,996	3,996
Revaluations	11,468	386	0	0	4,310	-2,821	13,343
Depreciation	-4,099	-131	-245	-2,062	-1,338	-62	-7,937
As at 31 March 2017	128,474	3,877	9,421	81,613	46,174	40,586	310,145

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 2016	70,006	8,480	12,953	54,018	58,824	3,669	207,950
Additions						34,035	34,035
Liability repaid	-1,739	-167	-500	-1,120	-1,257	-925	-5,708
As at 31 March 2017	68,267	8,313	12,453	52,898	57,567	36,779	236,277

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 20 - 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	1,592	5,979	3,239	1,373	12,183
Within 2-5 years	8,383	22,408	13,790	5,093	49,674
Within 6-10 years	12,856	23,651	19,268	10,418	66,193
Within 11-15 years	19,791	17,079	21,800	11,056	69,726
Within 16-20 years	25,644	6,095	19,472	5,163	56,374

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	198	1,220	724	612	2,754
Within 2-5 years	1,957	4,385	3,094	1,386	10,822
Within 6-10 years	5,151	3,251	4,382	1,591	14,375
Within 11-15 years	1,004	147	434	52	1,637

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	360	963	1,562	422	3,307
Within 2-5 years	1,188	3,650	6,708	2,548	14,094
Within 6-10 years	2,600	3,854	9,527	2,868	18,849
Within 11-15 years	4,682	2,566	10,991	1,553	19,792
Within 16-20 years	3,625	466	2,395	217	6,703

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	1,053	3,757	0	561	5,371
Within 2-5 years	5,242	14,226	0	2,016	21,484
Within 6-10 years	8,492	15,536	0	2,827	26,855
Within 11-15 years	12,446	11,885	0	2,524	26,855
Within 16-20 years	17,681	6,901	0	2,272	26,854
Within 21-25 years	7,984	804	0	163	8,951

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

Note 20 - PFI and Similar Contracts

3 BSF Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,530	5,349	2,057	341	9,277
Within 2-5 years	6,978	19,916	8,755	2,315	37,964
Within 6-10 years	11,014	20,824	12,232	6,002	50,072
Within 11-15 years	15,416	15,180	13,840	8,843	53,279
Within 16-20 years	22,628	5,685	10,178	2,590	41,081

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	1,114	1,673	1,097	46	3,930
Within 2-5 years	4,874	6,178	4,387	285	15,724
Within 6-10 years	6,473	6,434	5,483	1,264	19,654
Within 11-15 years	6,858	4,968	5,483	2,345	19,654
Within 16-20 years	8,500	3,250	5,483	2,421	19,654
Within 21-25 years	8,958	1,113	7,112	1,814	18,997

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	5,847	18,941	8,679	3,355	36,822
Within 2-5 years	28,622	70,763	36,734	13,643	149,762
Within 6-10 years	46,586	73,550	50,892	24,970	195,998
Within 11-15 years	60,197	51,825	52,548	26,373	190,943
Within 16-20 years	78,078	22,397	37,528	12,663	150,666
Within 21-25 years	16,942	1,917	7,112	1,977	27,948
Total	236,272	239,393	193,493	82,981	752,139

Swan Valley and Craylands, 6 Group Schools, and 3 BSF Schools

On 24 May 2001, the Council contracted with Newschools (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 (now Holmesdale School), 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 20 - 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 Company 1 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 2016-17 the Council made payments of £3.96m 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 £4.08m for 2017-18 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

The NHS are the accountable body for this PFI arrangement and in accordance with accounting procedures this is not included on KCC's balance sheet. However in 2017-18 the Council is committed to making payments estimated at £2.81m per year under a contract with Land Securities Group Plc 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 (£2.73m was paid in 2016-17). 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 Ltd (a wholly owned subsidiary of Housing & Care 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 2016-17 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 was completed during the year and all buildings are now fully operational. During the year the Council made unitary charge payments of £2.4m to the contractor. This will be higher next year as the construction is now complete and the charge will reflect a full year payment. The contract runs until 2040-41.

Note 21. 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 & Archaeo-logical Artefacts **£000s**	Civic Regalia **£000s**	Total Heritage Assets **£000s**
Cost or Valuation						
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**
Cost or Valuation						
At 1 April 2016	**1,213**	**3,722**	**2,573**	**138**	**17**	**7,663**
Additions						
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		60	56			**116**
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2017	**1,213**	**3,782**	**2,629**	**138**	**17**	**7,779**

Note 21 - 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 ll 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 £1,570k, 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 £605k.

The Antony Gormley Boulders Sculpture, the sculptors' first professional commission, valued at £711k. 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 7 collections) in storage in Sessions House, valued at £277k.

KCC Sessions House collection, valued at £69k.

Glass Screen by Chris Ofili valued at £406k. Translucent glazed screen lit from below, by Chris Ofili (2003), welcoming you to Folkestone Library.

Kent History Tree & Leaves valued at £143k. The "History Tree" at the Kent History and Library Centre was installed in September 2013, created by Anne Schwegmann-Fielding in collaboration with Michael Condron. It is an 8 metre stainless steel tree, adorning the front of the building, with translucent mosaic at its base and 17 steel and mosaic leaves changing from green to red blowing along the pillars.

Note 21 - 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 - £717k

Knatchbull/Brabourne Manuscripts. £1,389k. Family and estate papers relating to the Knatchbull/Brabourne family comprising of accounts, correspondence, legal papers and manorial records.

Rare Books collection, valued at £209k based on an informal estimate given by an antiquarian book dealer.

Amherst Family Papers £314k 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 within the Art Store at Kent County Council.

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. This has been moved permanently to Folkestone Town Council and will be insured by FTC but will remain in KCC ownership until the gifting requirements are met.

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 22. 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 22 - 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 2017 £'000	31 Mar 2016 £'000
Not later than one year	4,757	5,380
Later than one year and not later than five years	12,488	13,042
Later than five years	17,146	17,847
	34,391	36,269

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 £16.3m 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 2017 £'000	31 Mar 2016 £'000
Minimum lease payments	5,691	6,404
Contingent rents	205	74
Sublease payments receivable	-757	-757
	5,139	5,721

Note 23. Usable Reserves

Accounting Policy

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

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council.

Reserve	**Balance 1 April 2016 £'000**	**Net Movement in year £'000**	**Balance 31 March 2017 £'000**	**Purpose of Reserve**
Usable Capital Receipts	-23,529	2,654	-20,875	Proceeds of fixed assets and loan repayments available to meet future Capital Expenditure
General Fund - KCC	-37,213	0	-37,213	Resources available to meet future unforeseen events
General Fund - Commercial Services	809	-267	542	
Capital Grants unapplied	-51,327	-13,869	-65,196	See note below
Earmarked Reserves*	-165,323	2,141	-163,182	See Note 25
Schools Reserve*	-46,361	18,021	-28,340	See over page
Surplus on Trading Accounts*	-579	579	0	Commercial Services and Oakwood House
Total	**-323,523**	**9,259**	**-314,264**	

Capital grants unapplied of £65.2m as at 31 March 2017 include schools capital reserves of £695k. This has increased from the -£61k held by schools as at 31 March 2016. The remainder reflects Government grants and contributions received in year for projects in progress.

School Reserves

At 31 March 2017 funds held in school revenue reserves stood at £28,340k. These reserves are detailed in the table below.

	Balance at 1 April 2016 £'000	Movement £'000	Balance at 31 Mar 2017 £'000
School delegated revenue budget reserves - committed	-10,474	6,549	-3,925
School delegated revenue budget reserves - uncommitted	-28,785	2,696	-26,089
Unallocated Schools budget	-6,851	8,681	1,830
Community Focused Extended School Reserves	-251	95	-156
	-46,361	18,021	-28,340

Note 24. 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 2016 £'000	Net Movement in year £'000	Balance 31 March 2017 £'000	Purpose of Reserve
Revaluation Reserve	-516,113	-53,607	-569,720	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-642,453	10,396	-632,057	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	20,158	-2,852	17,306	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-14,600	-4,342	-18,942	Movement between the I & E and amount required by regulation to be credited to the General Fund
Pensions Reserves				
- KCC	1,212,302	321,797	1,534,099	Balancing account to allow inclusion of Pensions Liability in Balance Sheet
- DSO	1,801	0	1,801	
Available for Sale Financial Instruments	608	1,262	1,870	
Accumulated Absences Account	10,022	366	10,388	This absorbs the differences on the General Fund from accruing for untaken annual leave

Note 24 - Unusable Reserves

Reserve	Balance 1 April 2016 £'000	Net Movement in year £'000	Balance 31 March 2017 £'000	Purpose of Reserve
Post Employment Account	6,618	-204	6,414	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future years
Total	**78,343**	**272,816**	**351,159**	

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.

	2016-17 £'000		2015-16 £'000	
Balance as at 1st April		-516,113		-349,263
Upward revaluation of assets	-115,429		-207,013	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	23,505		19,149	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		-91,924		-187,864
Difference between fair value depreciation and historical cost depreciation	19,020		11,918	
Accumulated gains on assets sold or scrapped	19,296		9,096	
Amount written off to the Capital Adjustment Account		38,316		21,014
Balance at 31 March		-569,721		-516,113

Note 24 - 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 12 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2016-17		2015-16	
	£'000		£'000	
Balance at 1 April		-642,452		-551,563
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	144,436		138,967	
- Revaluation losses on Property, Plant and Equipment and Assets Held for Sale	16,385		-23,731	
- Income in relation to donated assets	-7,152		-26,341	
- Amortisation of intangible assets	2,407		2,222	
- Revenue expenditure funded from capital under statute	66,321		101,143	
- 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	74,152		31,199	
		296,549		223,459
Adjusting amounts written out of the Revaluation Reserve		-38,317		-21,014
Net written out amount of the cost of non-current assets consumed in the year		-384,220		-349,118
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure	-31,592		-16,874	

Note 24 - Unusable Reserves

	2016-17		2015-16	
	£'000		£'000	
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-121,925		-137,590	
- Application of grants to capital financing from the Capital Grants Unapplied Account	-30,336		-56,658	
- Statutory provision for the financing of capital investment charged against the General Fund	-62,032		-64,511	
- Capital expenditure charged against the General Fund	-15,401		-14,857	
		-261,286		-290,490
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		2,692		-9,992
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		-388		-400
Write down of long term debtors		11,146		7,548
Balance at 31 March		-632,056		-642,452

Note 24 - 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.

	2016-17		**2015-16**	
	£'000		**£'000**	
Balance at 1 April		20,158		18,099
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	
		-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		-1,902		3,009
Balance at 31 March		17,306		20,158

Note 24 - 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.

	2016-17	2015-16
	£'000	**£'000**
Balance at 1 April	1,214,103	1,346,653
Remeasurement of the net defined liability/(asset)	264,345	-195,936
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	128,183	133,376
Employer's pensions contributions and direct payments to pensioners payable in the year	-70,731	-69,990
Balance at 31 March	1,535,900	1,214,103

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.

	2016-17	2015-16
	£'000	**£'000**
Balance at 1 April	-14,600	-13,496
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	-4,342	-1,104
Balance at 31 March	-18,942	-14,600

Note 24 - 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.

	2016-17		2015-16	
	£'000		£'000	
Balance at 1 April		10,022		10,021
Settlement or cancellation of accrual made at the end of the preceding year	-10,022		-10,021	
Amounts accrued at the end of the current year	10,388		10,022	
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		366		1
Balance at 31 March		10,388		10,022

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.

	2016-17		2015-16	
	£'000		£'000	
Balance at 1 April		6,618		6,094
Settlement or cancellation of accrual made at the end of the preceding year	-2,837		-3,104	
Amounts accrued at the end of the current year	2,633		3,628	
		-204		524
Amount by which post employment costs are charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from costs chargeable in the year in accordance with statutory requirements				
Balance at 31 March		6,414		6,618

Note 24 - 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

	2016-17		2015-16	
	£'000		£'000	
Balance at 1 April		608		297
Upward revaluation of investments	-390		-866	
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Service	1,652		1,177	
		1,262		311
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		1,870		608

Note 25. Earmarked Reserves

A thorough review of our Reserves was carried out as part of the 2016-17 budget setting process. A similar process was undertaken as part of the 2017-18 budget setting process and as a result a further draw down of reserves is planned for 2017-18. Our Corporate Director of Finance, 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 2016 or 31 March 2017, the sum of which are shown in the tables on pages 91 and 92.

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 25 - 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, transforming care 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 needed to pay for agreements with individual district councils regarding the impact of Council Tax Support claimants.

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.

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.

Note 25 - Earmarked Reserves

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.

Earmarked Reserve to support future year's budget

The approved medium term plan for 2017-20 includes support from central reserves from the residual underspending in 2015-16 and from a review of reserve balances. These funds have been transferred to the reserve to be drawndown 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 reserve holds any unspent Dedicated Schools Grant for central expenditure, which in accordance with the DFE grant regulations must be carried forward for use in future years and spent in accordance with school financial regulations.

Turner Contemporary Investment Reserve

This reserve has been created from the settlement from the original Turner Contemporary gallery design and will be supplemented at the end of each year by the interest earned from its investment as part of KCC balances. It is used to part fund the annual contribution to the Turner Contemporary trust under the grant agreement dated 30th March 2010.

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 2017-18 or future years as initiatives are completed. All balances on these reserves are below £0.5m.

Note 25 - Earmarked Reserves

Other Earmarked Reserves	**Balance at 1 April 2016**	**Movement**	**Balance at 31 Mar 2017**
	£'000	£'000	£'000
VPE reserve	-12,928	-1,599	-14,527
Special funds	-565	-123	-688
Kings Hill development smoothing reserve	-5,016	2,000	-3,016
Swanscombe School PFI equalisation reserve	-815	-186	-1,001
Six schools PFI	-599	-177	-776
Three schools PFI	-8,663	-1,251	-9,914
Excellent Homes for All PFI	-1,048	-1,494	-2,542
Westview/Westbrook PFI equalisation reserve	-3,160	-295	-3,455
Better Homes Active Lives PFI equalisation reserve	-3,114	-102	-3,216
Responding to Government Deficit Reduction reserve	-8,590	920	-7,670
Corporate Reserve for Social Care Funding Issues	-5,552	-2,000	-7,552
Payments reserve	-3,980	386	-3,594
Council Tax Equalisation reserve	-11,955	416	-11,539
Public Health reserve	-1,988	-1,837	-3,825
Environmental initiatives reserve	-595	317	-278
External Funding Pump Priming reserve	-505	-8	-513
Rolling budget reserve	-15,585	3,958	-11,627
Emergency Conditions reserve	-1,983	0	-1,983
Safety Camera Partnership reserve	-1,156	-43	-1,199
Elections reserve	-1,101	-492	-1,593
Dilapidations reserve	-3,738	420	-3,318
Modernisation of the Council (formerly Workforce Reduction) reserve	-10,565	-593	-11,158
IT Asset Maintenance reserve	-7,684	1,036	-6,648
Earmarked reserve to support future year's budget	-10,855	-2,026	-12,881
Prudential Equalisation reserve	-8,840	-904	-9,744
Dedicated Schools Grant - Central Expenditure	-8,550	8,550	0
Turner Contemporary Investment reserve	-1,156	198	-958
Kent Lane Rental Scheme reserve	-1,462	-592	-2,054
Public Inquiries reserve	-551	24	-527
Other	-2,859	-865	-3,724
Total	-145,158	3,638	-141,520
Insurance Reserve			
KCC	-10,905	-2,543	-13,448
	-156,063	**1,095**	**-154,968**
Commercial Services Earmarked Reserves	-4,279	1,046	-3,233
EKO	-4,981	0	-4,981
Total Earmarked Reserves	**-165,323**	**2,141**	**-163,182**

Note 25 - 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	-4,279		-4,279
EKO	-4,981	0	-4,981
Total Earmarked Reserves	**-169,707**	**4,384**	**-165,323**

Note 26. Provisions

Accounting Policy

It is the policy of Kent County Council to make provisions in the Accounts where there is a legal or constructive obligation to make a payment but the amount or timing of the payment is uncertain. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. The most significant provision made is for insurance claims. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

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

The Post Employment Provision covers the costs of early retirements, redundancy costs and any other post employment costs for ex-employees/employees who have confirmed leaving dates.

The Accumulated Absences Provision is required to cover the costs of annual leave entitlements carried over to the following financial year. If an employee were to leave, they would be entitled to payment for this untaken leave.

	Insurance	Post Employment	Accumulated Absences	Other Provisions	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Short Term					
Balance at 1 April 2016	-4,353	-3,223	-10,022	-2,308	-19,906
Additional Provisions made in 2016-17	-3,353	-3,862	-7,122	-380	-14,717
Amounts used in 2016-17	4,007	3,217	6,756	1,049	15,029
Unused amounts reversed in 2016-17		13		625	638
Balance at 31 March 2017	**-3,699**	**-3,855**	**-10,388**	**-1,014**	**-18,956**
Long Term					
Balance at 1 April 2016	-9,312	-3,782	0	-90	-13,184
Additional/Reduction in Provisions made in 2016-17	1,288	360			1,648
Amounts used in 2016-17				16	16
Unused amounts reversed in 2016-17					0
Balance at 31 March 2017	**-8,024**	**-3,422**	**0**	**-74**	**-11,520**
Total Provisions at 31 March 2017	**-11,723**	**-7,277**	**-10,388**	**-1,088**	**-30,476**

Insurance

Included within the insurance provision is £387k for the Municipal Mutual Insurance (MMI) provision. MMI is an insurance company that suffered significant losses between 1990 and 1992 due to significant increases in large loss claims, notably mesothelioma. These losses reduced MMI's net assets to a level below the minimum regulatory solvency requirement and in November 2012 the Scheme of Arrangements was triggered and this required scheme members to contribute towards funding both historic and future claims payments. A levy have been imposed against all claims payments made by MMI on behalf the Council and the levy percentage is used to calculated the required 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 2017. 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 27 - Amounts owed to the Council by debtors

	At 31 March 2017 £000's	At 31 March 2016 £000's
Long Term debtors:		
Medway Council (transferred debtor)	36,971	38,511
Public bodies	383	675
Other	46,529	50,735
	83,883	89,921
Other debtors:		
Government Departments	26,877	26,449
Other Local Authorities	3,079	4,316
NHS Bodies	504	144
General debtors	134,122	120,194
Payments in advance	19,025	16,634
EKO	0	466
	183,607	168,203

Capital short term debtors amounting to £4.7m are included in the Accounts at 31 March 2017 (£1.5m in 2015-16). These relate to grants and external funding towards capital expenditure incurred in 2016-17 which had not been received by 31 March 2017.

Note 28 - Creditors and Note 29 - Cash and Cash Equivalents

Note 28. Amounts owed by the Council to creditors

	At 31 March 2017 £000's	At 31 March 2016 £000's
Central government bodies	12,935	11,108
Other local authorities	2,526	4,607
NHS bodies	3,727	1,752
General creditors	202,180	190,908
Receipts in advance	21,382	19,286
Deferred income	1,488	634
Kent and Essex Inshore Fisheries & Conservation Authority	882	1,030
EKO	697	23
	245,817	229,348
Creditors due after 1 year	35	47

Capital creditors amounting to £24m are included in the Accounts at 31 March 2017 (£24m in 2015-16).

Note 29. 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 2017 £000's	At 31 March 2016 £000's
Bank current accounts	429	1,760
Call accounts (same day access funds)	47,358	49,709
Total Cash and Cash Equivalents	47,787	51,469

Notes 30 and 31 - Cash Flow - Non Cash Adjustments and Operating Activities

Note 30. Cash Flow - Non Cash Adjustments

	2016-17	2015-16
	£'000	£'000
Adjustment to net surplus or deficit on the provision of services for non cash movements		
Movement in pension liability	-57,452	-63,386
Carrying amount of non-current assets sold	-74,153	-31,199
Amortisation of fixed assets	-2,407	-2,222
Depreciation of fixed assets	-144,436	-138,967
Impairment & downward valuations	-16,385	23,731
Increase/(decrease) debtors	14,692	-7,344
(Increase)/decrease creditors	-20,186	9,446
Increase/(decrease) stock	-1,278	321
Movement on investment properties	-2,692	9,992
REFCUS	-66,321	-101,143
Other non-cash items charged to the net surplus/deficit on the Provision of Services	11,526	2,222
	-359,092	-298,549
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	18,012	6,646
Capital grants applied	173,670	187,536
	191,682	194,182
	-167,410	-104,367

Note 31. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2016-17	2015-16
	£'000	£'000
Interest received	-13,973	-7,529
Interest paid	71,556	73,807
Employee Costs	815,453	834,302
Income from Council Tax	-648,453	-608,324
Government Grants	-1,278,163	-1,364,074

Notes 32 and 33 - Cash Flow - Investing and Financing Activities

Note 32. Cash Flow Statement - Investing Activities

	2016-17	2015-16
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	242,204	252,551
Purchase of short-term and long-term investments	300,612	654,927
Other payments for investing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-17,991	-6,228
Proceeds from short-term and long-term investments	-312,105	-631,589
Other receipts from investing activities	-167,792	-164,199
Net cash flows	44,928	105,462

Note 33. Cash Flow Statement - Financing Activities

	2016-17	2015-16
	£'000	£'000
Cash receipts of short- and long-term borrowing	-23,111	-26,500
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities	0	0
relating to finance leases and on-balance sheet PFI contracts	2,744	2,341
Repayments of short- and long-term borrowing	37,188	31,001
Other payments for financing activities	0	0
Net cash flows from financing activities	16,821	6,842

Note 34. Trading Operations

The results of the various trading operations for 2016-17 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover £'000	Expenditure £'000	Surplus/ Deficit(-) 2016-17 £'000	Surplus/ Deficit(-) 2015-16 £'000
Kent County Supplies and Furniture Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	52,146	48,962	3,184	3,188
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	243,882	242,711	1,171	1,158
Transport Services Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport	1,258	1,119	139	14
Total surplus	297,286	292,792	4,494	4,360

The trading surplus excludes the wholly owned subsidiaries. Information on these can be found in Note 42 on page 119.

Note 35. Audit Costs

In 2016-17 the following fees were paid relating to external audit and inspection :

	2016-17 £'000	2015-16 £'000
Fees payable to Grant Thornton UK LLP for external audit services carried out by the appointed auditor	156	156
Fees payable in respect of other services provided by the appointed auditor	93	76
	249	232

Note 36. 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 2015. 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 2016-17 are as follows:

	Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
Final DSG for 2016-17 before Academy recoupment			1,088,480
Academy figure recouped for 2016-17			-423,281
Total DSG after Academy recoupment for 2016-17			665,199
Brought forward from 2015-16			13,204
Carry Forward to 2017-18 agreed in advance			0
Agreed initial budget distribution in 2016-17	163,656	514,747	678,403
In year adjustments	-5,071	3,872	-1,199
Final budgeted distribution in 2016-17	158,585	518,619	677,204
Less actual central expenditure	160,415		
Less Actual ISB deployed to schools		518,619	
Plus Local Council contribution for 2016-17	0	0	0
Carry Forward to 2017-18	-1,830	0	-1,830

Note 37. 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 Note 11 on expenditure and income analysed by nature.

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 38 on pages 102 to 107 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 £2.940m and cash held by the Pension Fund on behalf of KCC is £2.731m.

Payments to other local authorities and health bodies, excluding precepts, totalled £71.9m.

Receipts from other local authorities and health bodies totalled £64.3m.

Entities Controlled or Significantly Influenced by the Council:

Details of Kent County Council's subsidiary companies are provided in Note 42.

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.

Kent Top Temps Ltd declared a dividend of £1.3m (2015-16 £nil) to Kent County Trading Limited which in turn declared a dividend of £1.3m (2015-16 £nil) to KCC.

CST sales amounted to £1.63m. CST made purchases from KCC amounting to £2.3m.

CSK sales to KCC amounted to £32.6m. CSK made purchases from KCC amounting to £1.0m.

GEN² Property Ltd sales to KCC amounted to £7.764m. GEN² Property Ltd made purchases from KCC amounting to £0.56m

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 2016-17.

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

Active companies with less than 50% control	Payments made in 16-17
	£
Kent Tourism Alliance Ltd became Visit Kent Ltd from 21.3.08	579,112
Locate in Kent Ltd (as amended on 5/5/2000)	886,875
Trading Stds South East Ltd	13,608
Goetec Ltd	17,977
Kent PFI Holdings Company 1 Ltd	10,057,497
TRICS Consortium Ltd	3,150
Aylesham & District Community Workshop Trust	6,114
Venomtech Limited	74,000
Active companies with greater than 50% control	
Produced in Kent (PINK) Ltd	62,254

Note 38. Pension Costs

Note 38a - 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 for 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 2016-17 Kent County Council paid £39.5m (£38.1m in 2015-16), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 16.5% (15.5% in 2015-16) 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 2016-17 these amounted to £5m (£4.6m in 2015-16), representing 2.1% (1.9% in 2015-16) 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 38 - Pensions Costs

In 2016-17 Kent County Council paid £0.18m (£0.18m in 2015-16), to the NHS Pension Scheme in respect of public health pension costs, which represented 14.3% (14.3% in 2015-16) of employees pensionable pay.

Note 38b. 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 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	
	2016-17	**2015-16**
Comprehensive Income and Expenditure Statement	£000's	£000's
Cost of Services:		
• Current service cost	-89,968	-98,597
• Past service costs	-3,742	-4,104
Financing and Investment Income and Expenditure		
• Net interest expenses	-42,225	-43,041
• (Gain)/loss from settlements	9,044	13,758
• Administration expenses	-1,292	-1,392
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	-128,183	-133,376

Note 38 - Pensions Costs

	2016-17	2015-16
	£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)	365,645	-44,531
• Actuarial gains and losses arising on changes in demographic assumptions	61,324	0
• Actuarial gains and losses arising on changes in financial assumptions	-805,710	235,753
• Other	114,396	4,714
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**-264,345**	**195,936**
Movement in Reserves statement		
• Reversal of net charges made for retirements benefits in accordance with IAS19	128,183	133,376
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	-70,731	-69,990

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 2016-17 Kent County Council paid an employer's contribution of £70.8m (£70.0m in 2015-16) into the Pension Fund, representing 20% (20% in 2015-16) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2016-17 was based on the review carried out as at 31 March 2016. Under Pension Fund Regulations the rates are set to meet 100% of the overall liabilities of the Fund.

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	
	2016-17	**2015-16**
Present value of the defined benefit obligation	3,910,447	3,169,434
Fair value of plan assets	-2,438,225	-2,016,782
Sub-total	1,472,222	1,152,652
Other movements in the liability/(asset)	63,678	61,451
Net liability arising from defined benefit obligation	**1,535,900**	**1,214,103**

Note 38 - Pensions Costs

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

	Local Government Pension Scheme £'000	
	2016-17	**2015-16**
Opening fair value of scheme assets	2,016,782	2,018,268
Interest income	72,325	66,258
Remeasurement gains/(losses)		
• Return on plan assets (excluding the amount included in the net interest expenses)	347,655	-44,531
• Other	17,990	0
Contributions from employer	75,346	74,605
Contributions from employees into the scheme	22,581	21,893
Benefits paid	-107,308	-108,493
Other	-7,146	-11,218
Closing fair value of scheme assets	**2,438,225**	**2,016,782**

The actual return on scheme assets in the year was £419,980k (2015-16 : £21,727k)

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

	Liabilities: Local Government Pension Scheme £'000	
	2016-17	**2015-16**
Opening balance at 1 April	3,230,885	3,364,921
Current service cost	89,968	98,597
Interest cost	114,550	109,299
Contribution from scheme participants	22,581	21,893
Remeasurement gains/(losses):		
• Actuarial gains and losses arising on changes in demographic assumptions	-61,324	0
• Actuarial gains and losses arising on changes in financial assumptions	805,710	-235,753
• Other	-114,396	-4,714
Past service costs	3,742	4,104
Benefits paid	-102,693	-103,878
Liabilities extinguished on settlements	-14,898	-23,584
Closing balance at 31 March	**3,974,125**	**3,230,885**

Note 38 - Pensions Costs

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2016-17 £'000	Fair value of scheme assets 2015-16 £'000
Cash and cash equivalents	62,478	51,928
Equity instruments: *By industry type*		
• Consumer	247,275	220,169
• Manufacturing	208,821	171,708
• Energy and utilities	68,039	54,088
• Financial institutions	204,385	135,191
• Health and care	100,432	68,337
• Information technology	100,862	86,015
• Telecommunication services	30,032	30,485
• Real Estate	2,810	0
• Miscellaneous/Unclassified	17,272	9,276
Sub-total equity	979,928	775,269
Bonds: *By sector*		
• Financial services	2,481	1,590
• Miscellaneous/Unclassified	147,478	133,711
Sub-total bonds	149,959	135,301
Property: *By type*		
• Retail	108,023	105,673
• Offices	50,145	48,621
• Industrial	45,837	38,794
Sub-total property	204,005	193,088
Private equity:		
• UK	6,777	3,435
• Overseas	30,566	21,765
Sub-total private equity	37,343	25,200
Other investment funds:		
• Infrastructure	25,712	22,845
• Property	99,831	99,875
• Equity Pooled Funds	677,769	622,288
• Corporate Fixed Interest Pooled Funds	105,752	0
Sub-total other investment funds	909,064	745,008
Derivatives		
Forward currency contracts	-188	3,345
Target Return Portfolio	95,636	87,643
Total assets	**2,438,225**	**2,016,782**

Note 38 - Pensions Costs

The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. International Accounting standard IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. The yield in excess of expected inflation (which in turn is based on gilt yields) from corporate bonds decreased from 0.4% to -0.9% 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 2016 levels then the pensions deficit would have been £616,615,000 less at £919,285,000.

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 2018 is £67,607k, 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	
	2016-17	**2015-16**
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	23	22.9 years
Women	25	25.3 years
Longevity at 65 for future pensioners:		
Men	25.1	25.2 years
Women	27.4	27.7 years
Rate of inflation	3.6%	3.2%
Rate of increase in Consumer Price Index	2.7%	2.3%
Rate of increase in salaries	4.0%	3.6%
Rate of increase in pensions	2.7%	2.3%
Rate for discounting scheme liabilities	2.7%	3.6%
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 £'000	Decrease in Assumption £'000
Adjustment to discount rate (increase or decrease by 0.1%)	3,902,819	4,046,806
Adjustment to long term salary increase (increase or decrease by 0.1%)	3,983,147	3,965,177
Adjustment to pension increase and deferred revaluation (increase or decrease by 0.1%)	4,037,713	3,911,698
Adjustment to mortality age rate assumption (increase or decrease in 1 year)	4,125,098	3,828,851

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 and GEN² Property Ltd

The Balance Sheet includes the assets and liabilities for Commercial Services and GEN² Property Ltd, which are wholly-owned subsidiaries of KCC. Both entities have 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 39. 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.

Note 39 - Financial Instruments

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 start up companies 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 Council 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 Council.

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 39 - 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 20
- 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 Company 1 Ltd and companies supported by the Kent Regional Growth Fund

Note 39 - 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 2017	31 Mar 2016	31 Mar 2017	31 Mar 2016
	£000's	£000's	£000's	£000's
Investments				
Loans and receivables			72,483	87,838
Available-for-sale financial assets	161,566	119,321		40,127
Unquoted equity investment at cost	15,197	11,461		
Total investments	**176,763**	**130,782**	**72,483**	**127,965**
Debtors				
Loans and receivables	83,883	89,921		
Financial assets carried at contract amounts			156,761	150,570
Total included in Debtors	**83,883**	**89,921**	**156,761**	**150,570**
Cash and Cash Equivalents				
Cash equivalents at amortised cost			0	7,049
Cash equivalents available for sale			47,358	42,660
Cash and Bank Accounts			429	1,760
Total Cash and Cash Equivalents	**0**	**0**	**47,787**	**51,469**
Borrowings				
Financial liabilities at amortised cost	873,440	959,991	104,952	32,943
Total Borrowing	**873,440**	**959,991**	**104,952**	**32,943**
Other Liabilities				
PFI and Finance Lease Liabilities	233,655	206,420	5,982	5,016
Total other long-term liabilities	**233,655**	**206,420**	**5,982**	**5,016**
Creditors				
Financial liabilities carried at contract amounts	35	47	224,164	209,560
Total Creditors	**35**	**47**	**224,164**	**209,560**

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 established 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 39 - 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:

	2016-17		
	Financial Liabilities	**Financial Assets**	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	**£000's**	**£000's**
Interest expense - Debt	-50,438		-50,438
Losses on derecognition	-950		-950
Impairment losses			0
	-51,388	**0**	**-51,388**
Interest expense - Finance leases	-19,610		-19,610
Interest expense - PFI	-93		-93
Interest payable and similar charges	**-71,091**	**0**	**-71,091**

	2016-17		
	Financial Liabilities	**Financial Assets**	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	**£000's**	**£000's**
Interest income		7,198	7,198
Reduction in Impairment losses			0
Interest and investment income	**0**	**7,198**	**7,198**
Available-for-sale investments - Losses on revaluation		1,262	1,262
Amounts recycled to I&E Account after impairment			
Loss arising on revaluation of financial assets	**0**	**1,262**	**1,262**
Net gain/(loss) for the year	**-71,091**	**8,460**	**-62,631**

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 39 - 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 2017	As at 31 Mar 2016
			£'000	£'000
Available for sale:				
Money market funds	Level 1	Unadjusted quoted prices in active markets for identical shares	47,358	42,671
Bond, equity and property funds	Level 1	Unadjusted quoted prices in active markets for identical shares	66,047	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	94,418	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
			207,823	**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:

	31 March 2017		31 March 2016	
Financial Liabilities	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
	£'000	£'000	£'000	£'000
Financial liabilities held at amortised cost				
PWLB loans	512,363	686,510	544,799	677,857
Long-term LOBO and Market Loans	446,294	737,899	446,325	680,835
Other Long-term loans	19,424	19,424	1,500	1,500
PFI and finance lease liabilities	239,637	297,316	211,437	271,070
Total	**1,217,718**	**1,741,149**	**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 2017) arising from a commitment to pay interest to lenders above current market rates.

Note 39 - Financial Instruments

Financial Assets	31 March 2017 Carrying Amount	31 March 2017 Fair Value	31 March 2016 Carrying Amount	31 March 2016 Fair Value
	£'000	£'000	£'000	£'000
Loans and receivables				
- short term investments	72,484	72,483	87,692	87,692
- cash and cash equivalents	47,380	47,380	7,050	7,050
Long-term debtors	83,883	85,385	89,921	95,167
Total	**203,747**	**205,248**	**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 2017	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant un-observable inputs (Level 3)	Total
Recurring fair value measurements using:	£'000	£'000	£'000	£'000
Financial Liabilities				
Financial liabilities held at amortised cost:				
• Long-term PWLB loans		686,510		**686,510**
• Long-term LOBO and Market Loans		737,899		**737,899**
PFI and finance lease liabilities			297,316	**297,316**
Total	**0**	**1,424,409**	**297,316**	**1,721,725**
Financial Assets				
Loans and receivables:				
• Soft loans to third parties			28,827	**28,827**
Total	**0**	**0**	**28,827**	**28,827**

Note 39 - Financial Instruments

	31 March 2016			
	Quoted prices in active markets for identical assets (Level 1)	**Other significant observable inputs (Level 2)**	**Significant un-observable inputs (Level 3)**	**Total**
Recurring fair value measurements using:	**£'000**	**£'000**	**£'000**	**£'000**
Financial Liabilities				
Financial liabilities held at amortised cost:				
• Long-term PWLB loans		677,857		**677,857**
• Long-term LOBO and Market 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**
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 2017 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

• 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 2017 based on new lending rates for equivalent loans at that date	• estimated ranges of interest rates at 31 March 2017 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 40. 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:
- Publicised credit ratings for institutions (excluding the DMO)
- Other financial information e.g. Credit Default Swaps, share price, corporate developments, news, articles, market sentiment, momentum
- Country exposure e.g. Sovereign support mechanisms, GDP, net debt as a percentage of GDP
- Exposure to other parts of the same banking group
- Reputational issues
- Minimum long-term credit rating of A-

Limits are placed on the amount of money that can be invested with a single counterparty. For 2016-17 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 2017 that this was likely to crystallise.

The credit quality of £93.4m 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.

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

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

Credit Rating	**31 Mar 2017**	**31 Mar 2016**
	£000's	**£000's**
AAA	140,745	131,077
AA-	0	750
A	68,600	128,600
A-	0	1,300
Unrated Pooled Funds/Equity	81,244	41,461
Total Investments	**290,589**	**303,188**

All deposits outstanding as at 31 March 2017 met the Council's credit rating criteria on 31 March 2017.

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 £1.305m of the £3.167m balance is one month past its due date for payment. The past due amount can be analysed by age as follows:

	31 Mar 2017	**31 Mar 2016**
	£000's	**£000's**
One to three months	386	739
Three to six months	607	524
Six months to one year	786	74
More than one year	83	245
	1,862	**1,582**

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 2017 was £26m.

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 2017**	**31 Mar 2016**
Years	**£000's**	**£000's**
Not over 1	33,874	32,334
Over 1 but not over 2	22,716	32,334
Over 2 but not over 5	64,067	56,835
Over 5 but not over 10	99,447	100,003
Over 10 but not over 20	88,676	102,474
Over 20 but not over 30	184,921	119,000
Over 30 but not over 40	140,700	104,800
Over 40	171,100	140,600
Uncertain date *	160,000	291,200
Total	**965,501**	**979,580**

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

* The Council has £160m 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 to 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 2017, 83.43% of the debt portfolio was held in fixed rate instruments, and 16.57% in variable rate instruments (LOBO loans within option periods).

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

	£000's
Increase in interest payable on variable rate borrowings	1,600
Increase in interest receivable on variable rate investments	-1,389
Increase in government grant receivable for financing costs	
Impact on Provision of Services (surplus)	**211**
Decrease in fair value of fixed rate investment assets	297
Impact on Other Comprehensive Income and Expenditure	**297**
Decrease in fair value of fixed rate borrowings / liabilities*	**140,872**

*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.

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 41. 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 six claims relating to discrimination and breach of contract in employment. Of these, two are unfair dismissal and discrimination cases, two are discrimination cases, one is a detriment case with a linked claim for unfair dismissal and discrimination and one is constructive and discrimination 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 £271k and an additional amount of approximately £200k for those not officially pleaded. However, on a number of these claims the prospects for successfully defending these cases 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 698 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 four such cases of which legal costs are expected to exceed £50k in total.

Asylum, Ordinary Residence & Judicial review cases

There are seven judicial review cases of age assessment and for all of these cases the costs are likely to exceed £10k. There are 15 Ordinary Residence claims which if successful would be in excess of £10k. There are three judicial review cases and for all 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 42. 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 2015-16 its net assets were £1.3m and in 2016-17 its net assets are £0.0m.

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. 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 2016-17 of £20.7m (2015-16 £18.0m) with a net profit of £0.3m before tax (2015-16 £0.2m). In 2015-16 its net assets were £2.3m and in 2016-17 its net assets are £5.3m. An unsecured loan and unsecured line of credit has been provided by Kent County Council to CS Trading during the year on which interest is charged at commercial rates and the balance outstanding at 31 March 2017 was £2.5m.

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 2016-17 of £51.2m (2015-16 £53.47m) with a net profit of £1.1m before tax (2015-16 £0.2m). In 2015-16 its net assets were £0.6m and in 2016-17 its net assets are £1.5m. An unsecured loan and unsecured line of credit has been provided by Kent County Council to CS Kent during the year on which interest is charged at commercial rates and the balance outstanding at 31 March 2017 was £2.9m.

Note 42 - Subsidiary Note, Note 43 - Events after the Balance Sheet and Note 44 - Other Notes

Kent County Council (KCC) and Thanet District Council (TDC) wished to bring forward the economic development and regeneration of the sites known as Eurokent and Manston Park. A Member Agreement was signed on the 22 August 2008 and a joint arrangement vehicle was set up, the East Kent Opportunities LLP (EKOLLP), which was incorporated on 4 March 2008. KCC and TDC have 50:50 ownership, control and economic participation in the joint arrangement. KCC and TDC contributed 38 acres of land each to EKOLLP. The land was valued for stamp duty land tax (SDLT) at £5.5m (KCC contribution) and £4.5m (TDC contribution).

The powers used are the 'well-being powers' provided to local authorities in Part 1 of the Local Government Act 2000. In 2016-17, in the draft, unaudited EKOLLP accounts, the net assets of the joint arrangement are £8.2m with an operating loss before members remuneration and profit shares available for discretionary division among members of £0.27m.

GEN² Property Limited is a property and project management consultancy, wholly owned by Kent County Council (KCC). It commenced trading on the 3 May 2016. The Company trades as a Teckal company, predominantly providing services to KCC. GEN² manages KCC's property estate on its behalf and receives a management fee for this work. The Company also provides project management (and where appropriate, employer's agent and quantity surveying services) of KCC's capital building work, along with any other ad hoc property work KCC may require.

GEN² had a turnover in 2016-17 of £7.788m with a net profit of £1.093m before tax.

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 2016-17. This situation is reviewed on an annual basis.

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

Note 43. 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 2017, up to the date when these accounts were authorised, that require any adjustment to these accounts.

Note 44. 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 121-147.

Pension Fund Accounts

The following financial statements are taken from the Kent County Council Superannuation Fund's Annual Report and Accounts 2017 which are also available from the Fund's website at www.kentpensionfund.co.uk.

Description of the Fund

General

The Kent County Council Superannuation Fund (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 and borough councils in Kent and a number of other employers 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 Amendments) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

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 359 employers actively participating in the Fund and the profile of members is as detailed below:

	Contributors		Pensioners		Deferred pensioners	
	31Mar 2017	31Mar 2016	31Mar 2017	31Mar 2016	31Mar 2017	31Mar 2016
Kent County Council	22,797	22,363	20,362	19,716	22,595	22,792
Other Employers	28,037	27,453	18,286	17,544	19,757	19,684
Total	50,834	49,816	38,648	37,260	42,352	42,476

Funding

The 2013 triennial 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.

The latest triennial valuation carried out as at 31 March 2016 has calculated an average contribution rate of 20.9% of pensionable pay. These rates came into effect from 1 April 2017.

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	2016-17 £000's	2015-16 £000's
Dealings with members, employers and others directly involved in the Fund			
Contributions	5	228,285	220,961
Transfers In from other pension funds	6	10,566	3,405
		238,851	224,366
Benefits	7	-214,895	-210,281
Payments to and on account of leavers	8	-8,054	-6,033
		-222,949	-216,314
Net additions from dealings with Members		**15,902**	**8,052**
Management Expenses	9	-22,738	-17,835
Returns on Investments			
Investment Income	10	111,574	113,444
Taxes on Income		-4,044	-5,160
Profits and losses on disposal of investments and changes in the market value of investments	13a	866,941	-39,998
Net Return on Investments		**974,471**	**68,286**
Net increase in the Net Assets Available for benefits during the year		**967,635**	**58,503**

Net Assets Statement as at 31 March

	Notes	2017 £000's	2016 £000's
Investment Assets		5,554,683	4,582,456
Investment Liabilities		-12,905	-5,300
Net Investment Assets	13	**5,541,778**	**4,577,156**
Current Assets	22	37,755	35,356
Current Liabilities	23	-14,358	-14,972
Net Assets available to fund benefits at the period end		**5,565,175**	**4,597,540**

Notes to the Pension Fund Account

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2016-17 financial year and its position at 31 March 2017.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 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 (IAS)19 basis is disclosed at note 21 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 receipts 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 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 which 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 and non 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 2016. 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 2017.

- 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.

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 2017 the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016. 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 21).

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 £809m. A 0.5% increase in assumed earning inflation would increase the value of liabilities by approx. £117m, and a one year increase to the life expectancy assumptions would increase the liability by approx. £340m.
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 £138m. There is a risk that this investment may be under-or-over stated in the accounts. Potential change in valuation due to change in these factors is estimated in Note 18.
Freehold and Leasehold Property and Pooled Property Funds	Valuation techniques are used to determine the fair values of directly held property and pooled property funds. Where possible these valuation techniques are based on observable data, but where this is not possible management uses the best available data. Changes in the valuation assumptions used, together with significant changes in rental growth, vacancy levels or the discount rate could affect the fair value of property	The effect of variations in the factors supporting the valuation would be an increase or decrease in the value of directly held property of £47m on a fair value of £469m.

4. Events after the Balance Sheet date

There have been no events since 31 March 2017, up to the date when these accounts were authorised, that require any adjustment to these accounts.

5. Contributions Receivable

	2016-17 £000's	2015-16 £000's
By Category		
Employers	176,603	170,651
Members	51,682	50,310
	228,285	**220,961**
By authority		
Kent County Council	91,649	90,676
Scheduled Bodies	122,789	116,874
Admitted Bodies	13,847	13,411
	228,285	**220,961**
By type		
Employees - normal contributions	51,682	50,310
Employers - normal contributions	109,564	106,877
Employers - deficit recovery contributions	61,226	58,326
Employers - augmentation contributions	5,813	5,448
	228,285	**220,961**

6. Transfers in from other pension funds

	2016-17 £000's	2015-16 £000's
Individual	10,566	3,405
Group	0	0
	10,566	**3,405**

7. Benefits Payable

	2016-17 £000's	2015-16 £000's
By Category		
Pensions	176,065	171,890
Retirement Commutation and lump sum benefits	34,194	34,383
Death benefits	4,636	4,008
	214,895	**210,281**
By authority		
Kent County Council	101,829	100,596
Scheduled Bodies	101,253	99,045
Admitted Bodies	11,813	10,640
	214,895	**210,281**

8. Payments to and on account of leavers

	2016-17 £000's	2015-16 £000's
Group transfers	0	993
Individual transfers	6,568	4,099
Payments for members joining state scheme	273	247
Refunds of contributions	1,213	694
	8,054	**6,033**

9. Management Expenses

	Notes	2016-17 £000's	2015-16 £000's
Administration costs		2,752	2,382
Governance and oversight costs		470	324
Investment management expenses	12	19,485	15,098
Audit Fees		31	31
		22,738	17,835

10. Summary of Income from Investments

	Notes	2016-17 £000's	2016-17 %	2015-16 £000's	2015-16 %
Bonds		15,694	14.1	14,074	12.4
Equities		57,164	51.2	53,053	46.8
Pooled Investments		10,351	9.3	12,684	11.2
Private Equity / Infrastructure		5,976	5.4	10,586	9.3
Property	11	13,549	12.1	16,999	15.0
Pooled Property Investments		7,480	6.7	5,369	4.7
Cash and cash equivalents		315	0.3	334	0.3
Stock Lending		1,045	0.9	345	0.3
Total		**111,574**	**100.0**	**113,444**	**100.0**

11. Property Income and Expenditure

	2016-17 £000's	2015-16 £000's
Rental Income from Investment Properties	20,995	21,692
Direct Operating Expenses	-7,446	-4,693
Net operating income from Property	**13,549**	**16,999**

12. Investment Management Expenses

	2016-17 £000's	2015-16 £000's
Investment Managers Fees	18,170	14,459
Transaction Costs	1,232	502
Custody fees	83	137
Total	**19,485**	**15,098**

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

Total transaction costs in 2015-16 were £991,000, £489,000 of which were included in cost of purchases and sales of investments and not recorded separately. From November 2015 all transaction costs incurred on purchases and sales of investments are accounted for separately. 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.

13. Investments

	Market Value as at 31 March 17 £000's	Market Value as at 31 March 16 £000's
Investment Assets		
Bonds	339,752	310,896
Equities	2,192,637	1,732,669
Pooled Investments	2,030,342	1,664,750
Private Equity/Infrastructure	137,717	114,699
Property	468,827	438,105
Pooled Property Investments	230,129	226,697
Derivative contracts		
- Forward Currency contracts	2,905	7,607
Investment Cash and cash equivalents	121,323	70,117
Investment Income due	16,948	12,702
Amounts receivable for sales	14,103	4,214
Total Investment Assets	**5,554,683**	**4,582,456**
Investment Liabilities		
Amounts payable for purchases	-12,905	-5,300
Total Investment Liabilities	**-12,905**	**-5,300**
Net Investment Assets	**5,541,778**	**4,577,156**

13a. Reconciliation of movements in investments and derivatives

	Market Value as at 31 March 16 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 17 £000's
Bonds	310,896	51,750	-75,882	52,988	339,752
Equities	1,732,669	335,891	-312,898	436,975	2,192,637
Pooled Investments	1,664,750	67,233	-67,189	365,548	2,030,342
Private Equity/Infrastructure	114,699	17,732	-12,677	17,963	137,717
Property	438,105	314	0	30,408	468,827
Pooled Property Investments	226,697	0	-269	3,701	230,129
	4,487,816	472,920	-468,915	907,583	5,399,404
Derivative contracts					
- Forward Currency contracts	7,607	7,149,625	-7,112,846	-41,481	2,905
	4,495,423	**7,622,545**	**-7,581,761**	**866,102**	**5,402,309**
Other Investment balances					
- Investment Cash and cash equivalents	70,117			839	121,323
- Amounts receivable for sales	4,214				14,103
- Amounts payable for purchases	-5,300				-12,905
- Investment Income due	12,702				16,948
Net Investment Assets	**4,577,156**			**866,941**	**5,541,778**

	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
Bonds	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			-107	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**			**-39,998**	**4,577,156**

14. Analysis of Investments

	Market Value as at 31 March 17 £'000's	Market Value as at 31 March 16 £'000's
Bonds		
UK		
Corporate Quoted	17,301	19,926
Overseas		
Public Sector Quoted	40,223	39,923
Corporate Quoted	282,228	251,047
	339,752	**310,896**
Equities		
UK		
Quoted	957,638	782,037
Overseas		
Quoted	1,234,999	950,632
	2,192,637	**1,732,669**
Pooled Funds		
UK		
Fixed Income Unit Trusts	241,654	228,876
Unit Trusts	651,716	557,991
Overseas		
Unit Trusts	1,136,972	877,883
	2,030,342	**1,664,750**
Property	468,827	438,105
Property Unit Trusts	230,129	226,697
Private Equity Funds/Infrastructure	137,717	114,699
	836,673	**779,501**
Derivatives	2,905	7,607
Cash and cash equivalents	121,323	70,117
Investment income due	16,948	12,702
Amounts receivable for sales	14,103	4,214
	155,279	**94,640**
Total Investment Assets	**5,554,683**	**4,582,456**
Investment Liabilities		
Amounts payable for purchases	-12,905	-5,300
Total Investment Liabilities	**-12,905**	**-5,300**
NET INVESTMENT ASSETS	**5,541,778**	**4,577,156**

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	1,858	USD	2,267	45	
Up to one month	USD	1,604	GBP	1,297		-14
Up to one month	EUR	1,107	GBP	962		-16
Up to one month	USD	220	GBP	177		-2
Up to one month	USD	426	GBP	340		-1
Up to one month	USD	299	GBP	238	2	
Up to one month	GBP	770	EUR	893	7	
Up to one month	GBP	97,174	USD	120,332	946	
Up to one month	GBP	285	USD	353	3	
Up to one month	GBP	97,174	USD	120,332	946	
Up to one month	GBP	97,252	USD	120,332	1,024	
Up to one month	GBP	9,511	EUR	11,160		-35
					2,973	-68
Net forward currency contracts at 31 March 2017						**2,905**
Prior year comparative						
Open forward currency contracts at 31 March 2016					7,951	-344
Net forward currency contracts at 31 March 2016						**7,607**

14b. Property Holdings

	Year ending 31 March 17 £000's	Year ending 31 March 16 £000's
Opening Balance	438,105	407,182
Additions	314	21,291
Disposals	0	-26,926
Net increase in market value	30,408	36,558
Closing Balance	**468,827**	**438,105**

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 any 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 17 £000's	Year ending 31 March 16 £000's
Within one year	20,547	20,058
Between one and five years	63,622	62,066
Later than five years	88,650	75,794
	172,819	**157,918**

15. Investments analysed by Fund Manager

	Market Value as at 31 March 2017		Market Value as at 31 March 2016	
	£000's	%	£000's	%
Baillie Gifford	1,201,818	21.7	910,953	19.9
DTZ	520,265	9.4	486,979	10.6
Fidelity	109,577	2.0	106,854	2.3
Goldman Sachs	354,877	6.4	327,612	7.2
HarbourVest	65,469	1.2	53,921	1.2
Impax	42,993	0.8	33,067	0.7
Kames	60,596	1.1	60,644	1.3
M&G	330,157	6.0	244,275	5.3
Partners Group	57,191	1.0	52,546	1.2
BMO (Pyrford)	218,498	3.9	199,931	4.4
Sarasin	215,589	3.9	164,354	3.6
Schroders	1,408,560	25.4	1,165,045	25.5
State Street Global Advisors	589,586	10.6	521,371	11.4
YFM	15,056	0.3	8,233	0.2
Kent County Council Investment Team	34,939	0.6	19,248	0.4
Woodford	316,607	5.7	222,123	4.8
	5,541,778	100	4,577,156	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 2017 £000's	% (of asset class)
Pooled Funds		
UK		
UK Fixed Income Unit Trusts		
SISF Strategic Bond GBP Hedged	241,654	30.7
UK Equity Unit Trusts		
MPF UK Equity Index Sub-Fund	311,495	39.6
CF Woodford Equity Income Fund	316,607	40.2
Overseas		
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	218,498	18.8
M&G Global Dividend Fund	316,673	27.3
MPF International Equity Index Sub-Fund	278,091	24.0
Schroder GAV Unit Trust	280,716	24.2

Asset Class / Investments		31 March 2017 £000's	% (of asset class)
Property Unit Trusts			
Fidelity UK Real Estate Fund		109,577	47.6
Kames Capital UK Active Value Property Unit Trust		60,596	26.3
M&G Residential Property Fund		13,433	5.8
Private Equity and infrastructure funds			
Private Equity			
UK			
YFM Equity Partners 2015		9,286	11.5
Overseas			
HIPEP VI- Cayman		29,235	36.3
HarbourVest Partners IX		36,234	45
Infrastructure			
Overseas			
Partners Group Global Infrastructure 2009		40,049	70
Partners Group Direct Infrastructure 2011		17,142	30
Property			
Location	**Type of Property**		
49/59 Battersea Park Road, London	Industrial	41,331	8.8
Drury House, London	Office	40,137	8.6
Lakeside Village, Doncaster	Mixed Use	33,124	7.1
Colingdale Retail Park, London	Retail	27,828	5.9
3-5 Charing Cross Road, London	Office	26,945	5.7
151-161 Kensington High Street, London	Retail	24,880	5.3
The Sanctuary, London	Office	23,581	5.0

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 UK Real Estate Fund		106,854	47.1
Kames Capital UK Active Value Property Unit Trust		60,144	26.5
M&G Residential Property Fund		12,536	5.5
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, London	Retail	26,087	6.0
The Sanctuary, London	Office	22,837	5.2
Colingdale Retail Park, London	Retail	24,454	5.6
Suncourt House, London	Office	22,840	5.2

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.

31 March 2017

Loan Type	Market Value	Collateral Value	Collateral type
	£000's	£000's	
Equities	156,014	165,118	Treasury Notes and other Government debt
Bonds	12,460	13,187	Treasury Notes and other Government debt
	168,474	**178,305**	

31 March 2016

Loan Type	Market Value	Collateral Value	Collateral type
	£000's	£000's	
Equities	69,555	74,333	Treasury Notes and other Government debt
Bonds	2,880	3,077	Treasury Notes and other Government debt
	72,435	**77,410**	

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 2017			31 March 2016		
	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£000's	£000's	£000's	£000's	£000's	£000's
Financial Assets						
Bonds	339,752			310,896		
Equities	2,192,637			1,732,669		
Pooled Investments	2,030,342			1,664,750		
Property Pooled Investments	230,129			226,697		
Private Equity/Infrastructure	137,717			114,699		
Derivative contracts	2,905			7,607		
Cash & Cash equivalents		132,102			78,013	
Other Investment Balances	31,051			16,916		
Debtors/ Receivables		26,975			27,460	
	4,964,533	**159,077**	**0**	**4,074,234**	**105,473**	**0**
Financial Liabilities						
Other Investment balances			-12,905			-5,300
Creditors			-14,358			-14,972
	0	**0**	**-27,263**	**0**	**0**	**-20,272**
Total	**4,964,533**	**159,077**	**-27,263**	**4,074,234**	**105,473**	**-20,272**

17b. Net Gains and Losses on Financial Instruments

	31 March 17 £000's	31 March 16 £000's
Financial assets		
Fair value through profit and loss	835,694	-76,449
Loans and Receivables	839	-107
Total	**836,533**	**-76,556**

18. Valuation of assets and liabilities carried at Fair Value

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Quoted Equities	1	Bid Market price on last day of accounting period	Not required	Not required
Quoted Bonds	1	Market value on last day of accounting period	Not required	Not required
Quoted Pooled Investments	1	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Unquoted Pooled Investments	2	Net Asset Value/Bid prices on last day of accounting period	Net Asset Values	Not required
Private Equity and Infrastructure Funds	3	Fair values as per International Private equity and venture capital guidelines (2012)	valuation of underlying investment/assets/ companies/EBITDA multiples	Estimation techniques used in valuations, changes in market conditions, industry specific conditions
Property	2	Independent valuation by Colliers using RICS valuation standards	Market values of similar properties, existing lease terms estimated rental growth, estimated vacancies	Not required
Forward exchange contracts	2	Market forward exchange rates on the last day of accounting period	exchange rate risk	Not required

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above, are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

	Assessed valuation range (+/-)	Value as at 31 March 2017 £000's	Value on increase £000's	Value on decrease £000's
Private Equity	20%	80,526	96,630	64,420
Infrastructure	15%	57,191	65,770	48,612

	Assessed valuation range (+/-)	Value as at 31 March 2016 £000's	Value on increase £000's	Value on decrease £000's
Private Equity	20%	62,153	74,584	49,722
Infrastructure	15%	52,546	60,428	44,664

18a. Fair Value Hierarchy

Level 1
Assets and Liabilities 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
Assets and Liabilities 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 Derivatives, Direct Property Investments and Property Unit Trusts.

Level 3
Assets and Liabilities 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 assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2017	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
Assets				
Financial assets at fair value through profit and loss	4,593,782	233,034	137,717	4,964,533
Non- Financial assets at fair value through profit and loss		468,827		468,827
Total Assets	**4,593,782**	**701,861**	**137,717**	**5,433,360**

Values at 31 March 2016	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
Assets				
Financial assets at fair value through profit and loss	3,725,231	234,304	114,699	4,074,234
Non- Financial assets at fair value through profit and loss		438,105		438,105
Total Assets	**3,725,231**	**672,409**	**114,699**	**4,512,339**

18b. Reconciliation of Fair Value Measurements Within Level 3

	Private Equity, Infrastructure £000's
Market Value 1 April 2016	114,699
Transfers into level 3	0
Transfers out of level 3	0
Purchases during the year	17,732
Sales during the year	-12,677
Unrealised gains/ losses	13,168
Realised gains/losses	4,795
Market Value 31 March 2017	**137,717**

19. 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.

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 security 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. The possible loss 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 2017-18 reporting period.

Asset Type	**Potential Market Movements (+/-)**
UK Equities	7.94%
Overseas Equities	16.45%
Global Pooled Equities inc UK	15.00%
Bonds	5.55%
Property	13.33%
Infrastructure	14.45%
Private Equity	20.87%

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 17	Percentage change	Value on increase	Value on decrease
	£000's	%	£000's	£000's
Cash and cash equivalents	132,102	0.00	132,102	132,102
Investment portfolio assets:				
UK Equities	957,638	7.94	1,033,674	881,602
Overseas Equities	1,234,999	16.45	1,438,156	1,031,842
Global Pooled Equities inc UK	1,788,688	15.00	2,056,991	1,520,385
Bonds incl Bond Funds	581,407	5.55	613,675	549,139
Property Pooled Funds	230,129	13.33	260,805	199,453
Private Equity	80,525	20.87	97,331	63,719
Infrastructure Funds	57,191	14.45	65,455	48,927
Net derivative assets	2,905	0.00	2,905	2,905
Investment income due	16,948	0.00	16,948	16,948
Amounts receivable for sales	14,103	0.00	14,103	14,103
Amounts payable for purchases	-12,905	0.00	-12,905	-12,905
Total	**5,083,730**		**5,719,240**	**4,448,220**

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	7.94	844,131	719,943
Overseas Equities	950,632	16.45	1,107,011	794,253
Global Pooled Equities inc UK	1,435,874	15.00	1,651,255	1,220,493
Bonds incl Bond Funds	539,772	5.55	569,729	509,815
Property Pooled Funds	226,697	13.33	256,916	196,478
Private Equity	62,153	20.87	75,124	49,182
Infrastructure Funds	52,546	14.45	60,139	44,953
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**		**4,661,541**	**3,632,353**

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 2017 and 31 March 2016 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 17 £000	31 March 16 £000
Cash and cash equivalents	121,323	70,117
Cash Balances	10,779	7,896
Bonds		
- Directly held securities	339,752	310,896
- Pooled Funds	241,654	228,876
Total	**713,508**	**617,785**

Interest rate risk - sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund’s risk management strategy. The Fund’s investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:

Asset Type	Carrying amount as at 31 March 17	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000's	£000's	£000's
Cash and cash equivalents	121,323	1,213	-1,213
Cash Balances	10,779	108	-108
Bonds			
- Directly held securities	339,752	-3,398	3,398
- Pooled Funds	241,654	-2,417	2,417
Total change in assets available	**713,508**	**-4,494**	**4,494**

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	£000's
Cash and cash equivalents	70,117	701	-701
Cash Balances	7,896	79	-79
Bonds			
- 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**

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 100 bps 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 GBP, 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 (£282m) of the assets managed by Goldman Sachs Asset Management held in non GBP 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 2017 and 2016:

Currency exposure - asset type	Asset value as at 31 March 17	Asset value as at 31 March 16
	£000's	£000's
Overseas Equities	1,234,999	950,632
Overseas Pooled Funds	1,136,971	877,883
Overseas Bonds	40,223	39,923
Overseas Private Equity, Infrastructure and Property funds	125,388	109,638
Non GBP Cash	14,125	8,302
Total overseas assets	**2,551,706**	**1,986,378**

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 2017-18 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 17	Change to net assets available to pay benefits	Change to net assets available to pay benefits
		+8.3%	-8.3%
	£000's	£000's	£000's
Overseas Equities	1,234,999	1,337,504	1,132,494
Overseas Pooled Funds	1,136,971	1,231,340	1,042,602
Overseas Bonds	40,223	43,562	36,884
Overseas Private Equity, Infrastructure and Property funds	125,388	135,795	114,981
Non GBP Cash	14,125	15,297	12,953
Total change in assets available	**2,551,706**	**2,763,498**	**2,339,914**

Currency exposure - asset type	Asset value as at 31 March 16	Change to net assets available to pay benefits	Change to net assets available to pay benefits
		+8.3%	-8.3%
	£000's	£000's	£000's
Overseas Equities	950,632	1,029,534	871,730
Overseas Pooled Funds	877,883	950,747	805,019
Overseas Bonds	39,923	43,237	36,609
Overseas Private Equity, Infrastructure and Property funds	109,638	118,738	100,538
Non GBP Cash	8,302	8,991	7,613
Total change in assets available	**1,986,378**	**2,151,247**	**1,821,509**

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund’s financial assets and liabilities.

In essence the Fund’s entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment of a receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum amount that may be placed with any one financial institution. The Fund's cash was held with the following institutions:

	Rating	Balance as at 31 March 17 £000's	Balance as at 31 March 16 £000's
Money Market Funds			
Northern Trust Sterling Fund	**AAAm**	75,918	44,059
SSGA Liquidity Fund	**AAAm**	28	228
Blackrock USD Government Liquidity Fund	**AAAm**	3,302	0
Aberdeen Sterling Liquidity Fund	**AAAm**	6,870	22
Goldman Sachs Liquid Reserve Government Fund	**AAAm**	8,187	5,015
Aviva Investors Sterling Liquidity Fund	**AAAm**	6,931	6,921
Deutsche Managed Sterling Fund	**AAAm**	33	584
HSBC Global Liquidity Fund	**AAAm**	4,943	1,709
LGIM Liquidity Fund	**AAAm**	9,795	4,732
Insight Sterling Liquidity Fund	**AAAm**	95	2,613
		116,102	**65,883**
Bank Deposit Accounts			
HSBC BIBCA	**AA-**	2,435	2,430
NatWest SIBA	**BBB+**	508	8
		2,943	**2,438**

	Rating	Balance as at 31 March 17 £000's	Balance as at 31 March 16 £000's
Bank Current Accounts			
Natwest Current Account	**BBB+**	87	50
Natwest Current Account - Euro	**BBB+**	8,893	3,883
Natwest Current Account - USD	**BBB+**	1,800	9
Northern Trust - Current Accounts	**AA-**	178	4,463
Barclays - DTZ client monies account	**A**	2,099	1,287
		13,057	**9,692**
Total		**132,102**	**78,013**

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 2017 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.

20. Funding Arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2013 (as amended), the Fund is required to obtain an actuary's 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 2016.

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 2016 valuation a maximum deficit recovery period of 17 years (2013- 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.

In the 2016 triennial valuation, the smoothed value of the Fund's assets at the valuation date was £4,556m and the liabilities were £5,103m. The assets therefore, represented 89% (2013 - 83%) 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 increased from 20% to 20.9% of pensionable salaries. The funding level as a percentage has increased (due to good investment returns and employer contributions) although this has been partly offset by the changes in the financial assumptions used to calculate the liabilities.

The actuarial valuation has been undertaken on the projected unit method. At individual employer level the projected unit funding 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 remaining working lifetime, 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 2016 actuarial assumptions were as follows:

Valuation of Assets:		assets have been valued at a 6 month smoothed market rate
Rate of return on investments (discount rate)		5.4% p.a.
Rate of general pay increases:	Long term	3.9% p.a.
	Short Term	CPI for period 31 March 2016 to 31 March 2020
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):		2.4% p.a.

21. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, every year the fund's actuary undertakes a valuation of the Fund's liabilities on an IAS 19 basis, using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

The actuarial present value of promised retirement benefits as at 31 March 2017 was £9,062.3m (31 March 2016: £7,479.8m). The Fair Value of the Scheme assets at Bid Value being £5,565.2m (31 March 2016: £4,597.5m) the Fund has a net liability of £3,497.1m as at 31 March 2017 (31 March 2016: £2,882.3m). 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 61.41% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above being calculated on an IAS 19 basis and differs from the results of the 2016 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	2.7%
Discount rate	2.7%

22. Current Assets

		31 March 2017 £000's		31 March 2016 £000's
Debtors				
- Contributions due - Employees	3,816		2,860	
- Contributions due - Employers	11,974		17,092	
- Sundry debtors	9,982		5,257	
Total External Debtors		25,772		25,209
Amounts due from Kent County Council		1,203		2,251
Cash		10,780		7,896
		37,755		35,356
Analysis of External Debtors				
Other Local Authorities		22,437		19,462
Other Entities and individuals		3,335		5,747
		25,772		25,209

23. Current Liabilities

		31 March 2017 £000's		31 March 2016 £000's
Creditors				
- Benefits Payable	7,018		7,789	
- Sundry Creditors	3,406		4,288	
Total External Creditors		10,424		12,077
Owing to Kent County Council		3,934		2,895
Total		14,358		14,972
Analysis of External Creditors				
Other Local Authorities		5,790		7,431
Other Entities and individuals		4,634		4,646
Total		10,424		12,077

24. 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	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
	£000's	£000's	£000's	£000's	£000's	£000's
Value at 1 April	6,371	6,235	2,049	2,061	628	782
Value at 31 March	7,591	6,371	2,373	2,049	614	628
Contributions paid	1,438	1,237	166	175	6	2

25. Related Party Transactions

The Kent 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.

	2016-17	2015-16
	£000's	£000's
Kent County Council is the largest single employer of members of the Pension Fund and during the year contributed:	67,989	66,968
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.	2,940	2,706
Year end balance due to Kent County Council arising out of transactions between Kent County Council and the Pension Fund	-2,731	-645

Key management personnel

The employees of Kent County Council who held key positions in the financial management of the Kent Pension Fund during 2016-17 were the Corporate Director of Finance, the Business Partner- Pension Fund, 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.

26. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2017 totalled £102.3m (31 March 2016: £61.9m)

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.

27. Contingent Assets

32 admitted body employers in the Kent Pension 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 Fund and payment will only be triggered in the event of employer default.

Independent Auditor's Report to the Members of Kent County Council

Opinion on the Authority Financial statements

We have audited the financial statements of Kent County Council (the "Authority") for the year ended 31 March 2017 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 2016-17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the 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 auditor

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities, the Corporate Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law 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 the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and

have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 and applicable law.

Opinion on other matters

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

Matters on which we are required to report by exception

We are required to report to you if: in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: 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 to secure value for money through economic, efficient and effective use of its 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its 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 2017.

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 2017.

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 2017. 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.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code until we have completed our consideration of objections brought to our attention by local authority electors under Section 27 of the Act. We are satisfied that these matters do 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

19 July 2017

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Kent Superannuation Fund (the "Authority") for the year ended 31 March 2017 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 2016-17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the 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.

Independent Auditor's Report to the Members of Kent County Council

Respective responsibilities of the Corporate Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Corporate Director of Finance 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 2016-17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the 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 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 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and

• the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 and applicable law.

Opinion on other matters

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

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

Grant Thornton UK LLP
30 Finsbury Square
London NW1 2EP
EC2Y

19 July 2017

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 General Counsel completed the annual review of the Code of Corporate Governance during 2016-17. The Code of Corporate Governance is included at Appendix 10 of the Constitution. Initial changes and a process of modernizing the Council's arrangements as reflected in the Constitution was approved at the County Council meeting on 16 March 2017 and will continue through the coming financial year.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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

The governance framework has been in place within Kent County Council for the year ended 31 March 2017 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 behaviour;

(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 Councils relevant governance mechanism and associated sources of assurance:

Principle	Description of Governance Mechanism	Assurances Received
1. Focusing on the purpose of the Council and on outcomes for the community and implementing a Vision for the local area : Exercising strategic leadership by developing and clearly communicating the Council's purpose and vision, and its intended outcomes for citizens and service users. Ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning. Ensuring the Council makes best use of resources, and that tax payers and service users receive excellent value for money.	• 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	A quarterly performance report is published showing how our services are performing against key performance indicators. Externally reported data; Government Single Data list; and CIPFA benchmarking. Strategic and service data published online to enable residents to hold the Council to account. Internal Audit Plan linked to the overall objectives of the Council and the risks to their achievement. Employment appraisals linked to the Council's strategic objectives.

Principle	Description of Governance Mechanism	Assurances Received
		Results of consultations e.g. 'Your life, your well-being' – vision and strategy for adult social care; Mental Health Service – Promoting Independence, Local transport Plan 4, Waste Strategy, Kent Environment Strategy, Thanet Parkway Railway Station, Freight Action Plan for Kent, various school expansions and many others are set out on a dedicated web page. Attendance of staff and managers at engagement sessions. Staff and managers accessing information on KNet. The KCC Annual Complaints, Comments and Compliments Report is presented to Governance & Audit Committee each year. The KCC 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 KCC Environment Strategy. The group also shares, disseminates and promotes improvements in performance to ensure KCC's compliance with ISO14001. Information available on KNet. Various policies, procedures and other documentation are available on Kent: Vision for Kent 2012-2022; Facing the Challenge; Complaints & Feedback; Whistle Blowing Policy; Medium Term Financial Plan; Environment Policy; Equality Impact Assessment.

Principle	Description of Governance Mechanism	Assurances Received
2.Members and officers working together to achieve a common purpose with clearly defined functions and roles Ensuring effective leadership throughout the Council and being clear about executive, non-executive and scrutiny functions/roles 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 Ensuring relationships between the Council and the public are clear so that each knows what to expect of each other	• 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	Regular performance reporting to Cabinet Committees provides an overview for Members of Council performance against target levels. Regular reviews of the Constitution (including the Code of Corporate Governance) by the Monitoring Officer and Selection & Member Services Committee / full Council. The Selection and Member Services Committee monitors and recommends changes to the Constitution to Council. 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. 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 the County Council's corporate governance, risk management and internal control arrangements. 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.

Principle	Description of Governance Mechanism	Assurances Received
		The Director of Children's Services in 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. The Director of Public Health is responsible for ensuring that the County Council exercises its statutory public health functions as outlined in the Constitution. During the year three new Boards were implemented; Strategic Commissioning Board, the Commissioning Advisory Board and the Budget and Programme Delivery Board. The Strategic Commissioning Board, chaired by the Leader, provides a strategic oversight by Executive Members and senior professional officers of the analyse and plan stages of the strategic commissioning and project/programme management cycle, including oversight of options and strategic business case development. The Commissioning Advisory Board, provides non-executive member engagement and advice on the analyse and plan stages of the strategic commissioning cycle. This board meets on an informal and non-biased basis to support the Leader, Cabinet Members, Directors and commissioning officers on the development of options relating to the commissioning - service redesign or procurement of KCC services, prior to any necessary key decision.

Principle	Description of Governance Mechanism	Assurances Received
		The Budget & Programme Delivery Board provides a strategic oversight by Executive Members and senior professional officers of the do and review stages of the strategic commissioning and project/programme cycle, including : • Oversight of the annual budget development process and MTFP, including the performance, contract management, provider delivery and sustainability of significant commissioning and service redesign activity; • Ensuring performance improvement is delivered in priority areas and that appropriate service standards are maintained, including assessing the impact on key performance measures and outcomes of significant commissioning or in-house provision; • Considering the findings of evaluation reports on commissioning, procurement and project activity and ensuring that lessons learned are reflected in future practice. The Strategic Commissioning Board, the Commissioning Advisory Board and the Budget and Programme Delivery Board all have working relationships with Corporate Board, Cabinet Committees and the ICT Board. Cabinet Committees have a wider remit in regards to key decisions, the policy and budgetary framework of the council, the performance management and customer experience of KCC services as set out in the KCC constitution.

Principle	Description of Governance Mechanism	Assurances Received
		During March 2017 Internal Audit completed the audit; Departmental Governance Review – Growth, Environment & Transport. The overall opinion is that the governance arrangements within the Directorate are Substantial and that the prospects for improvement are adequate.
3. Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour	• 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 behaviour 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	General Counsel reports to the Corporate Management Team and Corporate Board and communications to all staff via K-Mail and Kent. Standards Committee minutes and decisions are available on KCC's website
Ensuring Council members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance	• 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	Minutes and decisions of all committees are observed by the General Counsel and/or Head of Democratic Services.
Ensuring that organisational values are put into practice and are effective	• 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' behaviour both individually and collectively	Annual Performance Review for staff explicitly links to achievement of objectives, and demonstration of relevant values and behaviours. KCC's Equality Impact Assessments policy and guidance was updated in September 2016 and is available on the intranet. During the year there have not been any legal challenges to any Equalities Impact Assessments carried out, including those for the 2017-18 budget proposals. The Member training and development programme provides focus on, and assurance of, appropriate skills and capability. The numbers of staff grievances and appeals is low, especially given the amount of change happening within the organisation.

Principle	Description of Governance Mechanism	Assurances Received
		The numbers of staff grievances and appeals remains very low considering the size of employer we are and especially given the amount of transformation throughout the organization. The authority has successfully defended the relatively small number of Employment Tribunal cases it has had in the last year. The Kent Code (the code of conduct for all employees) is available on the Council's intranet. The Council's Whistle Blowing Policy is available on the Council's intranet.
4. Taking informed and transparent decisions which are subject to scrutiny and managing risk : Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs Ensuring that an effective risk management system is in place Using legal powers to the full benefit of citizens and communities in the local area	• 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 • 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	The Council has a Scrutiny Committee and a Health Overview and Scrutiny Committee with membership from the non-executive Members. Key decisions, and other significant decisions, are published in the Council's Forthcoming Executive Decision (FED) list. 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. Members receive training in relation to the relevant areas of the constitution. 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.

Principle	Description of Governance Mechanism	Assurances Received
	• 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 whistle-blowing 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	The Governance & Audit Committee, which includes non-executive Members, meets regularly, independently of the scrutiny functions. The complaints procedure is available on KCC's website. Delegations are set out in the Council's Constitution. There is an Executive Scheme of Delegations in place. The Council's Risk Management Policy & Strategy is reviewed annually by the Governance & Audit Committee. CMT and Corporate Board have quarterly risk discussions, which encompasses the risks on the Directorate and Corporate Risk Registers. The Corporate Risk Register is reported to Governance & Audit Committee six monthly. Progress against mitigating actions for corporate risks is regularly monitored by CMT, Corporate Board and Cabinet. The Corporate Risk Register is underpinned by Directorate and Divisional (or service) risk registers that are also reviewed quarterly by Directorate DMT's. The authority's Whistleblowing Policy is available on the Intranet.

Principle	Description of Governance Mechanism	Assurances Received
5. Developing the capacity and capability of Members and officers to be effective: Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as groups Encouraging new talent for membership of the Council so that best use can be made of individuals' skills and resources in balancing	• 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	The Kent Code of Member Conduct states that all Members should be aware of and regularly updated. 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 A tailored Staff Induction programme is available for all new staff and existing staff who wish to update their knowledge. Annual Performance Review for staff explicitly links to achievement of objectives and identifies where knowledge and skills need to be updated. The majority of public meetings are webcast and available on the KCC's website. KCC's Workforce Planning Strategy 2015-2020 was published in August 2016 and is available on the intranet. KCC's Workforce Development Strategy 2017-2020 is due to be published in May 2017 and will be available on the intranet.

Principle	Description of Governance Mechanism	Assurances Received
6. Engaging with local people and other stakeholders to ensure robust public accountability : Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships 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 Making best use of human resources by taking an active and planned approach to meet responsibility to staff	• 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 • 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	KCC's Strategic Statement 2015-2020: Improving Opportunities, Improving Outcomes, is available on both the intranet and the Kent.Gov website. Annual Business Plans have been produced, and are available on KCC's website. The Complaints procedure is available on KCC's website. The staff Whistleblowing procedure is available on the authority's intranet. Kent Leaders group, consisting of the Leaders of all 14 Kent Authorities Councils, meets regularly. The Petitions procedure is available for the public to access. The list of Forthcoming Executive Decisions is available for the public to access. Kent County Council's Constitution is available for the public to access on KCC's website. A quarterly performance report is published on the KCC's website, and is available for the public to access. 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.

Principle	Description of Governance Mechanism	Assurances Received
		Results of consultations e.g. 'Your life, your well-being' – vision and strategy for adult social care; Mental Health Service – Promoting Independence, Local transport Plan 4, Waste Strategy, Kent Environment Strategy, Thanet Parkway Railway Station, Freight Action Plan for Kent, various school expansions and many others are set out on a dedicated web page. The "Increasing Opportunities, Improving Outcomes" – Strategic Statement Annual Report 2016 was published during the year. This first Annual Report demonstrates the progress we have made towards our 5 year vision over the previous 18 months.

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 2015-16 AGS. They also detail any new issues that have arisen since 1 April 2016, 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 2015-16 AGS have been implemented. In respect of all outstanding matters there is confirmation that a detailed action plan is in place, and the name of the responsible officer.

Elected Members have a role in maintaining and reviewing the effectiveness of the governance arrangements. They do this via the Governance and Audit Committee which has within its remit the role of ensuring the adequacy of the risk management and governance framework, and ensuring that these are embedded across the whole Council, that they are adequate for purpose and effectively and efficiently operated without any significant lapses. As part of the remit of the Scrutiny Committee, elected Members are able to review decisions made or action taken in relation to all Council function's or consider matters which affect the area of its residents. As part of this review they can look at governance and risk management aspects and make recommendations or report to the Executive or County Council. During the year Cabinet and the various Cabinet Committees receive and review regular reports relating to the performance of the Council's system of internal control, including the Strategic Risk Register, Revenue and Capital Budget Monitoring, Treasury Management and Core Monitoring (Performance and business plans).

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 the County Council's 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. Overall there has been an improvement in internal audit assurance levels compared to the previous year. Areas for further improvement have also been highlighted; more particularly the need to improve the monitoring of certain contracts; ensuring lessons are learnt from selected change programmes; that policies and procedures are consistently applied and enforced across the Council including its remote establishments. The Council has been receptive to addressing issues raised by Internal Audit and has achieved a good performance level in 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 needed to be enhanced were identified in last year's statement, the following provides an update on actions taken during the past year.

Strategic Commissioning Approach

The County Council received a report in January 2017 recommending a new top tier post to deliver strategic commissioning support, this recommendation was endorsed. The recommendation responded to the acknowledgement that to fully recognise the benefits of being a Commissioning Authority a source of specialist professional strategic commissioning advice needed to be made available to all directorates. The inclusion of a joined up function and a new senior post within KCC's structure will drive value for money and deliver benefits to both partners and residents.

The first Annual Report on KCC's Strategic Statement "Increasing Opportunities, Improving Outcomes" was presented to full Council on 20th October 2016. The report contained specific references to the authority's commissioning and provider activity and how this is improving services for residents.

Devolution

The Annual Strategic Statement Report highlighted KCC's plan to continue to work with District Council partners to take a pragmatic approach to the devolution agenda. Should the government's position on directly elected Mayors change, Kent will be in a strong position to negotiate a devolution deal.

The authority's devolution position statement was reported to full Council in July 2016 and highlighted ongoing work across sub-county partnership around two tier working. Council noted the national context and the position taken by Kent Leaders not to submit a devolution bid at the current time given the impact of the EU referendum result.

The County Council will continue to closely monitor this agenda to identify future opportunities whilst recognising that mayoral combined authorities are unsuitable in two-tier county areas. There is an action within the Corporate Risk Register to ensure that continual engagement about devolution between KCC, district councils, other partners and government takes place as part of the 'future financial and operating environment for local government' risk.

Financial climate

Increased demand for services and reductions in funding continue to present a significant challenge for the County Council. The financial outlook from last year looks very much unchanged with the overall picture for local government spending showing "flat cash" until 2019/20. The bringing forward and slight increase in the iBCF is welcomed but is not the longer-term solution. Financial pressures associated with the number of UASC arriving in Kent have been relieved to a slight extent through the introduction of the National Transfer Scheme, funding for legacy issues does though continue to remain a concern.

Full Council agreed to raise an additional 2% social care council tax levy on 9th February 2017, this will raise an extra £11.9m specifically for social care services.

The authority's financial position continues to be closely monitored and formal monitoring reports are delivered to Cabinet and the Cabinet Committees, this ensures that there is a shared awareness of financial pressures and demand. The Corporate Management Team, staff and managers continue to evidence commitment to meeting the financial challenges faced by the authority.

Health and Social Care

Impact of pressure in the health sector - A paper was presented to members of the County Council on 16th March 2017 which set out the approach being taken to develop a Kent and Medway Sustainability and Transformation Plan.

KCC continues to work closely with Health partners on the development of the health Sustainability and Transformation Plans. The ongoing development and implementation of this will be critical to delivering integration that delivers both better services for the people of Kent and maximises the utilisation of available resources. This remains an area of both opportunity and risk for the council and 'health and social care integration' is monitored on the Corporate Risk Register alongside supporting controls and actions.

Mental Capacity Act and Deprivation of Liberty Safeguards

In 2016-17 the Corporate Management Team collectively received updates relating to the Mental Capacity Act and Deprivation of Liberty Safeguards. The Corporate Risk Register that was reported to the Governance and Audit Committee and periodically reviewed by CMT also details that the demand for DoLS assessments will be continually reviewed as part of the wider 'management of adult social care demand' risk.

Like all Social Services authorities, following the 2014 Cheshire West judgement KCC continues to be unable to meet the expanded DoLS assessment requirements. There is an adequate triage process in place with senior staff scrutinising every application on receipt and cases being prioritised using the nationally agreed ADASS screening tool. Additionally there is an active process to keep care homes informed and to prompt notification if individuals' situations change and their case needs to be reprioritised. Additionally KCC is sponsoring 7 staff to undertake the necessary training and these should become available in the summer of 2017. However there are currently an increasing numbers of screened non-priority applications which remain in triage.

We will continue to carefully monitor DoLs in light of our ability to meet the expanded assessment requirements. We also continue to monitor the potential legislative changes in this area arising from the recent considerations of the Law Commission which resulted in a report and draft bill being published by them on 13 March 2017.

Number of Unaccompanied Asylum Seeking Children (UASC) arriving in Kent – Following the very significant number of UASC who arrived in 2015/16, KCC has worked closely with the Home Office and the Department for Education as they set up a National Transfer Scheme. This is now working well and the process of managing new arrivals is working well. There does however remain a legacy issue which is not adequately funded by the Home Office. This is an unresolved pressure on the directorate budgets.

A review of the KCC Leaving Care service structure was undertaken in response the number of UASC who need to transition into the 18+ Care Leavers Service, the findings of and recommendations from the review were presented to the Children's Social Care & Health Cabinet Committee in January 2017. It was agreed that a new proposed structure should be put in place to respond to the 18+ UASC care leaving demand.

Social Welfare Case Law – Informed Consent

KCC's Legal Team have worked closely with Social Care to ensure that issues relating to informed consent are responded to effectively, this included measures to ensure that there is an appropriate level of engagement with parents about Section 20 consent.

In our respective capacities as Leader of the Council and capacity as Head of Paid Service (which includes chairing CMT which takes a regular review of risk and mitigations across the Authority as a whole), we have identified particular areas where key internal controls still need to be enhanced. These are as follows:

KCC's directorate and strategic commissioning structure

Kent County Council's new directorate and strategic commissioning structure came into effect in April 2017 and transition arrangements continue to be worked through. It is recognised that there is further detailed work to do to fully embed the new arrangements.

Work will continue at a corporate and service directorate level to take this forward. This will be managed and monitored by the Corporate Directors and the Strategic Commissioner.

Financial climate

A more detailed savings plan for years 2 and 3 of the MTP will be necessary in the future given the rising demand for services, rising costs, and difficulty in continually finding savings year-after-year. However, this may depend in part on the timing of the next Spending Review.

The Corporate Management Team and council's Officers will continue to respond to the financial challenges presented and are committed to delivering saving targets for 2017/18. The Council's financial position will continue to be reported to and considered at Cabinet. This will be monitored by the Corporate Director for Finance with the Corporate Management Team.

Traded Services/Alternative Delivery Vehicles

The authority now has a number of alternative delivery vehicles in place, each of which are at varying maturity levels in terms of trading. Whilst robust governance arrangements are in place and oversight is provided by the established Shareholder Board, it is important that the authority continues to rationalise its traded activity to ensure that benefits for Kent residents and synergies between entities are maximised. This is to be monitored by the General Counsel.

Social Care

Regulatory Inspections: CQC – From May 2017 the Care Quality Commission will have a new responsibility to inspect Adult Social Care Commissioning functions. With the move to a central commissioning function in KCC there will need to be greater clarity as to how the DASS's statutory responsibilities will be held and delivered. This will be monitored and reviewed by the Director of Adult Social Services, working across the Council.

Regulatory Inspections: Ofsted Joint Targeted Area Inspections – Ofsted have now introduced a new inspection regime which will cover services to children across multiple public bodies. This will test the council's and partners' ability to clearly work cohesively across their respective responsibilities. This will be monitored and reviewed by the Director of Children's Services, working across the Council.

Health integration – KCC continues to work closely with Health partners on the development of the health Sustainability and Transformation Plans. The ongoing development and implementation of this will be critical to delivering integration that delivers both better services for the people of Kent and maximises the utilisation of available resources. This remains an area of both opportunity and risk for the council. This will be monitored and reviewed by the Director of Adult Social Services, the Strategic Commissioner and the new Health Portfolio, and Cabinet Committee, established to improve visibility and engagement.

Resource Constraints – As well as managing the demographic pressure in social care, work is continuing with finance colleagues to achieve the required level of reduction in spend. Additional temporary funding for adult social care is welcome but will not itself provide a long term solution. Depending on future demand, resource constraints may affect the ability of the council to meet its statutory responsibilities on an ongoing basis. This will be monitored and reviewed by the Director of Adult Social Services and the Corporate Director for Finance.

Security

We will continue additional work to ensure that the authority's security arrangements are robust to respond to any change of threat level on a local or national basis, this will include cyber security considerations. This will be managed and monitored by the Director of Infrastructure.

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

Glossary of terms

Agency

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

Best Value Accounting

The system of local authority accounting and reporting has been modernised to meet the changed needs of modern local government particularly the duty to secure and demonstrate Best Value in the provision of services. The 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: Roger Gough, Cabinet Member for Education and Health Reform

Patrick Leeson, Corporate Director of Children, Young People and Education

To: Governance and Audit Committee – 19th July 2017

Subject: SCHOOLS AUDIT ANNUAL REPORT

Classification: Unrestricted

Summary: The Annual Report summarises the Schools Financial Services (SFS) compliance programme and other activities undertaken during 2016-17 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 2016-17 DfE Schools Financial Value Standard (SFVS) Assurance Statement, the following work strands have been completed:

Compliance programme - 2016-17 was the fifth 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. In 2016-17 two Pupil Referral Units (PRU's) and 98 maintained schools were visited. Within the five year programme every school and PRU had at least one visit. The compliance programme takes a total of four days per school 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. Initially this programme included a two day visit on site at each school. To improve the process and reduce travel time and costs, a pilot for a one day visit in the schools with increased 'pre work' completed in the office was trialled in September 2016. This pilot proved successful and went live from January 2017.

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. Schools are reminded of the existing financial controls along with any necessary changes made to them, using a variety of communications including E Bulletins, Finance Information Groups and training programmes.

The compliance programme has been audited annually by Internal Audit resulting in an overall opinion of Substantial in 2015-16 and 2016-17. The only recommendation following the 2016-17 audit was for officers undertaking compliance visits to attend 'Fraud Awareness Training'. A meeting with Paul Rock, Counter Fraud Manager is being arranged to determine what training, if any, is necessary.

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, 30.3% of schools have purchased a regular contract in 2016-17 where experienced SFS staff work with the schools, generally on the school site. A further 35.9% have purchased ad hoc support and 98.7% 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 2016-17 there were over 100 training courses and 12 Finance Information Groups attended by over 1400 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 2016-17 the audit sampled 20 schools covering Financial Planning and Governance in Schools.

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 2014-15, 2015-16 and 2016-17 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.

This page is intentionally left blank

Schools Financial Services Compliance Comparison 2014-15 to 2016-17

	2014-15	2015-16
Total schools tested:	101	100
Total questions within each compliance visit	106	104
If process/procedure not in place:		
Total number of HIGH recommendations	61	58
Total number of MEDIUM recommendations	45	46
Total number of processes/procedures tested in all schools	10706	10400
Total number of processes/procedures not in place for all schools tested	1201	1188
Average % processes/procedures NOT in place	11%	11%

	2014-15				2015-16				
High recommendations by Category	**Total Questions Per School**	**Total Questions**	**Processes Not in Place**	%	**Total Questions Per School**	**Total Questions**	**Processes Not in Place**	%	**% Variance 14-15 v 15-16**
Governance & Leadership	7	707	59	8.35%	6	600	30	5.00%	-3.35%
School Development Plan	2	202	2	0.99%	2	200	3	1.50%	0.51%
Financial Planning and Monitoring	12	1212	102	8.42%	11	1100	103	9.36%	0.95%
Payroll	7	707	106	14.99%	7	700	104	14.86%	-0.14%
Procurement	7	707	92	13.01%	7	700	119	17.00%	3.99%
Corporate Cards	4	404	56	13.86%	4	400	91	22.75%	8.89%
Bank Account and Petty Cash	5	505	23	4.55%	5	500	50	10.00%	5.45%
Income	5	505	23	4.55%	5	500	22	4.40%	-0.15%
Assets and Loans	6	606	83	13.70%	5	500	78	15.60%	1.90%
Data Protection & Security	5	505	13	2.57%	5	500	7	1.40%	-1.17%
Health & Safety	1	101	26	25.74%	1	100	25	25.00%	-0.74%
	61	6161	585		58	5800	632		
Medium recommendations by category									
Governance & Leadership	9	909	138	15.18%	10	1000	129	12.90%	-2.28%
School Development Plan	1	101	20	19.80%	1	100	17	17.00%	-2.80%
Financial Planning and Monitoring	7	707	77	10.89%	7	700	86	12.29%	1.39%
Payroll	4	404	30	7.43%	3	300	32	10.67%	3.24%
Procurement	7	707	120	16.97%	7	700	100	14.29%	-2.69%
Corporate Cards	1	101	7	6.93%	1	100	7	7.00%	0.07%
Bank Account and Petty Cash	5	505	27	5.35%	5	500	45	9.00%	3.65%
Income	3	303	13	4.29%	3	300	11	3.67%	-0.62%
Assets and Loans	2	202	31	15.35%	3	300	38	12.67%	-2.68%
Data Protection & Security	1	101	0	0.00%	1	100	3	3.00%	3.00%
Health & Safety	5	505	153	30.30%	5	500	88	17.60%	-12.70%
	45	4545	616		46	4600	556		

Schools Financial Services Compliance

	Pre change 2016-17	Post change 2016-17	Total 2016-17
Total schools tested:	32	68	100
Total questions within each compliance visit	103	102	
If process/procedure not in place:			
Total number of HIGH recommendations	58	51	109
Total number of MEDIUM recommendations	45	51	96
Total number of processes/procedures tested in all schools	3296	6936	10232
Total number of processes/procedures not in place for all schools tested			1246
Average % processes/procedures NOT in place			12.18%

	Pre change 2016-17		Post change 2016-17					
High recommendations by Category	**Total Questions Per School**	**Total Questions**	**Total Questions Per School**	**Total Questions**	**Total Questions**	**Processes Not in Place**	**%**	**% Variance 15-16 v 16-17**
Governance & Leadership	6	192	6	408	600	52	8.67%	3.67%
School Development Plan	2	64		0	64	0	0.00%	-1.50%
Financial Planning and Monitoring	11	352	13	884	1236	120	9.71%	0.35%
Payroll	7	224	4	272	496	56	11.29%	-3.57%
Procurement	7	224	6	408	632	118	18.67%	1.67%
Corporate Cards	4	128		0	128	38	29.69%	6.94%
Bank Account and Petty Cash	5	160	3	204	364	38	10.44%	0.44%
Income	5	160	6	408	568	30	5.28%	0.88%
Assets and Loans	5	160	5	340	500	45	9.00%	-6.60%
Data Protection & Security	5	160	8	544	704	8	1.14%	-0.26%
Health & Safety	1	32	0	0	32	0	0.00%	-25.00%
	58	1856	51	3468	5324	505		

Medium recommendations by category								
Governance & Leadership	9	288	12	816	1104	169	15.31%	2.41%
School Development Plan	1	32		0	32	9	28.13%	11.13%
Financial Planning and Monitoring	7	224	4	272	496	55	11.09%	-1.20%
Payroll	3	96	2	136	232	58	25.00%	14.33%
Procurement	7	224	8	544	768	164	21.35%	7.07%
Corporate Cards	1	32		0	32	3	9.38%	2.38%
Bank Account and Petty Cash	5	160	4	272	432	44	10.19%	1.19%
Income	3	96	11	748	844	136	16.11%	12.45%
Assets and Loans	3	96	3	204	300	64	21.33%	8.67%
Data Protection & Security	1	32	2	136	168	1	0.60%	-2.40%
Health & Safety	5	160	3	204	364	38	10.44%	-7.16%
	45	1440	49	3332	4772	741		

By: Robert Patterson, Head of Internal Audit

To: Governance and Audit Committee – 19th July 2016

Subject: **Internal Audit Annual Report and Opinion for 2016/17**

Classification: Unrestricted

Summary:

This annual report summarises:

- The overall outcomes and themes from internal audit and counter fraud work for 2016/17 and the resultant annual opinion on the Council's systems of governance, risk management and internal control.
- The results of follow up work to monitor progress in implementing agreed actions from previous audits
- The related performance of the internal audit and counter fraud unit in delivering this work.
- Updates to the Council's Anti Money Laundering and Bribery Act policies

FOR DECISION AND ASSURANCE

---

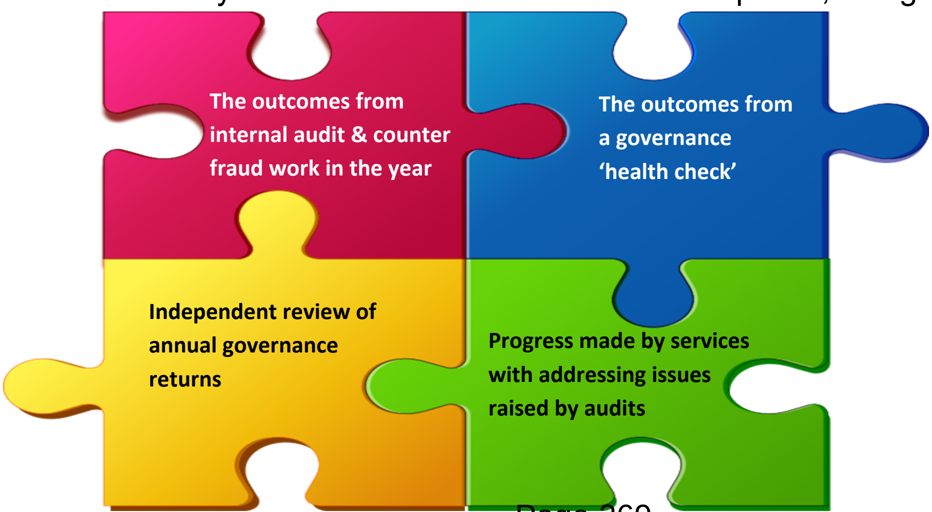
1. Introduction and Background

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 2016/17, 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 a summary of 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 68 substantive internal audits that have been completed or are at final reporting stage. This has involved audit reviews embracing over £1.16 billion of combined KCC turnover. In addition we have undertaken 14 establishment audits (some of which were unannounced visits). 'Establishments' are remote sites and this year we focused on children's centres, adult day centres and libraries.

2.2 Overall 38% (42% in 2015/16) of systems or functions we audited have been judged with 'substantial' assurance or better, conversely 7% (19% in 2015/16) of systems have been given a 'limited' assurance.

2.3 The material reduction in the proportion of audits resulting in a 'limited' opinion is a positive trend and is, we believe, indicative of the organisation becoming better at learning lessons over the need to maintain effective controls.

2.4 There have been no incidences of material fraud, irregularities or corruption discovered or reported. In total 185 suspected financial irregularities were reported to us during the year and of these 151 have been concluded. The potential value of these irregularities at the time they were reported was £695,000. Of the cases closed, the total value of fraud was over £72,000 and a further £60,000 related to irregularities. Over the year £132,000 has been recovered and a further £192,000 has been prevented from being lost.

2.5 During the year the DCLG grant funded Kent Intelligence Network (KIN) was brought into use and initial data matching is now taking place with the 15 partner organisations. Despite the frustrations with the delays in establishing this initiative (in common with similar projects across England) initial results and recoveries are now being generated (for example, identified business rate fraud and error of over £100,000 is being projected). In parallel with this, improvements are being made to data quality and ensuring there is the capacity at District Council level to investigate positive matches.

2.6 Our proactive work on the County Council's response to bribery and corruption has also resulted in controls being strengthened and the issue being properly profiled across management teams (see follow ups in section 5 of this report).

3. Governance 'health check'

3.1 In 2015/16 we introduced a structured governance 'health check' model where audit outcomes are mapped against 11 key areas and build up into an over-arching opinion. For 2016/17 we have continued to develop this approach. The 11 key areas are:

- Change, and realising our plans
- Performance
- Underpinning IT and Data Quality
- Risk
- Policies and procedures and their application
- Legislative compliance
- Financial and non-financial resources

- Commissioning, Procurement and Contract Management
- Governance at Directorate levels
- Governance of partnerships
- Other underpinning quality assurance measures

3.3 A full report has been presented to the Head of Paid Service, Section 151 officer and the General Counsel. The summary outcomes from this work are shown in Appendix B. Overall we have concluded a **'substantial'** opinion from this health check and comparisons to 2015/16 show marginal improvements. In particular no 'weak' opinions have emerged (testing shows contract management controls have improved from previous years) but conversely there is a marginal increase in the number of categories deriving an 'adequate' assurance.

4. Annual Governance Statement and 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 General Counsel. 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.

4.2 Because the County Council has yet to formally adopt or follow the 2016 CIPFA/ SOLACE revised good governance code (instead following the previous 2007 code) in its over-arching declarations we have provided an 'adequate' assurance on this process, but note that there are positive steps being taken to adopt the revised code this year. It must be emphasised that this does not imply that the Council is not following the principles in the 2016 code, but that currently it does not demonstrate that it does so.

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. This year we have given this issue priority and have adopted complimentary methodologies, being:

- Programmed follow up audits built into the 2016/17 plan, focusing on previous areas of concern or lower levels of assurance. .
- Comprehensive follow up returns and assessments from directorates (subject to audit test checks)

5.2 As part of the 2016/17 plan we targeted to undertake 11 in depth follow up audits. Of these it was possible to complete 10 with the following results:

Area	Previous judgement	Revised judgement after follow up	Prospects for Improvement
ICT Disaster Recovery	Limited	Adequate	Not rated
Leaving Care	Limited	Adequate	Good
Procurement & Contract Management	Limited	Adequate	Good
TFM Contract Management	Limited	Limited	Good
TFM Helpdesk	Limited	Limited	Good

Bribery and Corruption	Limited	Adequate	Good
Supervisions	Limited	Adequate	Good
Debt Recovery	Adequate	Adequate	Good
Public Health Governance	Adequate	Substantial	Good
Better Care Fund	Adequate	Adequate	Adequate
Sect 106 Developer Contributions	Follow up cancelled due to the new systems not being implemented.		

5.3 Six of the 10 audits completed evidenced an improvement in the opinion, with particular progress being made with contract management and anti-bribery and corruption. It is disappointing that the remainder had not improved sufficiently to warrant an improved opinion.

5.4 In relation to our routine follow up exercises, we have received returns from all departments and Directorates and completed relevant test checking on a risk basis, which generally confirmed the accuracy of the self-assessments. Responses received from management are detailed in Appendix D App 2 and 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	31	14	14	2	0
Medium	75	45	29	1	1
Total (%)	**106**	**59 (56%)**	**43 (40%)**	**3 (3%)**	**1 (1%)**

5.5 This data and the subsequent checking of its accuracy confirms the trend of the past two years of low and reducing levels of ‘no progress’ on audit issues raised.

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 38% of services and functions that have been given a substantial opinion or better
- A continuing pattern of general robustness of key financial and non financial systems – over 60% of audits in this area received a substantial assurance rating or better
- Substantial assurance over Corporate and underlying Directorate risk management systems and cultures
- Positive assurance over governance in the GET Directorate

- Positive assurance over cyber security measures
- Positive outcomes over support systems to schools
- Continuing improvements in the performance of implementing agreed actions following issues emerging from audits
- Over 80% of the services or functions we examined were judged to have good prospects for future improvement (although this should be tempered by findings from our detailed follow ups where only 60% of services sampled had actually improved their services sufficiently in the intervening 12 months to achieve a higher assurance level)

Areas for development:

- The 7% of services or functions that have been given a limited opinion
- Selected examples of shortfalls in the way the Council monitors and manages the contracts that it awards – during the year the TFM and Contact Point (Agilisys) contracts were particular examples that illustrates this issue
- A noticeable dip in assurance levels provided to underpinning IT systems
- The need to ensure lessons are learnt from the shortfalls in the 0-25 change programme and that such transformational change is sustainable
- Consistent application of policies and procedures across the Council
- The continuing need for consistent and robust devolved financial and non-financial controls in selected establishments – a number of those we sampled in libraries and children's centres were found to be deficient

6.3 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, in March 2015 the unit was independently quality assessed against PSIAS by the Institute of Internal Auditors (IIA) and volunteered for a follow up review in June 2016.

7.2 The outcomes from these assessments are that we have been judged as fully compliant to all of the 56 international standards and been awarded the highest level of grading by the IIA.

8. Revisions to Anti Money Laundering & Bribery Act Policies

8.1 As part of our protocols we undertake annual reviews of the Council's Anti Money Laundering and Bribery Act policies.

8.2 The minor revisions are shown in Appendix E, amendments are highlighted in grey:

- **Bribery Policy** – Updated to refer to the Public Contracts Regulations 2015 (para. 3.1)
- **Anti-Money Laundering Policy** – Updated to cross refer to the Bribery Policy (para. 12-12.1)

9. Recommendations

9.1 Members are asked to

(a) note the internal audit and counter fraud outcomes derived from the 2016/17 work and the resultant **'Substantial'** internal audit opinion to the Annual Governance Statement relating to the County Council's governance, risk management and internal control arrangements.

(b) approve the proposed amendments to the Council's Anti Money Laundering & Bribery Act policies

Appendices

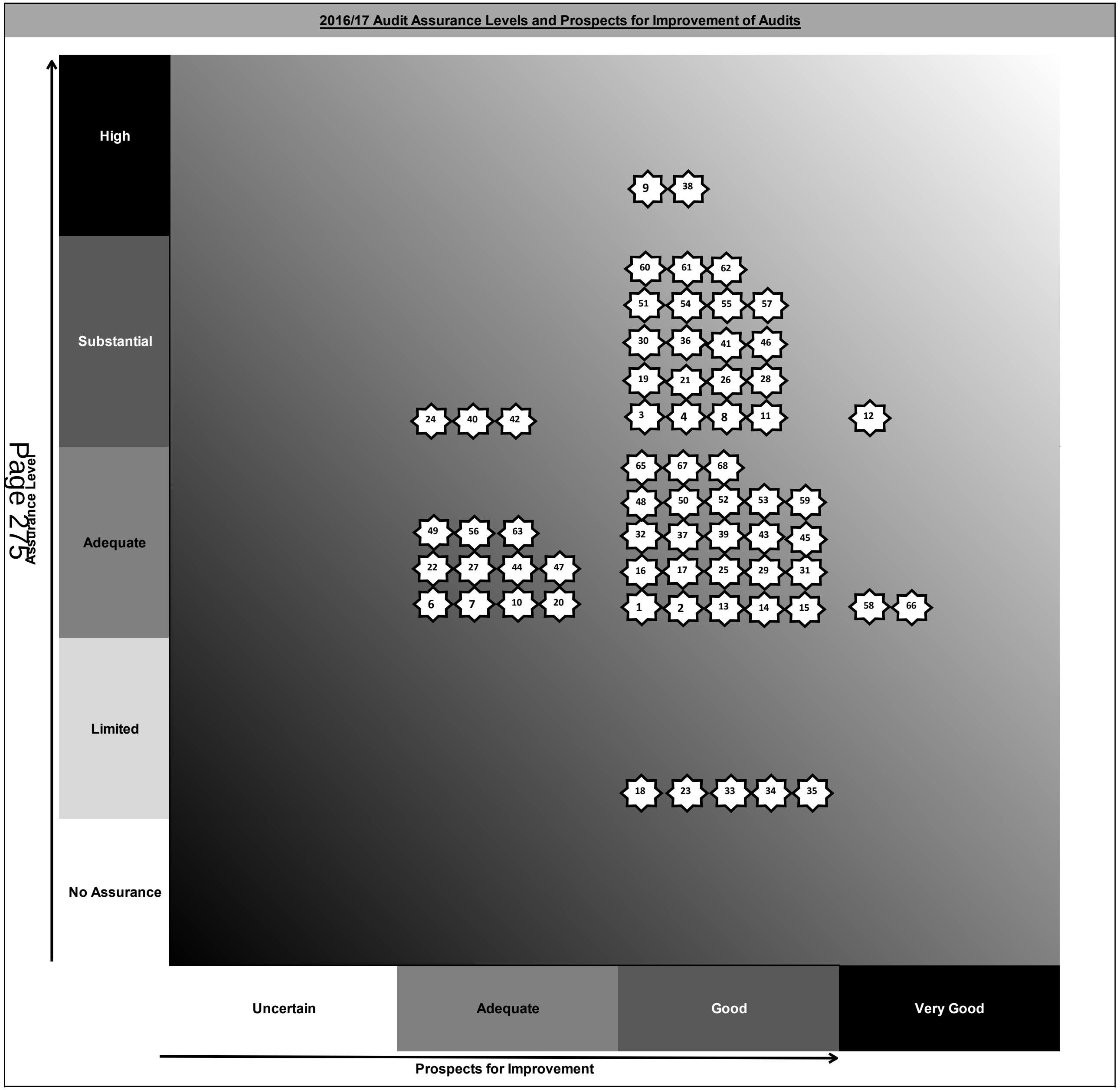
Appendix A	Distribution of internal audit judgements 2016/17
Appendix B	Overall diagrammatic results from the 2016/17 Governance Health check
Appendix C	Annual Governance Statement 2016/17 – Internal Audit Opinion
Appendix D	Internal Audit and Counter Fraud Annual Report
Appendix E	Revisions to Anti Money Laundering & Bribery Act policies

Robert Patterson, Head of Internal Audit

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

July 2017

Appendix A – Distribution of internal audit judgements 2016/17



Audit Opinion October G&A Committee

No	Audit	Judgement	Prospects for Improvement
1	Autism	Adequate	Good
2	UASC	Adequate	Good
3	Early Help - Step Up Process	Substantial	Good
4	TCP Process	Substantial	Good
5	ICT Disaster/ Recovery	Adequate	N/A
6	ICT Swift	Adequate	Adequate
7	PROW	Adequate	Adequate
8	Schools and 3rd Party Payroll	Substantial	Good
9	FOI Requests	High	Good
10	Data Protection	Adequate	Adequate

Audit Opinion January G&A Committee

No	Audit	Judgement	Prospects for Improvement
11	General Ledger	Substantial	Good
12	Value Added Tax (VAT)	Substantial	Very Good
13	Insurance Fraud	Adequate	Good
14	ICT Software Licence Management	Adequate	Good
15	Swift/ AIS Application and Preparedness for ISO 27001 Certification Review	Adequate	Good
16	Spydus Application	Adequate	Good
17	Contact Point - Contract Management Agilisys	Adequate	Good
18	Road Safety & Crash Remedial Measures	Limited	Good
19	ICES and Telecare	Substantial	Good
20	Safeguarding - Education and Young Peoples Services	Adequate	Adequate
21	Workforce Planning	Substantial	Good
22	Establishment Themed Review - Children Centres	Adequate	Adequate
23	Transformation 0-25	Limited	Good
24	MTFP	Substantial	Adequate
25	Business Planning	Adequate	Good
26	Schools Personnel Service	Substantial	Good
27	Carers Assessments	Adequate	Adequate
28	Schools Improvement Team	Substantial	Good
29	Leaving Care (Follow-up)	Adequate	Good

Audit Opinion April G&A Committee

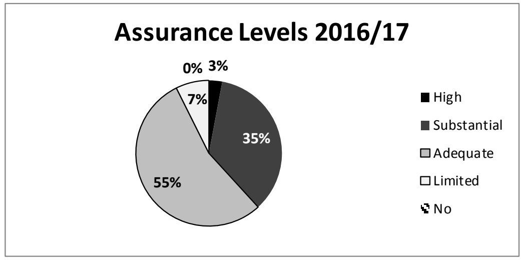
No	Audit	Judgement	Prospects for Improvement
30	IT Hardware Asset Management	Substantial	Good
31	Supervisions (Follow up)	Adequate	Good
32	Debt Recovery (Follow up)	Adequate	Good
33	Libraries Themed Review (Including the 5 Site Audits)	Limited	Very Good
34	TFM Contract Management (Follow up)	Limited	Good
35	TFM Help Desk (Follow up)	Limited	Good
36	CLS (FDR)	Substantial	Good
37	Procurement and Contract Management (Follow up)	Adequate	Good
38	Education Capital Plan	High	Good
39	KRT Phase 3	Adequate	Good
40	NEET Strategy	Substantial	Adequate
41	Accounts Payable	Substantial	Good
42	GET Governance	Substantial	Adequate
43	Information Governance	Adequate	Good
44	Property Asset Disposals	Adequate	Adequate
45	NDORS/ Speed Awareness	Adequate	Good

Audit Opinion July G&A Committee

No	Audit	Judgement	Prospects for Improvement
46	LED Street Lighting	Substantial	Good
47	PCI/ DSS	Adequate	Adequate
48	Transformation - Adults Phase 2	Adequate	Good
49	Accounts Receivable	Adequate	Adequate
50	Regional Growth Fund - Equity Investments	Adequate	Good
51	Corporate Purchase Cards	Substantial	Good
52	Central Placement Team	Adequate	Good
53	Schools Financial Services	Substantial	Adequate
54	**Tender Specifications***	Substantial	Good
55	IT Network and Cyber Security	Substantial	Good
56	**Elective Home Education***	Adequate	Adequate
57	Schools Themed Review	Substantial	Good
58	Business Continuity	Adequate	Very Good
59	Bribery and Corruption (Follow up)	Adequate	Good
60	Risk Management	Substantial	Good
61	**Public Health Governance (Follow up)***	Substantial	Good
62	Performance Management and KPIs	Substantial	Good
63	**Better Care Fund***	Adequate	Adequate
64	**Strategic Commissioning***	Adequate	Good
65	Staff Survey Actions	Adequate	Good
66	**Kent Community Safety Partnerships***	Adequate	Very Good
67	Establishments (Adults Day Centre Theme)	Adequate	Good
68	Annual Governance Statement and Returns	Adequate	Good

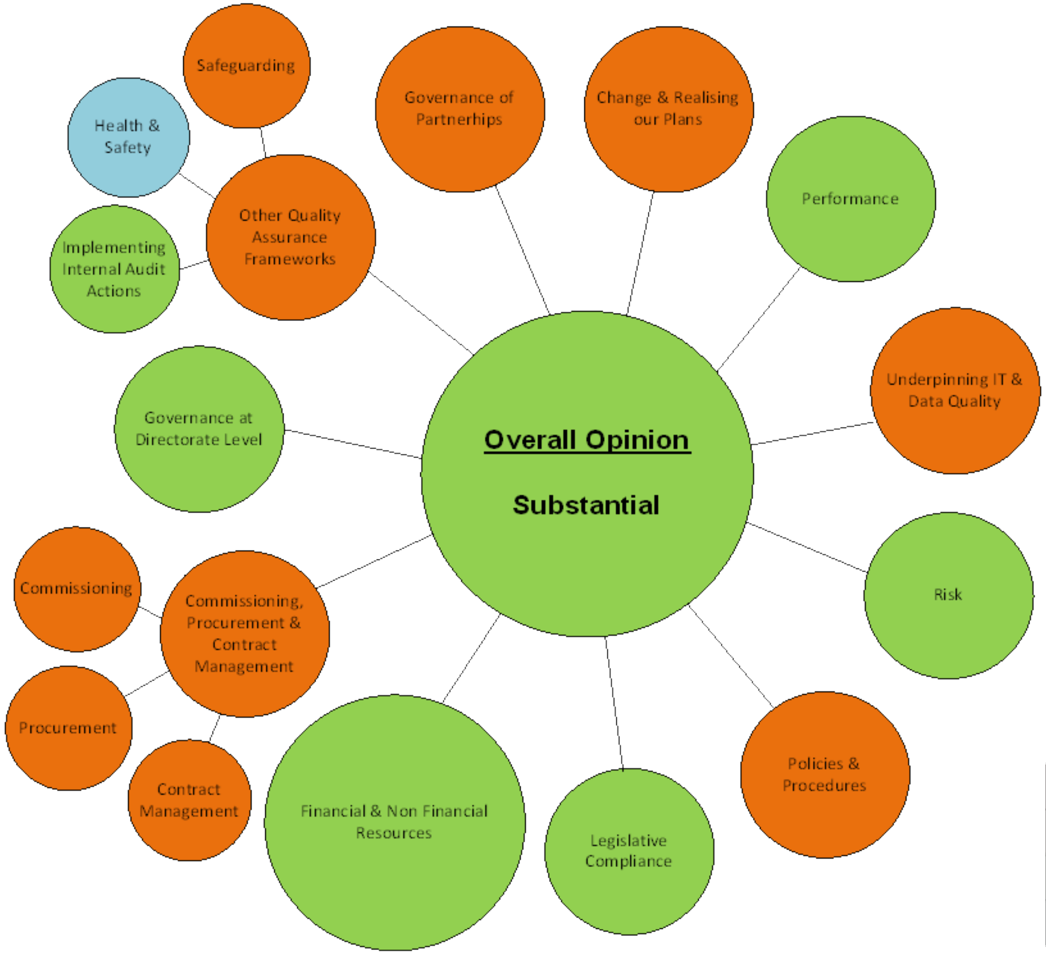
***Provisional scores for audit in bold as these are currently in draft stages of reporting**

Assurance Level	No	%
High	2	3%
Substantial	24	35%
Adequate	37	55%
Limited	5	7%
No	0	0%



Special Investigations/ Consultancy
Enablement Expenses
Camera Safety Partnership
Carbon Reduction Commitment
Troubled Familes Grant

Appendix B – Overall diagrammatic results from the 2016/17 Governance Health check



Red	Weak
Amber	Adequate
Green	Good
Blue	No opinion

Appendix C

Annual Governance Statement 2016/17

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 the County Council's 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. Overall there has been an improvement in internal audit assurance levels compared to the previous year. Areas for further improvement have also been highlighted; more particularly the need to improve the monitoring of certain contracts; ensuring lessons are learnt from selected change programmes; that policies and procedures are consistently applied and enforced across the Council including its remote establishments. The Council has been receptive to addressing issues raised by Internal Audit and has achieved a good performance level in implementing agreed actions. This has been independently confirmed from the results of formal follow up work undertaken by the unit.

Appendix D

Kent County Council

Page 281

Internal Audit and Counter Fraud Annual Report

July 2017

Contents

1 Introduction and Purpose

1.1. This annual report details cumulative internal audit and counter fraud outcomes for 2016/17. 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 2017. Appendix 1 provides the detail underlying these audits. Appendix 2 demonstrates how the audit and counter fraud plan for 2016/17 has been duly completed. Appendix 4 provides the definitions underlying our opinions.

1.3. Over 2016/17 we completed 68 substantive audits together with a further 14 establishment visits. In relation to counter fraud we have completed 151 investigations with a further 34 still on-going and carried forward into 2017/18. 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 over an estimated £1.16 billion of KCC turnover.

1.4. In this annual report we highlight the key messages and outcomes arising from our work together with the associated assurance levels. In section 3 we align these audit outcomes against key corporate risks or significant systems.

1.5. In deriving a structured opinion we have also taken the results from our audit work and aligned them against 11 areas in the 'Governance Health Check'. The overall results from this analysis are shown in the covering paper to this annual report.

1.6. During 2016/17 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 Invicta Law), providing independent assurance to their relevant Boards and management teams.

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 2016/17. 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

- 38% of services and functions t have been judged with a substantial opinion or better
- A continuing pattern of general robustness of key financial and non financial systems – over 60% of audits in this area received a substantial assurance rating or better
- Substantial assurance over Corporate and underlying Directorate risk management systems and cultures
- Positive assurance over governance in the GET Directorate
- Positive assurance over cyber security measures
- Positive outcomes over support systems to schools
- Continuing improvements in the performance of implementing agreed actions following issues emerging from audits
- Over 80% of services or functions we examined were judged to have good prospects for future improvement

1.9. Areas for further development relate to:

- The 7% of services or functions that have been given a limited opinion
- Selected examples of shortfalls in the way the Council monitors and manages the contracts that it awards – during the year the TFM and Contact Point (Agilisys) contracts were particular examples that illustrates this issue
- A noticeable dip in assurance levels provided to underpinning IT systems
- The need to ensure lessons are learnt from the shortfalls in the 0-25 change programme and that such transformational change is sustainable
- Consistent application of policies and procedures across the Council
- The continuing need for consistent and robust devolved financial and non-financial controls in selected establishments – a number of those we sampled in libraries and children's centres were found to be deficient

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 Alignment of audit outcomes to key risks

Managing and embedding sustainable change

3.1. During the year we have reviewed the following areas that have a common theme connected to the management of change, delivering planned savings and service improvements:

	Assurance Level	Prospects for Improvement	Issues Raised	
Transformation – Adults Phase 2	Adequate	Good	High: 0 Medium: 3	Accepted
LED Street lighting	Substantial	Good	High: 0 Medium: 3	Accepted
Transformation 0-25	Limited	Good	High: 3	Accepted
Schools Improvement Team	Substantial	Good	Medium: 3	Accepted
Adoption	N/A	N/A	N/A	Consultancy review

3.2. During the last quarter of the year we completed our audit of the Phase 2 Adults Transformation programme, which has an aim of saving £13.2 million on services to older and vulnerable adults with learning, physical and mental health disabilities. The overall governance of the project was good with robust project management; effective monitoring and ultimately a 'lessons learnt' review being commissioned. The costs of the change programme were not accurately forecast as the in house costs were not captured throughout the project and given the length of time for profiled estimated savings there is a risk over these being fully realised. At the current time contractor / consultant costs still outweigh the generated savings.

3.3. The £40 million LED street lighting replacement system is clearly a significant transformation capital investment for the Council that is planned to bring material benefits. We found the contract was well managed and controlled. Particularly positive assurance was found around the contract procurement, award and subsequent management and payment. Shortfalls in the early stages of the conversion plan were quickly detected by the Council and a recovery plan was implemented by the contractor.

Identification, planning and delivery of financial savings

3.4. During this period we have not completed any new work in relation to this risk, but as a reminder previous judgements were:

	Assurance level	Prospects for Improvement	Issues Raised	
Property – Disposal of Assets	Adequate	Adequate	Medium: 3	Accepted
Medium Term Financial Planning (MTFP)	Substantial	Adequate	Medium: 2	Accepted
Business Planning	Adequate	Good	Medium: 3	Accepted
Public Rights of Way (PROW)	Adequate	Adequate	High: 2 Medium: 0	Accepted

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	
IT Network and Cyber Security	Substantial	Good	High: 0 Medium: 1	Accepted
PCI / DSS	Adequate	Adequate	High: 0 Medium: 1	Significant progress, but previous issues not yet fully completed.
Information Governance (toolkit compliance)	Adequate	Good	High: 1 Medium: 0	Accepted

IT Hardware Asset Management	Substantial	Good	High: 0 Medium: 2	Accepted
Swift/AIS	Adequate	Good	High: 1 Medium: 2	Accepted
Spydus Application	Adequate	Good	Medium: 2	Accepted
ICT Software Licence Management	Adequate	Good	High: 0 Medium: 4	Accepted
ICT Disaster Recovery follow up	Adequate	N/A	Of the six issues raised, one is fully implemented, one is 'risk accepted' whist the reminder are in progress.	
ICT SWIFT	Adequate	Adequate	High: 1 Medium: 2	Accepted
Data Protection	Adequate	Adequate	High: 0 Medium: 1	Accepted
FOI requests	High	Good	High: 0 Medium: 0	N/A

3.6. The most substantive element of IT audit work this year relates the network and cyber security and an independent evaluation of how the County Council is geared up to defend itself against these threats. Overall we found that such security is robust and well designed with appropriate action being taken to identify and address such threats. It is evident that the Council is 'acting reasonably' with the defences and controls it currently has in place.

3.7. The other IT audit completed related to adherence to Payment Card Industry – Data Security Standards (PCI – DSS) which is a standard relevant to all organisations that offer debit and credit card payment facilities to the public. This was given a 'limited' opinion in the previous year but has improved controls to the extent that an 'adequate' revised opinion is now justified.

3.8. It will be noted that for 2016/17 the majority of IT related audits have received an 'adequate' opinion, compared to the previous year when the majority of opinions were 'substantial'.

Safeguarding – protecting vulnerable children and adults

3.9. During this quarter we did not undertake any further safeguarding related work. As a reminder our previous reviews for 2016/17 have produced the following outcomes:

	Assurance level	Prospects for Improvement	Issues Raised	
Supervisions (follow up)	Adequate	Good	High: 3 Medium: 1	Accepted
Safeguarding – EYPS	Adequate	Adequate	High: 1 Medium: 5	Accepted
Leaving Care (follow up)	Adequate	Good	High: 2 Medium: 5	Accepted

Access to resources to aid economic growth and enabling infrastructure

3.10. Our sole work this year relating to this risk concerned a review of the assessment and monitoring controls in place for the £ 7.9 million of equity investments (including the Discovery Park) and that they were in line with best practice and the requirements of the Department of Business Energy and Industrial Strategy:

	Assurance Level	Prospects for Improvement	Issues Raised	
Regional Growth Fund – Equity Investments	Adequate	Good	High: 0 Medium: 3	All accepted

3.11. We determined there are robust due diligence controls in place and appropriate specialist independent advice is utilised. There is appropriate monitoring and reporting to appropriate bodies. However there is less clarity over how companies are progressing towards 'commercialisation' or what would trigger an equity release. Of the 13 companies KCC has invested in, two have posted modest profits, one break even and 10 have accumulated losses, but to date no company has gone into administration.

Implications of increased numbers of unaccompanied asylum seeker children

3.12. We have not undertaken any further work in this area, but as a reminder the judgment from the dedicated audit in the first quarter of 2016/17 was:

	Assurance Level	Prospects for Improvement	Issues Raised	
UASC	Adequate	Good	High: 1 Medium: 1	Accepted

Health and Social Care Integration

3.13. We did not undertake any dedicated work during this quarter, but previous work this year has involved:

	Assurance Level	Prospects for Improvement	Issues Raised	
Autism	Adequate	Good	High: 0 Medium: 2	Accepted

Demand – adult social care and early help / specialist children's services

3.14. We have undertaken two pieces of work during this quarter:

	Assurance Level	Prospects for Improvement	Issues Raised	
Better Care Funding (follow up)	Adequate	Adequate	High: 1 Medium: 2	TBC – responses awaited
Central Purchase / Placement Team	Adequate	Good	High: 1 Medium: 3	Accepted

Community Learning and Skills (CLS)	Substantial	Good	Medium: 2	Accepted
ICES & Telecare	Substantial	Good	Medium: 3	Accepted
Carers Assessments	Adequate	Adequate	High: 1 Medium: 2	Accepted
Managing 'Step Up' to Specialist Children's Services and 'Step Down' to Early Help	Substantial	Good	High: 0 Medium: 4	Accepted

3.15. Our follow up audit of a sample of Better Care Funding projects found only minimal improvements from the previous year. Although savings targets had been achieved this was not attributable to BCF integration. The systems of using 'scheme summaries' to monitor progress are incomplete, outcomes are not clearly linked to hospital activity targets, budgets are still not effectively pooled and a risk register for the project has yet to be set up.

3.16. During the last quarter we reviewed the performance of the new County Placement Team to provide assurance on the robustness of the process underlining placements to residential homes. In general we found that there was adequate adherence to stipulated business processes with appropriate underlying evidence and documentation. No incidents were found where client choice was not met. There was a clear effort by CPT officers to source accommodation matching needs at the guide price, although our testing of top ups found one in four was incorrectly charged. We found incidents where personal information was being e-mailed insecurely and this was immediately rectified during the audit.

Financial and operating environments – critical systems and functions

3.17. As would be expected from an internal audit function, a considerable proportion of our work is centred on reviews of core critical financial and non-financial systems:

	Assurance level	Prospects for Improvement	Issues Raised	
Accounts Receivable	Adequate	Adequate	High: 2 Medium: 3	Accepted
Corporate Purchase Cards	Substantial	Good	High: 0 Medium: 2	Accepted
Staff Survey Actions	Adequate	Good	High: 1 Medium: 0	Accepted
Anti Bribery and Corruption Controls (Follow UP)	Adequate	Good	High: 0 Medium: 1	Accepted
Accounts Payable and iProcurement	Substantial	Good	Medium: 1	Accepted
Education Capital Plan	High	Good	No issues	N/A
Debt Recovery (follow up)	Adequate	Good	Medium: 2	Accepted
Workforce Planning	Substantial	Good	Medium: 2	Accepted
Schools Personal Service	Substantial	Good	Medium: 1	Accepted
General Ledger	Substantial	Good	Medium: 3	Accepted
VAT	Substantial	Very Good	Medium:2	Accepted
Insurance Fraud	Adequate	Good	Medium:3	Accepted
Anti Bribery and Corruption Controls	Limited	Good	High: 1 Medium: 0	Accepted
Schools and 3rd party payrolls	Substantial	Good	High: 0 Medium: 1	Accepted
TCP process	Substantial	Good	High: 0 Medium: 6	Accepted

3.18. In general our work on critical financial and operational systems continues a generally positive trend.

3.19. Our testing of accounts receivable found that controls were sound allowing for invoices to be processed properly and accurately. However at the time of the audit daily bank reconciliations completed by the business service centre were not up to date and the suspense account was not routinely cleared.

3.20. The audit of corporate purchase cards determined that controls were good and our sample determined all transactions were valid, supported by appropriate records and approved in a timely manner. Minor issues were found around related VAT records and authorisation checking.

3.21. Each year the Council undertakes a staff survey involving a selected number of services and teams. The survey principally focuses on employee motivation and engagement. We found that the survey results were effectively fed back and given appropriate levels of management attention. However of the six departments that took part in the survey only 3 drew up resultant action plans and of these only one did a formal follow up on progress.

3.22. Our follow up of anti-bribery and corruption controls determined that progress had been made in addressing the shortfalls that we had highlighted earlier in the year. Following the issue being given a high profile by top level management, each Directorate has now undertaken a relevant risk assessment which has shaped the actions in those areas determined as higher risk. Actions have included more focused e- learning and strengthening of relevant documentation with contractors. Our testing showed inconsistencies in the application of these initiatives across the Council and a small number of errors in declaring gifts and hospitality by both officers and Members.

Evolution of a strategic commissioning approach

3.23. During the final quarter of the year we have looked at the Council's progress at becoming a strategic commissioning authority and also at the controls around tender specifications. Our conclusions were:

	Assurance Level	**Prospects for Improvement**	**Issues Raised**	
Strategic Commissioning	Adequate	Good	High: 0 Medium: 5	TBC – responses awaited
Tender Specifications	Substantial	Good	High: 0 Medium: 4	Accepted

Contract Management & Procurement (follow up)	Adequate	Good	High: 1 Medium: 1	Accepted

3.24. Our work on tender specifications followed a positive trend on outcomes relating to elements of contract management. From the sample of specifications we found that they were outcome focused that were correctly aligned to the objectives of the service being procured and with clearly stated data requirements with appropriate KPI's being set. Exit arrangements were clearly stipulated.

Civil Contingencies and General Resilience

3.25. During this quarter we provided assurance over the following areas:

	Assurance Level	**Prospects for Improvement**	**Issues Raised**	
Business Continuity	Adequate	Very good	High: 0 Medium: 6	Accepted
Kent Community Safety Partnership	Adequate	Very Good	High: 1 Medium: 2	Accepted
Kent Resilience Team	Adequate	Good	Medium: 3	Accepted

3.26. Overall the Council's business continuity arrangements are compliant with the Civil Emergencies Act 2004 and largely compliant with the relevant quality accreditation (ISO 22301), the exception being a formalised quality assurance process. We reviewed a number of continuity plans across the Council and which were of the correct specification and management oversight. Unfortunately the corporate Business Continuity Plan was not tested or reviewed during 2016/17. At the time of our audit the function was being re-structured so as to provide a more integrated service.

3.27. In relation to community safety, Kent adopts a multi-agency approach, integrating with Kent Police, Fire and Rescue. This approach has delivered targeted efficiency savings. We found that governance arrangements were adequate although a number of areas need finalising including the arrangements surrounding the pooled project fund. Monitoring arrangements are in place to review progress with the new team, although they are not sufficiently outcome focused.

4 Other Audit Work – including governance functions and controls

4.1 During the last quarter we have undertaken work in a miscellany of areas including our annual reviews of selected elements of corporate risk and performance management:

	Assurance level	Prospects for Improvement	Issues Raised	
Annual Governance Statement and Returns	Adequate	Good	Medium: 2	Accepted
Risk Management	Substantial	Good	Medium: 1	Accepted
Performance Management and corporate KPI's	Substantial	Good	None	N/A
Public Health Governance Follow Up	Substantial	Good	High: 0 Medium: 1	TBC – responses awaited
Schools Financial Services	Substantial	Adequate	None	N/A
Schools Themed Review (Financial Planning and Governance)	Substantial	Good	High: 0 Medium: 2	Accepted
Elective Home Education	Adequate	Adequate	High: 2 Medium: 5	Accepted
Regional Growth Fund – Equity Investments	Adequate	Good	High: 0 Medium: 3	Accepted
Governance Review : GET	Substantial	Adequate	Medium: 5	Accepted
NDORS / Speed Awareness	Adequate	Good	High: 2 Medium: 3	Accepted
TFM Helpdesk (re-visit)	Limited	Good	High: 4 Medium: 1	Accepted

TFM Contract Management (follow up)	Limited	Good	Medium: 5	Accepted
NEET Strategy	Substantial	Adequate	Medium: 1	Accepted
Contact Point	Adequate	Good	High: 4 Medium: 1	Accepted
TFM Help Desk (follow up)	Limited	Uncertain	High: 4 Medium: 1	Not fully addressed
Road Safety & Crash Remedial Measures	Limited	Good	High: 3 Medium: 3	Accepted
Camera Safety Partnership	NA	NA	High: 1	Accepted
Enablement Expenses	NA	NA	High: 1 Medium: 2	Accepted
Carbon Reduction Commitment	N/A	N/A	Judged as "compliant"	

4.2 In our annual review of risk management we concentrated on reviewing on the effectiveness of declared controls to mitigate declared corporate risks. We found that for all risks sampled there were effective controls in place with reasonable levels of review and monitoring. There were a small number of risks sampled where the suite of controls contained a number that were out of date or were not undertaking the role designed for them.

4.3 Our annual review of performance management arrangements determined good outcomes. From the sample of KPI's taken we found that they aligned to corporate objectives, are subject to robust quality standards in their construction and reported on in a timely manner.

4.4 As part of our follow up programme we re-examined the progress being made by Public Health in response to our governance review undertaken in 2015. A number of key actions have been implemented but others such as re-structuring have taken longer than anticipated to complete. Improvements have been made in quality and safeguarding issues across work that is commissioned.

4.5 Our two audits relating to controls within schools and services to schools were positive. For 2016/17 we reviewed financial planning and associated governance in a sample of schools. Overall financial planning was good – schools had robust 3 year plans that were properly quality assured and owned and recognised by the governing body. Improvements in trend analysis and better managing risks of longer term capital investment could be made as well as more transparency with some governing bodies on future required actions. The review of the Schools Financial Services – Returns and Compliance Team found a number of areas of good practice and has recently been improved with an enhanced follow up process. The team covers 100 school visits per annum.

4.6 Elective home education received an 'adequate' assurance as our testing showed that although there was good practice guidance and monitoring was supported by robust management information systems there was nevertheless backlogs in performing statutory and non-statutory reviews, practice did not always align with stated policies and there were gaps in record keeping.

Establishment Visits

4.7 During the last quarter of 2016/17 we concluded audits of 3 adults day centres as part of a themed review, with an overall assurance level of :

	Assurance level	**Prospects for Improvement**	**Issues Raised**	
Adults Day Centres	Adequate	Good	Medium: 2	Agreed

4.8 All three audits were unannounced with assurance levels of:

Establishment	**Assurance Level**
Crawford Day Care Services	Adequate
Dartford & Swanley Community Day Services	Adequate
Walmer Day Care Services	Adequate

4.9 In general financial and non-financial controls were operating effectively across all 3 centres although there was a lack of consistency in the application of such controls and procedures as well as a number of material gaps in record keeping.

4.10 As a reminder in previous quarters we reviewed (and reported) a sample of Libraries and Children's Centres with the following outcomes:

Libraries

	Assurance level	Prospects for Improvement	Issues Raised	
Libraries – themed summary	Limited	Very Good	Medium: 1	Central issue raised over consistency of approaches and procedures - Accepted

Establishment	Assurance level
Tonbridge Library	Limited
Dartford Library	Limited
Gravesend Library	Limited
Library Library	Adequate
Tunbridge Wells Library	Adequate

Children's Centres

	Assurance level	Prospects for Improvement	Issues Raised	
Children's Centres – themed summary	Adequate	Adequate	Medium: 1	Central issue raised over knowledge of key processes across all centres - Accepted

Establishment	Assurance level
Joy Lane (Canterbury) Children's Centre	Adequate
Six Bells (Thanet) Children's Centre	Adequate
Milton Court (Swale) Children's Centre	Limited
Willows (Ashford) Children's Centre	Adequate
Buttercups (Dover) Children's Centre	Limited
Caterpillars (Shepway) Children's Centre	Adequate

4.2 The weakening of controls in remote sites and centres has been a common theme over the past few years and the pattern for 2016/17 is no different. It is particularly important that the examples of non-financial control lapses such as security of access to some children's centres and fire drill practice in libraries are addressed on a systemic basis as well as on individual occurrences.

Other Activity and Matters

4.3 During the year we have also undertaken the following:

- 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, GEN 2 and Invicta Law
- Management of the audit and fraud service at Tonbridge and Malling Borough Council as part of a shared service partnership
- Appointed auditor to 12 Parish Councils
- Internal auditor of Kent and Medway Fire and Rescue Service
- Internal auditor of Kent and Essex Inshore Fisheries and Conservation Authority

4.4 When we presented the 2017/18 audit plan to this Committee in April we could not supply an IT audit plan as our new IT audit contractor, Messrs BDO, had only just commenced work. One of the first tasks was to undertake an IT risk assessment and associated consultation with stakeholders. The outcomes from this work are the IT audit plan detailed in Appendix 3 against which work is making satisfactory progress.

5 Counter Fraud and Corruption Fraud and Irregularities

5.1 We have recorded 185 irregularities in 2016/17 of which 34 remain under investigation and 151 have been closed. There has been a 54% increase in referrals between 2015/16 and 2016/17.

5.2 At the point an irregularity is referred to Internal Audit we estimated the potential value. Based on the information available at the time we estimated the total value of all the irregularities reported to us as £695,000. Of the 151 irregularities closed we believe that 'on the balance of probabilities' fraud was committed on 93 occasions with a total value of £72,227. The value of the remaining 58 irregularities totals £60,611. Of the £132,838 lost in total to fraud or error, £130,458 will be recovered. We prevented a further £192,000 from being lost.

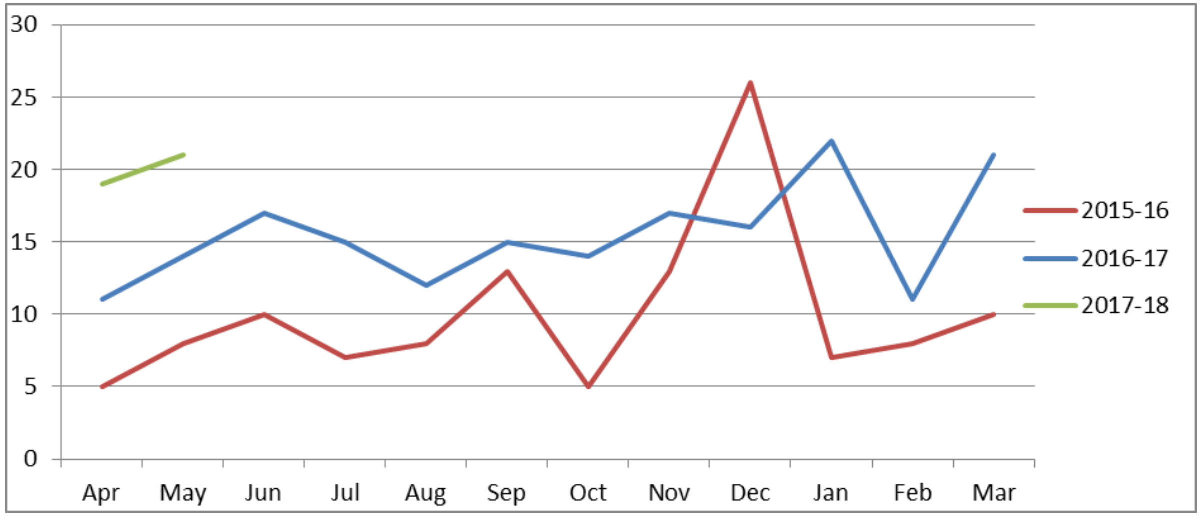
5.3 From the 185 irregularities reported, 129 have been from the Social Care directorate. The most common type of referral reported to the counter fraud team is Blue Badge misuse and fraud. This is due to the ongoing work with the Districts to reduce the misuse of the scheme (see CF2). This can be seen in CF4 where there has been a significant increase in outside agencies reporting irregularities.

5.4 The second highest irregularity reported is categorised as "Social Care" this category includes, but is not limited to, allegations related to false applications for financial support, payroll and contract fraud, misuse of direct payments, deliberate deprivation of capital to minimise care costs and misuse of purchase cards.

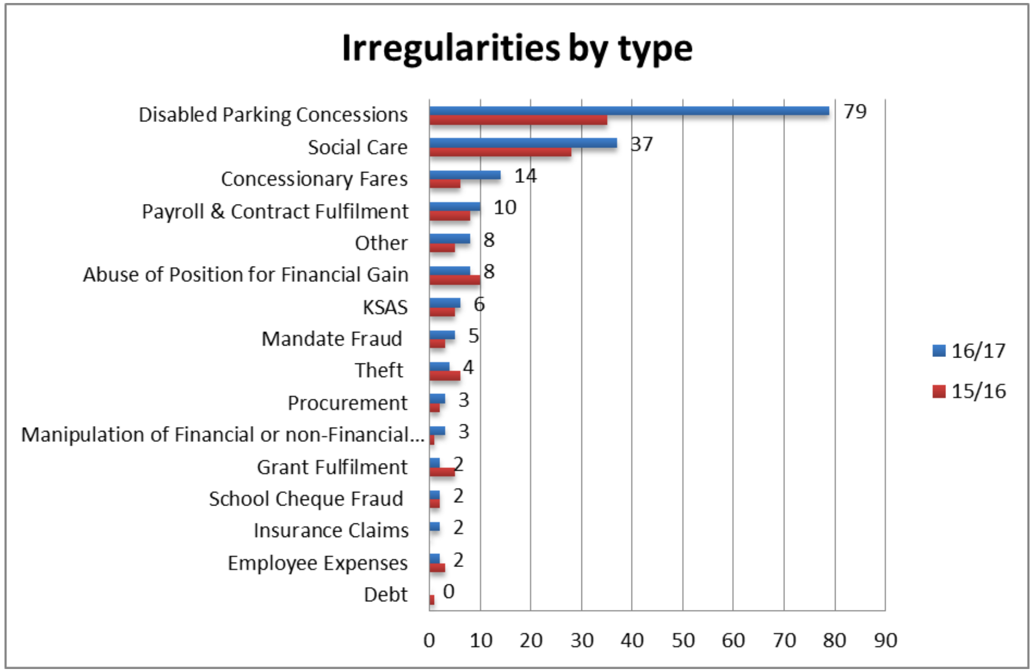
5.5 The number of Social Care referrals has increased as a result of the increasing awareness of Direct Payment misuse and support we are providing to Specialist Children's Services to enhance the verification of applications for financial support from families whose immigration status leaves them with no recourse to public funds.

5.6 Over the course of 2016/17 the Council has seen an increase in fraud being committed against schools involving false invoices and scam "phishing" emails requesting urgent payments. In response, we have issued various alerts reminding schools to remain vigilant and to report any concerns to the council.

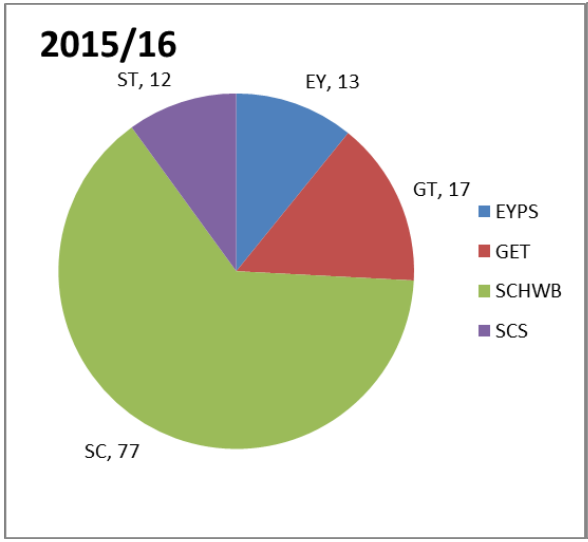
5.7 Since the start of the current financial year the counter fraud team has recorded 40 irregularities. If this level of reporting continues we are likely to record in excess of 200 irregularities this year.

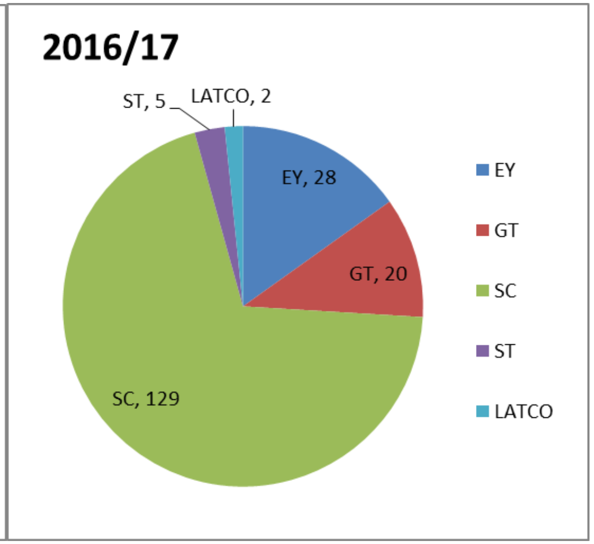


CF1 - Number of irregularities reported by month

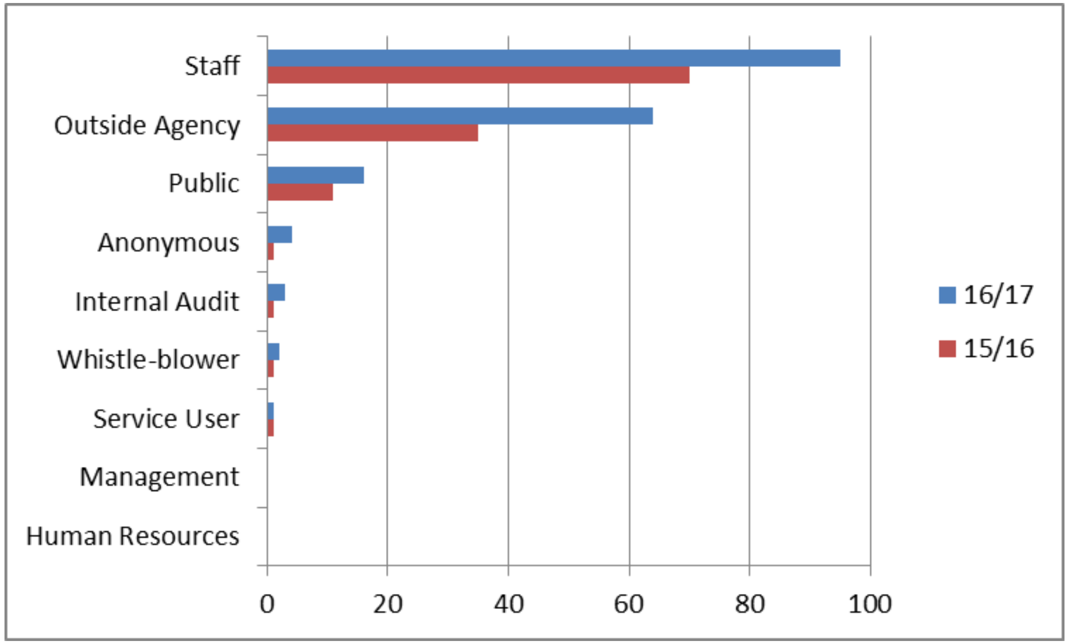


CF2 – Irregularities by type





CF3 - Irregularities reported by Division



CF4- Source of Irregularities

Kent Intelligence Network (KIN)

5.8 The progression of the Kent Intelligence Network is detailed in the covering report. During the year governance structures and protocols were established, data matching commenced and the first substantive benefits are being delivered with our partners.

Annual review of Anti Money Laundering and Bribery Act Policies

5.9 As part of our protocols we undertake annual reviews of the Council's Anti Money Laundering and Bribery Act policies. The minor revisions are shown in Appendix E, amendments are highlighted in grey:

- **Bribery Act Procedure** – Updated to refer to the Public Contracts Regulations 2015 (para. 3.1)
- **Anti-Money Laundering Policy** – Updated to cross refer to the Bribery Policy (para. 12 - 12.1)

6 Follow Ups

6.1 The integrated follow up work has been described in the covering report included in depth reviews and six monthly overviews using a self assessment methodology involving departments.

6.2 From the monitoring of implementing agreed actions the results are extremely positive, with the most recent data showing only 3% of agreed actions with audit have failed to show any material progress. Conversely in relation to sustained improvements our in depth follow up work in 10 selected functions and services during 2016/17 showed that only 6 had progressed to receive a higher assurance rating.

7 Internal Audit and Counter Fraud Performance

7.1 Performance against our targets to the end of March 2017 are shown below:

Performance Indicator	Target to end March 2017	Actual
Outputs		
100% of Priority 1 audits completed	100%	98%
50% of Priority 2 audits completed	50%	51%
Time from start of fieldwork to draft report to be no more than 40 days	100%	49%
No of fraudulent incidents / irregularities recorded	N/A	185
Outcomes		
% of high priority / risk issues agreed	N/A	100%
% of high priority / risk issues (fully) implemented	N/A	N/A
% of all other issues agreed	N/A	95.2%
Client satisfaction	90%	97.8%
Value for money savings identified to date	N/A	£350,000

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	**2016/17**
Total number of employees undertaking fraud investigations	4
Total number of professionally accredited counter fraud specialists	4
Amount spent on investigation and prosecution of fraud (Note 1)	£176,514
No of fraud cases investigated (Note 2 and 3)	127
No of irregularity cases investigated	58
Total No of occasions on which (a) fraud and (b) irregularity was identified	(a) 93 (b) 58
Total monetary value of (a) and (b) detected (Note 4)	(a) £72,22 (b) £60,611
Total monetary value of (a) and (b) recovered (Note 5)	(a)£69,876 (b)£60,582

.

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- 34 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, the unit has been independently assessed by the Institute of Internal Auditors (IIA) as compliant to all 56 standards and has been awarded their highest grading.

8.2 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.

9 Conclusion

9.1 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.

Transformation and Change – Delivery of Savings and Other Outcomes (Adult Social Care – Phase 2)

Opinion	Adequate
Prospects for Improvement	Good

Our overall opinion is that we can provide Adequate assurance that the Adult Portfolio had good project management and governance arrangements and to date is delivering planned savings. However the cost of implementing this change is significant and currently exceeds savings, so these costs represent a high risk against the profile of planned savings in the longer term.
Our assurance rating of Adequate is based upon the following strengths and areas for development.

Key Strengths

- Governance and accountabilities are strong.
- Clear Terms of Reference are in place for the Finance and Performance Monitoring Group (FPMG).
- Regular monitoring and reporting occurs to FPMG and Portfolio Board with membership at a suitably senior level.
- Robust monitoring arrangements within the Portfolio Management Office (PMO) enables projects at risk of not delivering to be supported in 'hospital mode'.
- Dashboards have been developed alongside the savings matrixes to identify any localities where performance is not on track.
- Savings identified are being tracked and reported.
- The MTFP has been updated to reflect the revised forecasted savings (which have been revised down)

Areas for Development

- The level of cost of change is high and there remains a risk to return on investment if planned savings are not sustained.
- In relation to cost of change accurate KCC costs have not been fully captured to inform an accurate rate of return.
- Terms of Reference for the Portfolio Board have not been reviewed since 2012 - terminology and membership is outdated.
- Relevant risk registers of previous projects have not been centralised to aid and support future projects.

Prospects for Improvement

- There has been a good level of engagement and oversight by Social Care directors.
- An effective Portfolio Management Office is in place to support and challenge projects.
- Sustainability plans and dashboards have been developed and are now being reported to relevant the DivMTs.
- Where savings are not on track (eg the 'Your Life Your Home' project) further work is being undertaken to understand the reasons why, with reporting of this going to Divisional Management Team.
- Lessons learnt review has been carried out.

Summary of management responses

	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

LED Street Lighting

Opinion	Substantial
Prospects for Improvement	Good

The pre-contract, procurement and award processes for the Street Lighting Term Services Contract were examined in detail and confirmed that all the necessary processes and procedures were carried out in line with KCC and EU requirements.

Our overall assurance rating of Substantial is based upon the following strengths and areas for development in relation to the Street Lighting Term Services Contract.

Strengths

- There was a robust procurement process for the award of the contract with the final contract award correctly approved at the appropriate level.
- A specific project manager has been appointed with direct responsibility for managing the LED replacement.
- There is a well-developed management, monitoring and meeting structure working with the contractor for progress meetings and resolution of identified issues.
- A robust regime is now in place to ensure that actual installations are being completed in line with the plan. After an initial shortfall in LED conversion activity at the start of the contract progress has been recovered and is now on target.
- The current costs profile shows that expenditure for the LED Installation is presently in line with the original capital investment programme.
- Compensation events for both Planned and Capital Works and the LED Lighting Programme are properly managed and documented with payments in line with an agreed schedule of rates (SOR) or specifically negotiated.
- The recording, inspection and payment procedures for Planned and Capital Works are well defined and documented
- Processes for the general maintenance aspects of the contract are currently being developed ready for the transfer of work from the existing contractor.

Areas for Development

- At the time of the audit there were no clear documented processes and procedures for inspection and approving the application for payment relating to LED Installations. However, these were implemented during the audit and evidence will be collected and documented to provide a more robust audit trail. Management have agreed to sign off this process for each monthly payment.
- Improved emphasis on risk management, including reporting risks to the Contract Board.

Prospects for Improvement

Our overall opinion of Good for Prospects for Improvement is based on the following factors:

- The contract monitoring and management processes are continuing to develop with improved documented processes and procedures to improve performance.
- The Project Manager has now put in place a detailed checklist for dealing with applications for payment which will include collating evidence to support each of the agreed stages.
- Improved payment processes for LED lighting installations and the supporting evidence to support this have been recently developed. These need to be embedded in the working arrangements.

Summary of management responses

	Issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	3	3	0

Low Risk	0	0	0

IT Network and Cyber Security

Opinion	Substantial
Prospects for Improvement	Good

We found that overall network security is robust and well designed, with appropriate action taken to identify and address cyber security threats. Although it is not possible to defend against all threats, it is evident that the Council is acting reasonably against these risks.

Our audit opinion of Substantial is based on the following strengths and areas for improvement:

Page 309

Strengths

- The policy framework is well described and is supported by clearly documented processes.
- Kent County Council is evidently a mature organisation with regards to cyber security. The officers interviewed within the organisation for cyber security services had an excellent understanding of and appreciation for the Prevent, Detect and Response principles espoused by CESG prior to its incorporation into the NCSC.
- Our review of the technical tools for defending the perimeter from attacks and identifying anomalous behaviour found that they are actively monitored and their function and users reviewed.
- There is clear segregation of the 'review' and 'perform' functions within the security function. This is particularly of value in the assessment of the infrastructure for recently published Common Vulnerabilities and Exposures (CVEs) and the resulting remediation actions resulting from their identification.
- The design of the network fits well with the 'walled garden' infrastructure template and for the most part there is sufficient

Areas for Improvement

- The Council has considered the reputational risks associated with personal and corporate use of social media. However the use of social media as a tool for engaging with clients has not been formally assessed and is therefore not supported within corporate policy and procedure.
- Our review of the firewall appliances noted that the second layer firewall had not been updated. We understand that this is due to lack of resilience which would require interruption of connectivity in order to carry out the update.

Prospects for Improvement

The Prospects for Improvement rating of Good is based on the following:

- There is a good understanding of the risks and challenges that face the Council at the present point in time.
- The Council has a governance framework that reflects best practice and the existing maturity of the organisation.
- The Council already achieves compliance with the PSN Code of Connection (CoCo) which gives significant assurance that security hygiene is in place and is functioning as expected.

Summary of management responses

	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	1	1

redundancy and resilient clustering to support the effective functioning of this type of network design.

PCI - DSS Follow-up

Opinion	Adequate
Prospects for Improvement	Adequate

The PCI-DSS (Payment Card Industry - Data Security Standard) is an information security standard that applies to organisations that offer facilities for the public to make payments via credit and debit cards. The standard was introduced to increase controls around cardholder data to reduce credit card fraud. Progress towards compliance with PCI-DSS requires the submission of a SAQ (Self-Assessment Questionnaire) on a quarterly basis. Compliance accreditation must be conducted by a QSA (Qualified Security Assessor).

An audit of the Council's PCI Compliance Review was conducted in June 2015 and was given a Limited assurance opinion (Audit reference ICT07-2015).

Out of the three issues and related management actions reviewed during this audit follow-up, despite significant progress none have been fully implemented, although one of these was not due to be completed until June 2018. Revised implementation target dates have been agreed for the remaining management actions, including one High risk issue.

As part of this audit, we also sampled 12 questions from the most recent PCI-DSS Self-Assessment Questionnaire. Based on this testing, we do not agree with KCC's response to two of these 12 questions. As a result, one further issue has been raised.

Follow-up of Issues from Audit ICT07-2015

	Number of issues b/f	Management actions implemented	Risk accepted	Further actions agreed
High Risk	1	0	0	1
Medium Risk	1	0	0	1
Low Risk	1	0	0	1

Summary of new issues identified

	Number issues raised	Management action plans agreed	Risk accepted
Medium Risk	1	1	0

Central Placement Team

Opinion	Adequate
Prospects for Improvement	Good

In general the CPT business process was being adhered to although from sampling there were gaps in how it is being practically applied and the supporting guidance available. For each placement there was appropriate referral documentation retained. All exceptions to the standard CPT process were in line with the business process.

Key Strengths

- No incidents were found whereby client choice was not met.
- Supporting documentation was received by CPT to support each placement for all but one case sampled. The exception was for a placement to in-house respite care.
- Assessments and/or support plans clearly set out the service user's level of need. Referral documents also clearly stated the level of residential/nursing support required.
- Where waivers were required, all were agreed by the Assistant Director.
- Where vacancy lists were run they contained homes in the correct area and there was evidence that Strategic Commissioning had been consulted.
- Performance of team members is captured and reported to management.
- Performance dashboards are produced for the County and each area/locality to monitor the CPT process.

Areas for Development

- Evidence was not always available to demonstrate that a shortlist of homes had been run and sent to the Service User/family.
- There were differing levels of challenge when agreeing placements over the guide price, or waiving top-ups.
- From a sample of 20 3rd party top up (TPTU) cases, where homes were not available at guide price there was only evidence of extended searches in 6 cases - 2 top ups were agreed at the outset and for 12 cases searches were not extended due to family pressure on distance from the chosen area.
- There is no guidance on how far searches should be extended. This has led to the incorrect calculation of top ups and 5 cases out of 20 where a top up was incorrectly charged.
- There were examples of placements not matching needs, including 3 homes requesting an increase in the level of need for a placement with no amendment to the assessment.
- Emails containing personal, confidential information were sent to providers without being password protected or encrypted.

Prospects for Improvement

- There was a quick response to issues when raised during the audit, specifically the insecure emailing of personal information.
- There are plans to introduce supervision of cases and possible peer review to improve quality and encourage learning.
- The CPT has limited influence on assessment quality and actions of case management teams.
- A centralised process will allow for better implementation of improvements.

Summary of management responses

	Issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	1	0
Medium Risk	3	3	0
Low Risk	1	1	0

Regional Growth Fund – Equity Investment Process

Opinion	Adequate
Prospects for Improvement	Good

The Regional Growth Fund utilises different investment options to support Kent businesses through loans or equity investments. Due to the nature of the companies who receive equity investments being unable to secure more conventional loans/investments, usually due to having no fixed assets, these companies are of a high-risk nature.

Key Strengths

- Adequate procedures are in place outlining the application and monitoring arrangements for companies who receive funding through an Equity Investment.
- Roles and responsibilities are clearly identified between KCC and the Fund Manager.
- KCC Members have a veto within the Investment Committee for the DPTIF on any investment being proposed.
- Sufficient guidance is available to businesses outlining the purpose of the fund and application process.
- There is a Private Equity Fund Manager in place to support the (IAB) in advising KCC as the accountable body in making decisions on applications, with further professional assessments being obtained on company products where specialist knowledge is required.
- The Fund Managers have sufficient procedures in place covering the appraisal process, evaluating technology and the due diligence approach.
- The due diligence process is sufficient to identify key financial, technical and legal risks, as well as compliance to state aid rules.
- There is appropriate reporting of individual company performance to the IAB by the Fund Manager and senior managers of the company.

Areas for Development

- Ensure reporting to Cabinet Committee of the Equity Investment schemes includes information on how companies are performing and progressing to commercialisation.
- Clarify and align the strategic aim of the equity investment approach across key documentation, (such as policies, reports, terms of reference).
- To include within the investment strategy what indicators/ triggers will lead to an exit of investment and develop exit strategies of investments outside of the DPTIF.

Prospects for Improvement

- The service has conducted a 'lessons learnt' review to inform the redesign of the new scheme.
- There has been a review of the effectiveness of the Fund Manager involvement with the DPTI Fund through a report called 'Project Rome'. This confirmed the Fund Managers methodologies for calculations of company value appear to be in line with industry guidelines.
- All management actions have been implemented from the previous audit.

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	0	0	0

Accounts Receivable

Opinion	Adequate
Prospects for Improvement	Adequate

In general, controls were found to be sound and most invoices are raised and processed accurately. However, a number of areas for improvement were identified, in particular in relation to the timely completion of daily bank income reconciliations and the high proportion of invoice request forms (AR01s) which were not fully completed and potentially put KCC in breach of VAT requirements. Our audit opinion of Adequate is based on the following strengths and areas for development:

Key Strengths

- Accurate invoices had been raised for all AR01 forms tested during the audit.
- Invoices were generally raised promptly.
- Invoices are allocated a unique, sequential invoice number on Oracle.
- The vast majority of invoices randomly selected for review were fully supported by appropriate evidence of the service provided.
- No netting off of customer accounts was apparent in the audit testing sample.
- New customer accounts were found to have been set up on a timely basis for the majority of customers.

Areas for Development

- The date of the supply of services was not stated on 30 of the 53 AR01 forms reviewed. This is essential information which should be included on all VAT invoices, although we recognise that reliance is placed on services to complete the AR01 accurately and completely.
- At the time of the audit, daily bank statement reconciliations were not up to date.
- The suspense account is not routinely cleared. At the time of the audit the balance on the suspense account was over £360k - there were 354 items, the oldest of which was dated April 2016.
- Any member of staff can request an invoice cancellation with no restrictions or authorisation required.
- For EduKent, the time taken to set up new customers was not quick enough to satisfy customers accessing services online.

Prospects for Improvement

- A Business Analyst will perform a review of the Cashiering processes and procedures with a view to making them more efficient.
- Management were aware that some aspects of the service require improvement before they can be offered to the external market.
- BSC management have been receptive to the issues raised and taken prompt action the address them. However, the Professional Services Manager will be leaving KCC shortly and it is unclear who will take ownership for the agreed management actions.
- The last audit of Accounts Receivable in 2014 was awarded a Substantial audit opinion, indicating that the overall control environment has deteriorated.

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

Corporate Purchase Cards

Opinion	Substantial
Prospects for Improvement	Good

The audit identified several key areas where controls were operating effectively, in particular we found that purchase card transactions were supported by appropriate receipts and were being approved in a timely manner.

However, we also found a small number of areas where guidance or controls could be improved; in particular the authority of purchase card approvers is not being verified. We also found that VAT was not being recorded accurately for some transactions and valid VAT receipts were not available for all transactions, notably for on-line purchases.

Page 314

Key Strengths

- Purchase card procedure notes and guidance and documents for approvers and cardholders and are readily available on Knet.
- New purchase cards are issued promptly by the Control Team.
- Expenditure is being controlled by only activating relevant categories and applying transaction & monthly limits on all cards.
- Changes to categories and limits are appropriately supported, approved and accurately processed.
- Adequate processes are in place to deactivate cards or to place cards on hold.
- Access to the cash withdrawal service is appropriately restricted and is clearly documented. Where cash was withdrawn it was reflected in the service Cash Log.
- Our testing showed receipts were retained and made available to support transactions.
- Card transactions are authorised on the IntelliLink system in a timely manner.
- All the transactions sample tested were for valid business purposes and in line with guidance.

Areas for Development

- Purchase card policies, guidance and procedures could be improved by :
- Covering contingencies for long term sickness\absences.
- Informing applicants on how long the process is likely to take from application to receiving the card.
- VAT receipts are not always obtained and there were some errors in allocation of VAT codes found in 2 departments.
- Reminding staff not to pass the responsibility for their card to another member of staff.
- Verification of Purchase Card approvers

Prospects for Improvement

- There are plans in place to streamline the purchase card cash system procedure.
- A positive response by management to the audit.

Summary of management responses

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

Staff Survey Actions

Opinion	Adequate
Prospects for Improvement	Good

The results of the EVP survey are clearly communicated to the relevant Directors and Heads of Service. The methods of communications ranged from reports containing synopses of the results, presentations and team away days. The results were also used to develop and enhance the 'success culture model' as part of an integration programme.

Discussions held at CMT and DMT's have given the results of the survey an appropriate level of management attention with comparisons made to the previous year and identification of areas for improvement. The core challenges drawn out from the survey were workplace tension and a need to build and sustain improvements in the balance of the deal and psychological contract.

Key Strengths

- Results from the EVP Staff Survey were fed back and explained to the CMT and the DMT of all services that took part.
- The results from the 2016 EVP have been communicated effectively to all levels of management and staff in the services which took part, being discussed at relevant team meetings or away days (evidenced by meeting notes and agendas).
- As a result of the EVP, action points have been identified to address areas of concern, although these are informal (see Areas for Development below).
- Since the release of the EVP feedback there have been a number of initiatives undertaken to develop and share ideas to improve the employment deal, such as a culture group, staff workshops and a virtual collaboration tool.

Areas for Development

- Out of the 6 areas which undertook the EVP survey in 2016, only 3 were able to evidence action points being drawn up and only one had a monitoring process for their plan with work allocated to appropriate officers.

Prospects for Improvement

- The issue raised within this audit have been positively received and management have used the audit as an opportunity to develop and improve their processes.
- There is a continuous drive to improve and enhance staff engagement and the employment deal. During the audit a number of new initiatives were identified as being in development.

Summary of management responses

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

Anti-Bribery and Corruption Controls – Follow up

Opinion	Adequate
Prospects for Improvement	Good

This was a follow-up review of the 2016 Anti Bribery & Corruption Controls audit which was given Limited assurance with Good for prospects for improvement. Further audit testing and enquiries demonstrate that there has been some movement in Directorates progressing actions/controls to ensure the council can demonstrate an "adequate procedures defence".

A risk assessment has been completed by CMT and each Directorate although this has not followed the council's risk management policy or procedures. A monitoring mechanism in place with CMT and DMTs requiring updates on either a quarterly or half-yearly basis. However there is a lack of consistency in the actions/controls identified across the directorates to address common risks and the lack of a co-ordinated approach has resulted in different approaches being adopted.

All directorates have identified increased risk areas and communicated the need for key staff to complete the Bribery Act Policy e-learning, however completion of e-learning by key staff is low. Bribery Act presentations have been delivered to both the Challenger and T200 groups, with an additional session due for procurement staff.

Where gifts and hospitality has been received there is inconsistency across the directorates on how they evidence authorisation and address non-compliance, new issue raised. There is also a lack of declarations being made by elected members on their public facing profiles.

Previous Issue	**Conclusion from testing**
Top level commitment	Action partially completed – issue open
Bribery Policy	Action Completed – Issue Closed
Risk Assessments	Action partially completed – issue open
Due Dilligence	Action partially completed – issue open
Monitoring and Reporting	Action Completed – Issue Closed
Officer Training	Action partially completed – issue open
Member Training	This will be covered in the 17/18 audit of Member Induction and Training
Communication	Action partially completed – issue open
Associated Policies	Action Completed – Issue Closed
Gift and Hospitality	Action partially completed – issue open

One new issue was identified during this audit.

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	0	0	0

Strategic Commissioning

Opinion	Adequate
Prospects for Improvement	Good

It is evident that greater progress has been made where dedicated resources have been set up to focus on commissioning and it is here where expertise has grown. We found a number of examples of good practice but there is much silo working and lack of corporate learning. Benefits and outcomes as a result of such commissioning compared to traditional procurement have often been difficult to quantify in some key areas.

Strengths

- Awareness of the Commissioning Framework and its advantages is growing.
- Where there were dedicated commissioning teams, expertise and understanding of the commissioning process was at its greatest.
- Where a Commissioning team was in place there was much better oversight and co-ordination of commissioning activities.
- Project objectives aligned to Strategic Outcomes.
- We found good practice and examples of innovative commissioning that represented good value for money.
- Governance structures are in place for commissioning projects. For GET and Childrens Services there are clear processes for where and when individual projects are reported.
- We found examples of good quality commissioning plans within Public Health and Childrens Services.
- Good examples of risk management were found in EYPS and GET at directorate level. Across the Council, monitoring and management of risk varied at project level.

Areas for Development

- There is a lack of resources and commissioning expertise in some areas, particularly where there is no designated team or resource.
- Some departments see the commissioning framework as confusing and in particular we saw a lack of clarity over review and analyse phases.
- There is still some confusion in understanding the critical differences between Commissioning and Procurement.
- Internal services are often overlooked as being 'internally commissioned' and are not subject to monitoring and review.
- Option appraisals are often limited and not always linked to meeting required outcomes.
- There are gaps in data analysis and diagnostic reports which restrict any meaningful appraisals of service provision.
- There is an absence of commissioning plans for many projects.
- Commissioning practices are fragmented across the organisation and there is limited cross division/directorate working and learning.
- Risk management and awareness in some commissioning areas are rudimentary and not properly recorded.

Prospects for Improvement

- Introduction of a lead for Strategic Commissioning
- Oversight and Review of projects by the Strategic Commissioner
- There is awareness of where good commissioning is happening, but it is unclear how this will be disseminated across the whole of the Council
- Some silo working will seemingly persist

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
Medium Risk	5	TBC	TBC

Tender Specifications

Opinion	Substantial
Prospects for Improvement	Good

We examined a random sample of 20 tender specifications for contracts with a start date of April 2016 to the date of fieldwork (06/02/2017) from across the Council.

The specifications aligned to strategic objectives at a high level however some key controls for ensuring that the specification effectively meets the needs of the Council had been inconsistently applied such that of the 20 tender specs, 13 contracts were fully complaint with our testing.

Key Strengths

- They aligned to strategic objectives and to the objectives/ outcomes of the services being procured.
- They contained the activities, services or outputs that have to be delivered, and any flexibility that the provider has were set out
- Specifications are outcome focused where possible and are input/ output only should there be a service requirement to do so
- The Council's data requirements for the potential services are clear within tenders specifications.
- Stipulations regarding whether sub-contractors may be used and any conditions attached to this were present.
- The length of contracts and exit arrangements are clear and contained within tender specifications.
- KPIs were considered as part of the tender process for the majority of contracts bar two exceptions which were put in place shortly after the contract commenced.
- Clear tender procedures are made available to potential providers which contain details regarding evaluation and award of the contract

Prospects for Improvement

- There was no evidence for approximately quarter of our sample of a formal needs assessment to support the tender
- There was no evidence for approximately quarter of our sample that all key stakeholders had been engaged in determining requirements (although managers advised this had been done)
- A quarter of contracts in our sample did not have a robust business case completed containing both risk assessment and project appraisal.
- Tender Specifications do not fully demonstrate the alignment to the KCC commissioning framework (See Appendix A)
- Testing found that in one instance services were procured outside of the tender process. As the contract was in excess of £100K it should have followed procurement rules including tendering

Prospects for Improvement

- The creation of a commissioning function has the potential to reduce inconsistencies.
- Responses to the report have been constructive.

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

Kent Community Safety Partnership (KCSP)

Opinion	Adequate
Prospects for Improvement	Very Good

There is robust strategy in place which is determined by a comprehensive strategic planning process. Efficiency savings identified through the MTFP process for the financial years 2014/15 and 2015/16 have been achieved through the integrated Kent Community Safety Team (KCST).

The audit has identified number of areas in which enhancements could be made to allow strengthened governance including monitoring of objectives. Current arrangements do not allow the KCST to demonstrate the effectiveness of their projects.

Key Strengths

- Governance arrangements for the KCSP are adequate in design.
- The strategy is up to date and results from a comprehensive strategic planning process including consideration of risk, analysis of the current environment and engagement with stakeholders.
- We observed that applications for Police and Crime Commissioner (PCC) funding led to the KCSP receiving appropriate scrutiny and challenge
- Sufficient monitoring of projects funded via the PCC is in place.
- Efficiency savings of £140k identified through the financial years 2014/15 and 2015/16 have been achieved.
- Budgets for both KCSP and KCST are monitored with any variances identified and understood; adequate responses are put in place for significant variances

Areas for Development

- The Memorandum of Understanding for the KCST expired in March 2016 and there is no current agreement in place.
- A review of the KCST should have taken place by March 2016. This was delayed as the KCST had only been in place from September 2015, however a review has still not been undertaken.
- The governance arrangements surrounding the pooled project fund have not been agreed and documented
- The action plans in place to monitor the progress of the KCSP and KCST are not outcome-focused.
- Terms of reference for the KCSP and the Kent Community Safety Partnership Working Group (KCSTWG) do not fully detail current practices.
- The application form used to gain funding from the PCC could be enhanced by the addition of a value for money question.
- Savings identified as part of KCC's 2017/18 MTFP have been identified as a pressure.

Prospects for Improvement

- Positive engagement from the service and creation of management action plans for each of the issues identified.
- Measures have been put in place to allow clear future improvements to the service.
- Leadership are clear in the direction of the service with good relationships in place to support partnership working.

Summary of management responses

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

Risk Management

Opinion	Substantial
Prospects for Improvement	Good

We found that for all risks sampled there were adequate controls and actions to manage the risk, however there were examples of individual controls and actions being out of date, or simply performing a monitoring role rather being an active control to actually mitigate the level of risk. The detail of control and action descriptions was greatly improved from previous risk management audits.

Key Strengths

- All controls were allocated to owners and, with the exception of two, the owners were aware of their responsibilities for managing the risk and reporting status updates.
- There was reporting of controls and actions to either management teams or specific boards that allowed oversight by directors.
- With the exception of one risk, control and action descriptions contained adequate detail to explain the nature of the control, and to demonstrate their mitigating affect. For this one exception the owner was able to produce an underlying operational risk register.
- Control and action owners could articulate and effectively show the planned effect selected actions would have on the level of risk.
- Processes are in place to update risk registers, facilitated either by the Corporate Risk Team or a member of directorate staff.
- Officers reported that they felt they were given clear consistent messages regarding risk and risk appetite from management teams.

Prospects for Improvement

- For the eight risk items sampled; half contained some controls that were in fact simply monitoring activities.
- Although we were informed that risks/controls were regularly reviewed and quality assured, for two risks (one for SCHWB and one for STCS) controls were out of date.
- We were unable to ascertain what resources/costs were attributed to controls and actions and therefore it is not possible to evaluate their cost benefit of being in place.
- A number of actions (specifically for two risks) were out of date and either were no longer happening or had already been completed and implemented.

Prospects for Improvement

- Management actions for previous audits have been completed but there is notable improvement in the quality of controls and actions, and the communication of risk appetite although there is still a feeling the council is still risk adverse.
- The Corporate Risk Team can only undertake monitoring and quality assure the underpinning risk registers - individual risk owners must identify controls and actions to managing risks.
- A new Risk Management system is being implemented that will improve functionality for management authority risks.

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	0	0	0

Public Health Governance

Opinion	Substantial
Prospects for Improvement	Good

Key actions resulting from issues raised in Internal Audit report CA08-16 have been implemented, however, the changes as a result of the transformation agenda still need to be embedded further. Restructuring has taken place and the department is in a position to move forward with plans for further improvement.
The clinical governance framework has been reviewed and quality issues addressed through governance and commissioning/ contracting.

Key Strengths

- Agreed actions to address the issues arising from Internal Audit Report No CA08-16 have been implemented in most cases
- There is a clear definition of quality in the Clinical Governance Framework. The systems to measure and publish quality are evidenced in the framework and quality reports regularly presented to the Quality Committee and DMT. The PH Quality Committee structure and framework is part of the governance structure in the clinical governance framework.
- A key part of the commissioning outcome framework for quality and safeguarding assurance are the Quality and Safeguarding Specification and Contract questions that are used for all PH contracts.
- Public Health commissioning plans which include quality and commissioning outcomes were completed in February 2017.
- Quality and governance are discussed regularly in performance and commissioning meetings and at the quality committee, in DMT and SMT.
- The business plans are used to develop the annual work programmes. CQC standards PH and Nice guidance are required to be actioned within all PH programmes and work plans.

Areas for Development

- Some agreed actions as a result of Internal Audit Report No CA08-16 have not been implemented or are still in the process of being implemented.
- Further organisational development work is planned but there is no timescale for this.
- There are plans for a Learning Needs Assessment to self-assess against NICE guidance and quality standards and introduce a Quality Kite Mark but these plans have not been firmed up.

Prospects for Improvement

- In 2017/18 the department will embark on aligning services with NICE guidance and Quality Standards.
- There is a Learning Needs Assessment planned for the division which will identify areas where training might be needed.
- There are plans to have a Quality Kite Mark system similar to ISO 9000 or the Gold Standard Kite Mark system.
- SMT will be replaced with a whole team meeting which will discuss quality – thereby embedding this in the culture of the team and ensuring the whole team understands quality.

Follow up of issues

	Number of issues raised	Action Plan complete	Action Plan in progress	Risk accepted
High Risk	2	1	1	0
Medium Risk	5	4	1	0

New issues raised - Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
Medium Risk	1	TBC	TBC

Business Continuity

Opinion	Adequate
Prospects for Improvement	Very Good

At the time of our audit the KCC emergency planning function was undergoing a restructure which has assessed and balanced team resources and allows for a 'one team' approach by joining with the KRT. As of 1st April 2017, the emergency planning and business continuity management functions are delivered by the Resilience and Emergency Planning Service, with seven staff based in the KRT and three staff based in the County Emergency Centre, both managed by a single service head.

The last audit of business continuity arrangements in September 2015 reported a Substantial opinion, however the remit differed compared to this audit and therefore any comparisons should be mindful of this.

Key Strengths

- The Council's business continuity arrangements are compliant with the Civil Contingencies Act 2004, and largely compliant with ISO 22301.
- The dedicated business continuity KNet page provides helpful guidance and links to the approved corporate business continuity template and accompanying guidance notes and a link to the Kent Prepared website, which provides advice for testing BCPs, including a useful 10-minute assessment tool.
- REU staff have attained professional qualifications of the Business Continuity Institute.
- An approved Corporate BCP is in place which includes incident response arrangements.
- The REU oversaw a number of exercises during 2016/17 and there was evidence of discussion and of de-briefs being carried out to inform improvements to BCPs.

Areas for Development

- The Council has not pursued ISO 22301 accreditation due to the associated costs, however the Resilience Policy states that the Council will apply the standards. We identified one aspect where full compliance could not be evidenced.
- The Corporate Business Continuity Plan was not tested in 2016/17, however a test is scheduled for June 2017. None of the four BCPs selected for review had been tested, although the IT outage in February 2016 was used to reactively test.
- The Council's Business Continuity Policy was due to be reviewed in May 2016 but this did not take place.
- There is no formalised approach to training key officers in business continuity management.
- Not all relevant officers have access to Resilience Direct system.

Prospects for Improvement

- Increased resilience, flexibility and efficiency with the new structure from April 2017.
- Self-awareness of the REU and their appetite for continued improvement and promoting good practice across the Council.
- A realistic approach to providing quality assurance arrangements.
- Continued scrutiny and focus of the Cross Directorate Resilience Group and its sub-group.

Summary of management responses

	Number of new issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	6	6	0
Low Risk	1	1	0

Annual Governance Statement and Returns

Opinion	Adequate
Prospects for Improvement	Good

This audit reviewed the returns from all Directorates in order to support the Council's 2016/17 AGS. Overall the process of compiling the returns is well established and robust, although some areas for improvement were identified.

Our opinion of Adequate is based on the following key strengths and areas for development.

Key Strengths

- Compilation of the AGS follows a well established process with clear instructions which were issued well in advance.
- Evidence of discussion of existing and emerging issues by all directorates during the year at management meetings, with the majority of issues raised being reflected in the returns.
- The majority of directorates provided timely progress updates on the previously raised issues in the 2015/16 AGS returns.
- Review of 2016/17 returns and comparison with the corporate risk register and Internal Audit issues, confirmed that returns are appropriate and proportionate.
- The majority of corporate risks mapped to the AGS returns, with only one partial exception noted.
- Appropriate actions and timescales were provided for all new issues raised in 2016/17.
- Improvements had been made to the AGS forms following last year's audit.
- All returns confirmed compliance with the Constitution and Financial Regulations. There are some services where financial spend has the potential to be critical, but there are on-going actions to monitor these.

Areas for Development

- A disclaimer will need to be added to the 2016/17 overall AGS return of the Council's non-conformance with the revised CIPFA / SOLACE Good Governance Framework, as the Council elected not to adopt the framework until 2017/18. This does not mean that the Council is non-compliant, rather there is currently no public statement backing up such compliance.
- The overall AGS for the Council had not been prepared at the time of our fieldwork due to the timing of this audit.
- One Part B return had not sufficiently reflected the progress of issues previously raised and another Part B return had not stated all issues with accompanying actions.
- Not all "limited" assurance audits had been referenced in AGS returns for 2016/17.

Prospects for Improvement

- There are plans in place for adoption and compliance with the new code for 2017/18 and a gap analysis has already been prepared by Internal Audit which will assist with this.
- It is anticipated that the majority of points raised in this audit will be resolved by the time the Council wide AGS is drafted and this report finalised.
- AGS related work is prioritised and receives optimal focus and attention.

Summary of management responses

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

Performance Management and Corporate KPIs

Opinion	Substantial
Prospects for Improvement	Good

Key Performance Indicators (KPI's) are reviewed within appropriate management teams, and Cabinet committees, before being reported quarterly to Cabinet, for assessment of performance against corporate priorities and objectives. The KPI's reviewed were correctly RAG rated. For those which had continuing poor performance, we noted that the causes were identified and analysis was undertaken to understand any variations.

KPI's are supported by Performance Indicator Definition forms (PIDs) which state the rationale and process to generate the KPI. PIDs are in place for all KPIs.

The authority-wide Data Quality Policy has not had a documented review since 2013, although we have been informed that this is reviewed annually.

Strengths

- All KPIs reviewed related to a Corporate Strategic Objective;
- 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 and timely.
- All the KPIs and Activity Indicators reviewed during the audit were correctly RAG rated.
- Data quality controls were consistent with KCC data quality standards in 70% of our sample and exception reporting was sufficient where undertaken.

Areas for Development

- For 60% of PID's reviewed, the KPI Target rationale did not have sufficient information. In addition 30% of PID's had some information missing, although this was generally minor.
- The Corporate Data Quality Process annual review is not documented and the current policy was last updated in January 2013.
- Data Quality process information was brief for 70% of PIDs reviewed.

Prospects for Improvement

Our overall opinion of Good for Prospects for Improvement is based on the following:

- All issues raised within this audit have been accepted by the Business Intelligence Team and steps are expected to be taken to address these issues.
- In general the Business Intelligence team provide an effective lead and oversight of the KPIs and Activity Indicators used by the Council. They challenge where arrangements for measuring KPI's and Activity Indicators require improvement and regularly communicate with KPI Lead Officers throughout the authority.

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	0	0	0
Low Risk	2	2	0

Schools Themed Review

Opinion	Substantial
Prospects for Improvement	Good

The aim of the audit was to provide assurance on the financial planning and governance arrangements in place to ensure maintained schools can plan for changing pupil numbers and set balanced budgets.

Strengths

Financial Planning

- The majority of schools were aware of demographic pressures on their school and the associated impact on pupil numbers. All schools had applied assumptions within their income budget lines to inform their 3 year plan (3YP), with twelve using assumptions across all their budget lines.
- All but one school had used the BPS software to run staffing cost scenarios to inform their staffing expenditure over a 3 year period.
- All schools had a 3YP in place that had been reviewed and authorised by their governing body.
- All schools were reporting current budget position on a regular basis to their governing body with reasons for any variances.
- All but one school could evidence a quality assurance process in place on their 3YP prior to submission to their governing body.

Governance

- All schools had completed the Schools Financial Value Standards (SFVS) self-assessment, with all but one school able to evidence an independent check by a governor.
- All schools had completed a skills matrix for staff and governors with financial responsibility.
- All schools could evidence the 3YP being approved by the governing body.

Areas for Development

Financial Planning

- There was a general lack of trend analysis relating to pupil premium and high educational needs. There was a lack of financial emphasis within the school development/improvement plans or separate financial plans outlining actions required.
- Lack of premise maintenance strategies to identify buildings that may require significant works over the short, medium & long term.
- Although the majority of schools were risk aware there was a lack of financial emphasis within risk registers or no risk register in place to capture how they were going to mitigate financial risks.

Governance

- All schools had a skills audit of staff and governors with financial responsibility, but there was a lack of training plans to support the development of financial expertise on the governing body.
- The majority of schools had not built succession planning discussions into their governing body meetings.

Prospects for Improvement

- Each school has received an individual one page report outlining their specific Strengths and Areas for Development.
- School Financial Services and governors services have responded positively to the issues identified.
- Presentations to governors by Internal Audit on the outcome of the themed review to share good practice and lessons learnt.

Summary of management responses

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

Schools Financial Services

Opinion	Substantial
Prospects for Improvement	Adequate

There are a number areas of good practice within the Returns and Compliance Team (R&CT). The R&CT use a comprehensive work book to record their work which has a number of 'links' enabling consistency in working practices and to ensure that the work is fully completed for each school.

We note that the number of schools covered by R&CT has continued to fall. During 2016/17 a one day visit 'pilot' was rolled out earlier than initially planned. The shorter on-site visits require additional pre-work to be completed, but are more efficient, with less travel time and expenses.

The number of visits required each year is reviewed annually and for 17/18 the target will remain at 100 (in agreement with Keith Abbot), enabling schools to be visited more frequently – now on a 4 year cycle instead of every 5 years.

Strengths

- Comprehensive work programme and work book which is regularly reviewed and updated.
- Good moderation process to ensure quality and consistency.
- The standard work programme is completed in full for all school visits.
- Timely feedback meetings are held with schools at the end of visits and before draft reports are issued.
- Reports are issued to schools promptly.
- A process is in place to follow up on implementation of the recommendations made in each school's report.

Areas for Development

- One medium risk issue raised in previous audit reports (to include cumulative spending in testing) has not yet been fully implemented.
- Staff have not received recent training regarding fraud awareness and fraud risks in schools.

Prospects for Improvement

- Management are taking action to mitigate the risk for the remaining outstanding issue from the previous audits.
- The team has an appropriate mix of experienced staff.
- There is a continuing trend of improvement in compliance work in the last 3 years.
- Schools are now scheduled to be visited every four years, although there is no evidence of increased risk.

Summary of management responses – new issues

	Number of issues raised	**Management Action Plan developed**	**Risk accepted and no action proposed**
Low Risk	1	1	0

Progress with issues b/f from previous audit

	Number of issues b/f	**Issues closed**	**Issue open for further actions**	**Risk accepted, no action proposed**
High Risk	1	1	0	0
Medium Risk	2	1	1	0

Elective Home Education

Opinion	Adequate
Prospects for Improvement	Adequate

Key Strengths

- Guidance which aligns to the current national curriculum is readily available to parents.
- The KCC website signposts parents to resources and other services including Health and Skills and Employability
- A reasonable process is in place to identify gaps in the EHE database with monthly management information (MI) reports run and then reviewed to identify and action any anomalies.
- Initial checks process had been undertaken for all cases in our sample
- The process in place to remove children with Special Education Needs (SEN) from a special school is adequate in design.
- All staff had completed Safeguarding and Information Governance training. All but one had completed Prevent and Data Protection training; this was rectified during the audit.

Areas for Development

- Current processes adopted by the EHE Team exceed that stated in the EHE Policy with no procedural notes in place.
- Current systems are not conducive to efficient, effective working and our tests highlighted consistent failures in data quality or record keeping.
- Other training identified by the service requires some gaps to be addressed by a proportion of the staff within the service including Children Missing Education (CME).
- At the time of fieldwork, there was no central monitoring and tracking of reviews of children receiving EHE. However, the team has begun to use the electronic system to monitor this.
- Testing found there were material backlogs in actioning such reviews as they take a low priority compared to new cases.
- The majority of statutory reviews for SEN children using home education had not been actioned by the due date.
- The assessment of ‘suitable’ education was found to be inconsistently applied with 72% of cases having no judgement recorded on the system.
- Cases were observed where the judgement of ‘suitable’ education could be open for challenge although we recognise that the legislation does not contain a definition of ‘suitable’

Prospects for Improvement

- Steps have commenced to address the issues identified by the audit.
- The Council has limited powers through current legislation to act where a child is EHE.
- We understand that the service has concerns regarding the limitations of EHE legislation and is in the process of formally reporting this to central government
- Plans are in place to replace the current Impulse system with a universal education case management system.
- Where gaps in staff training were identified the service took immediate action to resolve.

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	5	5	0
Low Risk	0	0	0

Better Care Fund

Opinion	Adequate
Prospects for Improvement	Adequate

Not all agreed actions from the previous audit report (RB08-16) have been implemented. The key management action regarding the pooling of budgets is outstanding as there appears to be a lack of appetite for this. Further, there is no evidence to contradict the National Audit Office (NAO) findings that suggest the national conditions are not being met across the country.

Strengths

- The Better Care Fund is regularly on the agenda of the Health and Wellbeing Board (H&WB) which approved the plans for 2016/17 and meets on a quarterly basis.
- A scheme summary document has been designed that outlines, what national conditions are being addressed, the strategic objectives of the scheme, how it will be delivered, scheme costs, the outcomes that will be measured and the associated risks.
- The Internal Assurance and Finance and Performance Groups now meet on a quarterly basis and a dashboard has been set up which is designed for reporting to the H&WB.

Areas for Development

- Organisations were asked by KCC as host to complete scheme summaries at the end of 2016/17 rather than at the beginning, and therefore monitoring has been delayed.
- As a result of the above, the assessment of the success of schemes had not been undertaken as at the end of May 2017. Some CCGs had not returned completed summaries as at the end of June 2017.
- A discrete risk register for BCF has still not been set up.
- Pooled budgets have not been set-up.
- Though outcomes are defined for each scheme, there isn't always a clear link with hospital activity targets. In addition savings targets are not identified for each scheme.

Prospects for Improvement

- There is good awareness of the key issues and challenges but it is not clear if there is a collective vision from all parties.
- Improvements have been made - for example scheme summaries have been introduced to help assess the success of the projects, but this is in its infancy and the response is slow.
- Working groups have been a rationalised, which aids monitoring.
- It is unclear if investment by all parties is in the right projects as national conditions targets are not being met – reductions in A&E admissions for example.
- CCGs seem reluctant to pool budgets properly to ensure full integration. In addition, at the time of the audit the complete guidance from Government was not available.

New issues raised - Summary of management responses

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

Progress with issues b/f from previous audit

	Number of issues b/f	Issues closed	Issue open for further actions	Risk accepted, no action proposed
Medium Risk	3	1	1	0

Establishments Themed Review (Adult Day Centres)

Opinion	Adequate
Prospects for Improvement	Good

Internal Audit undertook a series of establishment visits to Adult Learning Disability Day Centres (the Centres) with three centres receiving an announced visit as part of this themed review.

We can provide Adequate assurance that both financial and non-financial controls are operating effectively across all three Centres with Good prospects for improvement.

Key Strengths

- All Centres were using iProcurement, with the majority of purchase orders being raised in advance of an invoice.
- All expenditure had been approved in line with the Council's delegated authority matrix.
- Banking of income occurred on a frequent basis.
- All financial and non-financial records were held appropriately.
- Medication was appropriately stored with good records maintained.
- Management within individual Centres is appropriately engaged to resolve the issues identified through the development and implementation of action plans.

Areas for Development

- There are a number of weaknesses in financial control across all three Centres, particularly relating to evidencing that deliveries had been checked for quality and quantity; strengthening the controls around petty cash; maintaining complete and accurate asset registers and maintaining adequate records to support fuel card use.
- Security and safety processes are not consistently embedded throughout all Centres.
- There was an absence of central training records which meant that gaps in some mandatory and essential training had not been identified.
- Declarations of interests at two Centres had not been completed for the majority of staff.
- Staff TOIL recording sheets do not all include the name of the staff member, and were not always self-signed or authorised by the manager.
- Fees and Charging policy for LD Day Care services.

Prospects for Improvement

- Centre Managers have responded positively to the issues raised in their individual audit reports.
- The Provision Managers are developing an action plan to address the areas for development and to standardise processes to ensure a consistent approach across the service is in place.
- Senior Management have responded positively to the central issues raised in this report and there is relevant oversight to monitor resolution of the issues identified across the Day Care service.

Summary of management responses

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

Appendix 2 – Internal Audit & Counter Fraud Follow-up on Implementation of Agreed Actions

Limited assurance reports

Audit	Date	Total due to be Implemented		Implemented/ In Progress*		Not Implemented		Superseded	Comments	Overall Opinion on Actions R.A.G.
		High	Medium	High	Medium	High	Medium			
Highways Safety/ Crash Remedial Measures	05/12/16	3	3	1 **2***	2 **1***					Amber
Foster Care	16/04/15	4	1	4	1				Based on responses from the service to be tested for confirmation	Green
IT Disaster Recovery Planning	13/02/15	1		**1***						Amber
Supervisions	07/07/15	3	3	2 **1***	3				Based on Results of Supervisions Follow-up and response from service	Amber
Optimisation	17/06/15	2	1	**2***	1					Amber

Audit	Date	Total due to be Implemented		Implemented/ In Progress*		Not Implemented		Superseded	Comments	Overall Opinion on Actions R.A.G.
		High	Medium	High	Medium	High	Medium			
TFM Help Desk	12/04/16	4	1	**3***	**1***	1			Based on Results of TFM Follow-up	Red
Contract Management – Individual Contracts Based on Analytical Review	02/02/15	1						1	Based on Results of Contract Management Follow-up	Amber
Contract Management Themed Review	25/04/16	1	5	**1***	4 **1***				Based on Results of Contract Management Follow-up	Amber
Total Limited Audits		**19**	**14**	**7 10***	**11 3***	**1**	**0**	**1**		

Page 332

Adequate assurance reports

Audit	Date	Total due to be Implemented		Implemented/ In Progress*		Not Implemented		Superseded	Comments	Overall Opinion on Actions R.A.G.
		High	Medium	High	Medium	High	Medium			
Unaccompanied Asylum Seeking Children (UASC)	05/08/15	1		**1***						Amber
Customer Feedback	21/07/15	1		**1***						Amber
Consultations	21/06/16		4		4					Green
Contract Extensions & Variations	30/03/16	2	1	2	1				**Based on results of Contract Management follow-up**	Green
Data Protection	23/09/16		1		1					Green
Recruitment Controls	02/12/15	2	2	2	2					Green

Audit	Date	Total due to be Implemented		Implemented/ In Progress*		Not Implemented		Superseded	Comments	Overall Opinion on Actions R.A.G.
		High	Medium	High	Medium	High	Medium			
Business Planning	17/01/17		2		1 1*					Amber
Revenue Budget Monitoring	11/06/15		4		2 2*					Amber
Insurance Fraud	11/07/16		1		1					Green
Debt Recovery	02/10/15	1	3	1	2 1*					Amber
Software Lifecycle Management	08/11/16		3		1 2*					Amber
SWIFT – Adult SC ISO27001	02/09/16		2		2*					Amber
Spydus – Application Review	21/11/16		2		2					Green
Contact Point - Agilisys	11/10/16	3		2 1*						Amber

Audit	Date	Total due to be Implemented		Implemented/ In Progress*		Not Implemented		Superseded	Comments	Overall Opinion on Actions R.A.G.
		High	Medium	High	Medium	High	Medium			
Property – Statutory Compliance	19/12/13		1		**1***					Amber
Carers Assessments	24/01/17	1	1	**1***	1					Amber
Enablement (KEaH) Service	28/07/15	1	1		**1***	1				Amber
Regional Growth Fund	24/04/15	1	1	1	1					Green
OP Residential & Nursing Contract Re-Lets	16/12/15	1	1	**1***	**1***					Amber
Highways – Public Rights of Way	02/09/16		2		**2***					Amber
Total Adequate Audits		**14**	**32**	**8** **5***	**19** **13***	**1**	**0**	**0**		

Substantial assurance reports

Audit	Date	Total due to be Implemented		Implemented/ In Progress*		Not Implemented		Superseded	Comments	Overall Opinion on Actions R.A.G.
		High	Medium	High	Medium	High	Medium			
Transparency Code Compliance	10/09/16		1		1					Green
Information Governance	18/03/15		1		**1***					Amber
Community Learning and Skills	09/09/15		3		1 **2***				**Based on results of recent CLS audit**	Amber
Pensions Payroll	08/09/15		1		1					Green
Schools, Academies and Outsourced Payroll Contracts	06/09/16		1		**1***					Amber
Schools Personnel Service	12/10/16		1		**1***					Amber

Audit	Date	Total due to be Implemented		Implemented/ In Progress*		Not Implemented		Superseded	Comments	Overall Opinion on Actions R.A.G.
		High	Medium	High	Medium	High	Medium			
TCP Process	17/11/16		5		3 **2***					Amber
General Ledger	10/10/16		1				1		**Risk Accepted**	Amber
VAT	11/10/16		2		**2***					Amber
ICES and Telecare Contract Management	12/01/17		3		2 **1***					Amber
Quality Assurance Framework - Safeguarding Children / Online Case file audit process / Missing Children	06/11/15		2		1 **1***					Amber
Early Help – Managing Step-up to Specialist Childrens Services	07/10/16		4		3 **1***					Green
LED Street Lighting	18/04/17		1		1					Green

Audit	Date	Total due to be Implemented		Implemented/ In Progress*		Not Implemented		Superseded	Comments	Overall Opinion on Actions R.A.G.
		High	Medium	High	Medium	High	Medium			
Contract Management – Household Waste and Recycling Centres	02/10/15		1		1					Green
Total Substantial Audits		**0**	**27**	**0**	**14** **12***	**0**	**1**	**0**		

	Total due to be Implemented		Implemented/ In Progress*		Not Implemented		Superseded
	High	Medium	High	Medium	High	Medium	
Total All Audits	**33**	**73**	**15** **15***	**44** **28***	**2**	**1**	**1**

Appendix 3 – Internal Audit IT Plan

Ref.	Audit Title	*Days*	Priority	Indicative Quarter	Audit Details	
					Rationale	Lead Officer(s)
ICT01 2018	ICT Strategy and Governance	*15*	1	Q1	To provide assurance that the ICT strategy is aligned to the Council's corporate strategy and that there are appropriate governance arrangements in place.	Rebecca Spore *Director of Infrastructure* Michael Lloyd *Head of Technology Strategy and Commissioning*
ICT02 2018	Cloud Navigation – Programme Governance	*15*	1	Q1	This audit will assess the programme governance arrangements that are in place for the Cloud Navigation programme and provide assurance as to their adequacy.	Rebecca Spore *Director of Infrastructure* Michael Lloyd *Head of Technology Strategy and Commissioning*
ICT03 2018	Cloud Navigation – Watching Brief and Project Milestone Deep Dive	30	1	Ongoing watching brief Q3-Q4 for deep dive	Internal audit will engage with the Programme Board and attend where necessary to provide support and assurance. At key milestones for the Cloud Navigation programme (or for a specific project within the programme) pre-implementation audits will be performed to provide assurance regarding delivery of outcomes.	Rebecca Spore *Director of Infrastructure* Michael Lloyd *Head of Technology Strategy and Commissioning*
ICT04 2018	ICT Asset Management	20	1	Q2	This audit will assess how the Council manages its ICT assets, including the management of the desktop refresh. As well as other classified IT Assets, both Physical and Virtual.	Rebecca Spore *Director of Infrastructure* Michael Lloyd *Head of Technology Strategy and Commissioning*
RB36 2018	Education Systems Replacement	20	1	Q3/4	A post-implementation review of the project to replace the Council's education systems, with an emphasis on the controls over migration of data from the existing systems.	Patrick Leeson *Corporate Director of Education and Young People's Services* Stuart Collins *Director of Early Help and Preventative Services*

Ref.	Audit Title	*Days*	Priority	Indicative Quarter	Audit Details: Rationale	Audit Details: Lead Officer(s)
						Rebecca Spore *Director of Infrastructure* Michael Lloyd *Head of Technology Strategy and Commissioning*
ICT05 2018	Mobile Working	15	2	Q3	This audit will assess the arrangements that are in place for mobile working and how the Council has balanced the requirement for security against the need for flexible ways of working. This audit will incorporate the roll out of the new Skype Solution/Windows 10 across the Council.	Rebecca Spore *Director of Infrastructure* Michael Lloyd *Head of Technology Strategy and Commissioning*
ICT06 2018	Software Licensing	20	2	Q4	This audit will review the arrangements that are in place for managing the Council's compliance with its software licensing obligations.	Rebecca Spore *Director of Infrastructure* Michael Lloyd *Head of Technology Strategy and Commissioning*
ICT07 2018	ISO27001 – BSC Readiness Assessment	10	2	Q3/4	To review the BSC information management systems and assess whether they meet the requirements of ISO27001 and to identify areas of improvement.	Rebecca Spore *Director of Infrastructure* Michael Lloyd *Head of Technology Strategy and Commissioning*

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.

Appendix E

Anti-Money Laundering Policy

Document Owner	Robert Patterson Head of Internal Audit Tel: 03000 416554 robert.patterson@kent.gov.uk
Version	Version 3

Version	Reviewed	Reviewer	Approver	Date approved
Original				
2	29 Sept 2014	Internal Audit	Governance & Audit Committee	29 Jan 2015
3	1 May 2017	Internal Audit		

Kent County Council
kent.gov.uk

1. Introduction

1.1. Kent County Council has a zero tolerance policy concerning money laundering and is committed to the highest standards of conduct.

1.2. The Proceeds of Crime Act (POCA) 2003, the Terrorism Act 2000 and the Money Laundering Regulations 2007 place obligations on Kent County Council and its employees to ensure that procedures are in place to prevent the Council's services being used for money laundering.

1.3. This policy sets out the process to minimise the risk, as well as provide guidance on the Council's money laundering procedures. Adhering to this policy and guidance will protect employees from the risk of prosecution if an employee becomes aware of money laundering activity while employed by the Council.

1.4. The policy is not intended to prevent customers and service providers from making payments for Council services, but to minimise the risk of money laundering in high value cash transactions.

2. Policy Statement

2.1. Kent County Council is committed to:

- Preventing the Council's services and employees from becoming a victim of, or unintentional accomplice to, money laundering activities.
- Identifying the potential areas where money laundering may occur and strengthening procedures to minimise the risks.
- Complying with all legal and regulatory requirements, with particular regard to the reporting of actual or suspected cases of money laundering.

2.2. It is important that every member of staff is aware of their responsibilities and remains vigilant.

3. Scope of Policy

3.1. This policy applies to **all** employees and Members of the Council, whether permanent or temporary.

3.2. The aim of this policy is to support employees and Members in responding to concerns that have been highlighted in the course of their work for the council. If staff or Members are concerned about a matter unrelated to work, the Police should be contacted.

4. Definition of Money Laundering

4.1. The term 'Money Laundering' can be used to describe a number of offences involving the proceeds of crime or terrorist financing. In simple terms, money laundering is a process used by criminals to make the proceeds of their crimes appear as though they originated from a legitimate source. Money launderers aim to disguise the identity of the criminal and/or conceal their connection to the proceeds of the crimes.

4.2. The following constitute money laundering offences:

- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 of the Proceeds of Crime Act 2002).
- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328).
- Acquiring, using or possessing criminal property (section 329).
- Doing something that might prejudice an investigation e.g. falsifying a document.
- Failure to disclose one of the offences listed above, where there are reasonable grounds for knowledge or suspicion.
- Tipping off a person(s) who is or is suspected of being involved in money laundering in such a way as to reduce the likelihood of or prejudice an investigation.

4.3. There is a possibility that any member of staff could be prosecuted for money laundering offences if they suspect money laundering and either become involved with it in some way and/or do nothing about it. This policy sets out the appropriate practice and how any concerns should be raised.

4.4. Although the risk to the Council of contravening the legislation is low, it is important that all employees are aware of their responsibilities as serious criminal sanctions may be applied to those who breach the legislation.

4.5. **The significant requirement for employees is to immediately report any suspected money laundering activity to the Money Laundering Reporting Officer (MLRO; see section 7.1). Failure to do so could lead to prosecution.**

5. Identifying Money Laundering

5.1. There is no clear definition of what constitutes a suspicion of money laundering – common sense will be needed. Although you do not need to have actual evidence that money laundering is taking place, mere speculation is unlikely to be sufficient to give rise to knowledge or suspicion. However, if you deliberately shut your mind to the obvious, this will not absolve you of your responsibilities under the legislation.

5.2. Examples of money laundering activity include:

- Large cash payments;
- Asking for cash refunds on credit card payments; or
- Overpaying bills and invoices and then asking for cash refunds.

5.3. Any transaction involving an unusually large amount of cash should cause concern and prompt questions to be asked about the source. This will particularly be the case where the value of cash paid exceeds the amount due to settle the transaction and the person(s) concerned ask for a non-cash refund of the excess.

5.4. If the person(s) concerned use trusts or offshore funds for handling the proceeds or settlement of a transaction, then the reasons for this should be questioned.

5.5. Care should be exercised and questions asked where:

- A third party intermediary becomes involved in a transaction;
- The identity of a party is difficult to establish, or is undisclosed;
- A company is used where the ultimate ownership of the company is concealed or difficult to verify; and/or
- A party is evasive about the source or destiny of funds.

6. The Council's Obligations

6.1. The Council is obligated to:

- Appoint a money laundering reporting officer.
- Maintain client identification procedures in certain circumstances.
- Implement a procedure to enable the reporting of suspicions of money laundering.
- Report any cash transactions over €15,000 (or the Sterling equivalent).
- Maintain sufficient records.

7. The Money Laundering Reporting Officer (MLRO)

7.1. The Council has nominated the following officers to be responsible for anti-money laundering measures within the Council:

MLRO: **Andy Wood**, Corporate Director of Finance.
Email: andy.wood@kent.gov.uk Tel: 03000 416854

Deputy MLRO: **Robert Patterson**, Head of Internal Audit
Email: robert.patterson@kent.gov.uk Tel: 03000 416554

7.2. In the absence of the MLRO or in instances where it is suspected that the MLRO themselves are involved in suspicious transactions, concerns should be raised with David Cockburn, the Head of Paid Service.

8. Reporting concerns

8.1. In the event of an employee suspecting a money laundering activity they must immediately report their suspicion to the MLRO, or to the deputy MLRO, using the disclosure report available on Knet. The report must contain as much detail as possible, ideally using the form at Annex 1.

8.2. If the suspicious transaction is happening right now, for example someone is trying to make a large cash payment, every effort should be made to speak with the MLRO or deputy, who will decide whether to accept the payment or suspend the transaction. If it is not practical or safe to do so, a report should be made to the MLRO or deputy immediately after the transaction is complete.

8.3. The information provided to the MLRO will be used to decide whether there are reasonable grounds to demonstrate knowledge or suspicion of money laundering, whether further investigation is necessary, whether the transaction should be accepted or suspended, and if appropriate, whether a suspicious activity report should be made to the National Crime Agency (NCA). If it is not practical or safe to suspend a suspicious transaction a report should be made to the National Crime Agency immediately after the transaction is complete.

8.4. The employee must follow directions given to them by the MLRO and must **not** discuss the matter with others or notify the person(s) who is suspected of money laundering. 'Tipping off' a person suspected of money laundering is a criminal offence.

8.5. The MLRO or deputy must immediately evaluate any disclosure to determine whether the activity should be reported to the National Crime Agency (NCA).

8.6. The MLRO or deputy must, if they so determine, promptly report the matter to NCA in a prescribed manner and on their standard report form (currently referred to as a suspicious activity report (SAR)). This can be found on the NCA website: www.nationalcrimeagency.gov.uk

9. Identification of Clients

9.1. In general, management should ensure that appropriate checks are carried out on new partners, suppliers and contractors in accordance with the Council's existing policies and procedures.

9.2. However, where the Council is carrying out a **'relevant business**,[1] and as part of this:

- forms an ongoing business relationship with a client; or
- undertakes a one-off transaction involving payment by or to the client of €15,000 (or the equivalent in sterling) or more; or
- undertakes a series of linked on-off transactions involving total payment by or to the client(s) of €15,000 (or the sterling equivalent) or more; or
- it is known or suspected that a one-off transaction (or a series of them) involves money laundering.

Then the client identification procedures (listed below) must be followed before any business is undertaken for that client. In the event the business relationship with the client existed before 1st March 2004 this requirement does not apply.

9.3. Where the 'relevant business' is being provided internally signed, written instructions on Council headed notepaper or an email on the internal email system should be provided at the outset of the business relationship.

9.4. If the 'relevant business' is being provided externally then the following additional checks must be completed:

- Check the organisation's website and other publically available information such as telephone directory services and Companies House to confirm the identity of the personnel, their business address and any other details.
- Ask the key contact officer to provide evidence of personal identity and position within the organisation, for example a passport, photo ID card, driving licence and signed, written confirmation from the Head of Service or Chair of the relevant organisation that the person works for the organisation.

9.5. Remember, these additional client identification procedures are **only** required when conducting a 'relevant business.'

[1] Relevant business is defined as the provision 'by way of business' of advice about tax affairs; accounting services; audit services; legal services; services involving the formation, operation or arrangement of a company or trust; or dealing in goods wherever a transaction involves a cash payment of €15000 or more

10. Training

10.1. Officers considered to be most at risk of being exposed to suspicious situations will be made aware by their senior officer and provided with appropriate training.

10.2. Additionally, all officers and Members will be familiarised with the legislation and regulations relation to money laundering and how they affect the employees (themselves) and the Council.

10.3. It is not necessary for all staff to be aware of the specific criminal offences, staff that are likely to encounter money laundering should be aware of the procedures that are in place. This policy and procedures provides sufficient information to raise awareness for most staff.

10.4. It is recommended that staff in areas that are highly vulnerable to money laundering, should be provided with targeted training that is specific to the Council activity at hand. This could be achieved by in house resources, or through training courses and seminars run by external providers

11. Further information

11.1. Further information can be obtained from the MLRO and the following websites:

- www.nationalcrimeagency.gov.uk
- Proceeds of Crime (Anti- Money Laundering) - Practical Guidance for Public Service Organisations'- CIPFA
- Money Laundering Guidance at www.lawsociety.org.uk
- HM Revenue & Customs http://www.hmrc.gov.uk/mlr/

12. Other Relevant Policies

12.1. The following policies, procedures and codes should be read in conjunction with the Anti-Money Laundering policy:

- Constitution
- Anti-Fraud and Corruption Policy
- Whistleblowing Procedure
- Kent Code
- Bribery Act Policy
- Disciplinary Procedure
- Member Code of Conduct

- Spending the Council’s Money

13. Conclusion

13.1. The likelihood of Kent County Council service being exposed to money laundering is extremely low. However, the legislation and requirements that have been implemented must be followed. Failure to comply with such legislation and requirements by individuals could lead to prosecution.

Anti Money Laundering Reporting Form

Your Contact Details

Please provide your contacts details in the box below so we can confirm that we have received the report and get into contact with you if required.

Name :	
Role:	
Email:	
Contact Telephone:	

Main Subject

Please provide the details of the person you suspect of money laundering. If you suspect more than one person, please fill in the additional boxes below.

Name:			
Date of Birth:		Gender:	
Occupation:			
Address	Type: (Home, work etc)		

Transaction(s)

Please enter the details of the transactions you think are suspicious

Date:			
Amount:		Currency:	
Credit/Debit			
Reason for the transaction:			

Date:			
Amount:		Currency:	
Credit/Debit			
Reason for the transaction			

Account(s)
Please enter details of the account(s) used.

Account Holder's Name		Acc. No	
		Sort Code:	
Current balance:		Balance date:	

Account Holder's Name		Acc. No	
		Sort Code:	
Current balance:		Balance date:	

Associated Subjects:
If there are any other people you suspect are involved in money laundering, please enter their details below.

Name:			
Date of Birth:		Gender:	
Occupation:			
Reason for association			
Address	Type: (Home, work etc)		

Name:			
Date of Birth:		Gender:	
Occupation:			
Reason for association			
Address	Type: (Home, work etc)		

Linked addresses:
Please enter details of any linked addresses:

Address	Type: (Home, work etc)	

Reason for Suspicion:
Please enter details of your suspicions. Please provide as much information as possible.

KENT COUNTY COUNCIL

ANTI-BRIBERY POLICY

Document Owner	Robert Patterson Head of Internal Audit Tel: 03000 416554 robert.patterson@kent.gov.uk
Version	Version 4

Version	Reviewed	Reviewer	Approver	Date approved
Original				
4	1 May 2017	Internal Audit	Governance and Audit Committee	

Kent County Council kent.gov.uk

1. Introduction

1.1. This policy is introduced to ensure compliance with the Bribery Act 2010. It explains the process through which the Council intends to maintain high standards and to protect the organisation, employees, Members and business partners against allegations of bribery and corruption.

1.2. It is the Council's policy to conduct business in an honest and open way, and without the use of corrupt practices or acts of bribery to obtain an unfair advantage. The Council attaches the utmost importance to this policy and will apply a "zero tolerance" approach to acts of bribery and corruption by any of its Members, employees, or persons and partners acting on our behalf. Any breach of this policy will be regarded as a serious matter and is likely to result in disciplinary action and possibly criminal prosecution.

2. Policy Statement

2.1. Bribery is a criminal offence. The Council will not pay bribes, or offer improper inducements to anyone for any purpose, nor will the Council accept bribes or improper inducements. The use of a third party to channel bribes is also a criminal offence. The Council will not engage indirectly in or otherwise encourage bribery.

2.2. The Council is committed to ensuring compliance with the highest legal and ethical standards. The Council will commit to policies and procedures to prevent, deter, and detect acts of bribery. The Council will ensure that anti-bribery compliance is an essential aspect of its governance process and at the core of its business principles. It is an on-going process and not a one- off exercise.

3. Objective

3.1. This policy presents a clear and precise framework to understand and implement the arrangements required to comply with the Bribery Act 2010. It provides the context for the detailed rules, procedures and controls in place. It should provide no room for misinterpretation and will ensure that Members, employees, volunteers and business partners know what is expected of them in preventing bribery.

3.2. This policy should be read in conjunction with, and reinforce, other related policies and documents (see paragraph 27). The provisions in these policies and documents should be reflected in every aspect of the way the Council operates. The requirement to act honestly and with integrity at all times is made clear and is fundamental and non-negotiable.

3.3. This policy explains the procedures established to prevent acts of bribery and allow any breach to be identified and reported.

4. Scope

4.1. This policy applies to all of the Council's activities. The Council requires that all Members (including independent and co-opted Members), employees at all levels and grades, temporary and agency staff, volunteers, contractors, agents, consultants and partners acting on the Council's behalf, comply with the provisions of this policy. The Council will also seek to promote the adoption of reciprocal anti-bribery and corruption measures that are consistent with the Council's policy by joint venture partners and major suppliers.

4.2. The responsibility to mitigate the risk of bribery resides at all levels of the Council and includes all directorates. It does not rely solely on the Council's assurance functions.

5. Policy Commitment

5.1. The Council commits to:

- setting out a clear anti-bribery policy and keeping this up-to-date with regular reviews;
- making all Members, employees and partners aware of their responsibilities to adhere to this policy at all times;
- providing training, where appropriate, to allow Members, employees and partners to recognise and avoid the use of bribery by themselves or others;
- encouraging Members, employees and partners to be vigilant and to report any suspicions of bribery;
- providing suitable channels of communication (e.g. Whistleblowing Procedure) to ensure that sensitive information is handled appropriately;
- investigating instances of alleged bribery and assisting the police and other authorities in any prosecution;
- taking action against anybody acting for or on behalf of the Council who is involved in bribery;
- reporting breaches and suspected breaches of this policy to Members, employees and partners in an open and transparent way; and
- including appropriate clauses in contracts with suppliers to advise on the Council's approach to the provisions of the Bribery Act 2010.

6. The Bribery Act 2010

6.1. The Bribery Act 2010 was introduced to update and enhance English law on bribery. It creates a strict liability corporate criminal offence of failing to prevent bribery. The only defence against this corporate offence is for organisations to have adequate procedures in place to prevent bribery.

6.2 The Act includes four offences:

- Bribing a person to induce or reward them to perform a relevant function improperly.
- Requesting, accepting or receiving a bribe as a reward for performing a relevant function improperly.
- Using a bribe to influence a foreign official to gain a business advantage.
- In relation to a commercial organization, committing bribery to gain or retain a business advantage, there being no adequate procedures in place to prevent such actions.

6.3 Acts of bribery are intended to influence an individual or organisation in the performance of their duty and for them to act illegally.

6.4 The penalties under the Bribery Act have been raised significantly and are severe. The new corporate offence is punishable with an unlimited fine. An individual guilty of an offence may be liable to imprisonment for up to 10 years or to a fine, or to both.

6.5 The Council accepts that public bodies may be classed as a “commercial organisation” in relation to the corporate offence of failing to prevent bribery. In any event, it represents good governance and practice to have adequate procedures in place to protect the Council, Members, employees and partners from reputational and legal damage. It is in the interests of everybody connected to the Council to act with propriety at all times.

KENT COUNTY COUNCIL

BRIBERY ACT PROCEDURE

1. Council Procedures on the Bribery Act

1.1. The Council will follow the guidance issued by the Ministry of Justice. The actions are intended to be proportionate to the risks faced by the Council and to the nature, scale and complexity of the Council's activities. The actions are expected to provide a defence of "adequate procedures" against any corporate offence. The following steps will be taken:

1.2. **Top Level Commitment** – The Corporate Management Team is committed to preventing bribery by persons associated with the Council. A report on the Bribery Act 2010 and the introduction of this policy has been approved by the Corporate Management Team (on 23 August 2011) and the Governance and Audit Committee (on 14 September 2011).

1.3. **Risk Assessment** – The nature and extent of the Council's exposure to external and internal risks of bribery will be assessed as part of the Council's risk management process. Any risk assessment is intended to be an on-going process based on regular communication and review.

1.4. **Due Diligence** – A proportionate and risk based approach will be taken in respect of persons and other organisations that perform services for or on behalf of the Council. Due diligence will include an evaluation of the background, experience and reputation of business partners. The transactions will be properly monitored and written agreements and contracts will provide references to the Bribery Act 2010 and this policy. Reciprocal arrangements may be required for business partners to have their own policies in place. They will be advised of the Council's policy and be expected to operate at all times in accordance with such policy.

1.5. **Communication** – The Council will ensure that this policy and other related policies and procedures are embedded in the Council's working arrangements through appropriate communication, including training, which is proportionate to the risks the Council faces. The Council's induction programme will include reference to the Bribery Act 2010 and this policy.

1.6. **Monitoring and Review** – This policy, control arrangements, risk management processes and other related policies and procedures designed to prevent bribery and corruption will be monitored, reviewed and improved where necessary on a regular basis. All incidents of bribery or suspected bribery will be reported to the Governance and Audit Committee. An assurance of compliance will be included in the Annual Governance Statement.

1.7. In the context of this policy it is unacceptable for persons acting for or on behalf of the Council to:

- Give, promise to give, or offer a payment, gift or hospitality with the expectation or hope that a business advantage will be received, or to reward a business advantage already given

- give, promise to give, or offer a payment, gift or hospitality to a government official, agent or representative to facilitate or expedite a routine procedure

- accept payment from a third party that is known to be, or suspected to have been, offered with the expectation that it will obtain a business advantage for them

- accept a gift or hospitality from a third party if it is known to be, or suspected to have been, offered with an expectation that a business advantage will be provided by the Council in return

- retaliate against or threaten a person who has refused to commit an act of bribery or who has raised concerns under this policy and

- engage in any activity in breach of this policy

2. Gifts and Hospitality

2.1. This policy is not intended to change the requirements of the Council's Gifts and Hospitality policies and procedures. This is contained in the Kent Code and in the Members Code of Conduct in the Council's Constitution. The guidelines clearly set out the restrictions on accepting gifts and hospitality, the need to inform the manager and the need to register any approved gifts that are retained.

2.2. If there is any doubt about whether an invitation or gift should be accepted then the offer should be refused. Each Corporate Director is required to review their respective Gifts and Hospitality registers at least annually. The Corporate Director of Finance and Procurement will ensure that reminders on this subject and the need for officers to complete a Register of Interests form are sent out every year.

2.3. The procedures for Members' registers of interest are set out in the Members' Code of Conduct.

3. Public Contracts

3.1. Under the Public Contracts Regulations 2015 (which gives effect to EU law in the UK) a company is automatically and perpetually debarred from competing for public contracts where it is convicted of a corruption offence. It is understood that there are no plans to amend the 2006 regulations for these to include the crime of failure to prevent bribery. Organisations that are convicted of failing to prevent bribery are not automatically barred from participating in tenders for public contracts. The Council will use its discretion as to whether to exclude organisations convicted of this offence and any instances where this is the case will be reported to the Corporate Management Team for a decision.

4. Member, staff and partner Responsibilities

4.1. The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for the Council or acting for or on its behalf. All Members, staff, volunteers and partners are required to avoid activity that breaches this policy. Adherence to the policy is mandatory.

4.2. Members, staff, volunteers and partners must:

- Ensure that they have read, understood and comply with the Bribery Act Policy.
- Raise concerns as soon as possible if they believe or suspect that a conflict with this policy has occurred, or may occur in the future.

4.3. In addition to the possibility of criminal prosecution, members of staff who breach the policy will face disciplinary action, which could result in dismissal for gross misconduct.

5. Raising a concern

5.1. Staff are encouraged to raise any concerns with their manager. In addition, the Council has published a Whistleblowing Procedure. This provides information on the courses of action available to report serious concerns (including bribery) in confidence. Members, staff or partners who refuse to accept the offer of a bribe may worry about the repercussions. The Council aims to encourage openness and will support anyone who raises a genuine concern in good faith under this policy, even if they turn out to be mistaken.

5.2. The Council is committed to ensuring that nobody suffers detrimental treatment through refusing to take part in bribery.

6. Review of the Bribery Act Policy

6.1. It is the responsibility of the Corporate Director of Finance and Procurement to routinely refresh, review and reinforce this policy and its underlying principles and guidelines. All members of staff are responsible for reading and understanding this policy which will also form part of the induction programme.

7. Other relevant policies

7.1. The following policies, procedure documents and codes of conduct should be read in conjunction with the Bribery Act Policy:

- Constitution
- Anti-Fraud and Corruption Policy
- Anti-Money Laundering Policy
- Whistleblowing Procedure
- Kent Code
- Disciplinary Procedure
- Members Code of Conduct
- Spending the Council’s Money

By:	Cabinet Member for Finance– John Simmonds Corporate Director of Finance – Andy Wood
To:	Governance and Audit Committee – 19 Jul 2017
Subject:	Update on savings Programme
Classification:	Unrestricted

Summary: This report asks Members to note the position on the progress towards the 2017-18 budget savings

FOR ASSURANCE

1. 2017-18 budget savings

1.1 The budgeted savings as shown in the budget book are £76.7m. This year, the gap has been more difficult than ever to close. The current forecasts show that the vast majority of the £76.7m savings are on track to be delivered; this is a promising position at this stage of the year. The intention remains that where delivery proves to be unlikely, equivalent savings plans will be developed elsewhere within the relevant Directorate. It is our expectation that once these alternative plans are finalised and agreed then the forecast pressure will reduce. Should alternative offsetting options not be identified within a directorate, then the Corporate Management Team will need to consider how this will be managed on an Authority-wide basis, as we must achieve a balanced position overall, we cannot afford to enter 2018-19 with an underlying problem.

1.2 The process of BRAG rating all of the £76.7m is a continuous one, and the latest position on that BRAG status is detailed below. If there were to be serious doubt about the delivery of any of the proposed savings, then those savings options would need to be removed from the draft budget proposals.

Red	Amber	Green	Blue	TOTAL
£3.7m	£18.5m	£19.8m	£34.7m	£76.7m
5%	24%	26%	45%	100%

1.3 The significant majority of the Red rated savings relate to Adult Services, specifically transformation (£2.9m) and Housing Related Support for Learning Disability (£0.4m) and Mental Health (£0.25m).

1.4 For details of all the savings, please follow this link:

http://www.kent.gov.uk/__data/assets/pdf_file/0007/66535/medium-term-financial-plan-2017-20.pdf
The relevant information starts on page 92 of Appendix A(ii).

1.5 Corporate Directors remain absolutely committed to resolving the issues that are causing the £3.7m of Red rated savings and developing plans for delivery of the £18.5m of Amber rated savings.

1.6 The position is being monitored very closely and alternatives will be sought and developed if necessary.

2. Recommendation

2.1 Members are asked to NOTE for assurance the progress on the 2017-18 revenue budget savings.

Andy Wood
Corporate Director of Finance Ext: 416854

By: John Simmonds, Cabinet Member for Finance
Andy Wood, Corporate Director of Finance

To: Governance and Audit Committee – 19 July 2017

Subject: **TREASURY MANAGEMENT ANNUAL REVIEW 2016-17**

Classification: Unrestricted

Summary: To report a summary of Treasury Management activities in 2016-17

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. The Council's Treasury Management Strategy for 2016-17 was approved by full Council on 11 February 2016.

3. 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 2016-17:

   a) Reports on the implications of treasury decisions and transactions;

   b) Gives details of the outturn position on treasury management transactions in 2016-17;

   c) Confirms compliance with its Treasury Management Strategy, Treasury Management Practices and Prudential Indicators.

4. When this report is agreed by this Committee it will go forward to full Council.

EXTERNAL CONTEXT

5. Politically, 2016/17 was an eventful twelve month period during which the UK voted to leave the European Union, had a change of Prime Minister, and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

6. UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017 and is forecast to rise further during 2017/18.

7. Following the referendum outcome in June 2016 the Prime Minister, David Cameron, resigned. He was replaced by Theresa May in July 2016. The new prime minister made several significant cabinet changes, including the Chancellor of the Exchequer. The new Chancellor made his first Autumn Statement in November 2016 which included lower economic growth forecasts and a revision of the government's fiscal target; budget surplus deferred until the next parliament and a new target for the net budget deficit of no more than 2% of GDP by the end of the current parliament. This represented a significant change and added an additional £122bn of government borrowing between 2016/17 and 2020/21.

8. The referendum's outcome prompted the Bank of England's decision in August to reduce the base rate to 0.25%, to make further gilt and corporate bond purchases (Quantitative Easing), and to provide cheap funding for banks (Term Funding Scheme) in order to maintain the supply of credit to the economy. These post Brexit vote actions were made to pre-empt a slowdown in the economy but subsequently GDP grew better than expected. The reduction in the base rate has led to further reductions in the rates offered by banks for deposits and available from money market funds.

9. After an initial sharp drop in the second quarter of 2016 equity markets rallied and the FTSE-100 index rose 18% over the year. The Council had some exposure to equity markets, through its investments in the Pyrford Fund and in the first quarter of 2017 in the Fidelity multi asset fund.

9. After the initial Brexit reaction UK Commercial Property values have continued the recovery trend however returns are now being driven by income returns and KCC has exposure to this market through its investment in the CCLA LAMIT Property Fund and the Fidelity fund.

LOCAL CONTEXT

10. At 31 March 2017 the Council had net borrowing of £682.8m arising from its revenue and capital income and expenditure, an increase on 2016 of £7.0m. The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.

BORROWING ACTIVITY

11. At 31 March 2017 KCC held £965.5m of loans, a decrease of £14.1m on 31 March 2016.

12. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and

achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

13. During 2016-17 PWLB loans totalling £32.0m were repaid while a further £17.9m was drawn of the loans agreed specifically to fund improvements to Kent's street lighting under the government's energy efficiency loans programme. At 31 March 2017 the total borrowed for this purpose was £19.4m.

14. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs and the Council's Treasury Advisor, Arlingclose has assisted it with this 'cost of carry' and breakeven analysis. The Council's strategy enabled it to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

15. In June 2016 Barclays Bank advised the Council of their decision to cancel all the embedded options within their standard Lender's Option Borrower's Option (LOBO) loans. This converted the Barclays LOBOs, totalling £281.8m, into fixed rate loans. None of the other lenders exercised their options during the year.

16. The Council is now holding £160m of LOBO 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. £70m of these LOBOs have options in 2017-18.

17. The year-end borrowing position and the year-on-year change are shown in the table below

18. <u>Borrowing Position</u>

	01/04/2016 Balance £m	**2016/17 Movement £m**	**31/3/2017 Balance £m**	**Average Rate %**	**Average Life (yrs)**
Public Works Loan Board	536.3	-32	504.3	5.7	17
Banks (LOBO)	441.8	-281.8	160.0	4.0	44.3
Banks (Fixed Term)	1.5	299.7	301.2	4.2	42.6
Total borrowing	**979.6**	**-14.1**	**965.5**	5.0	18.9

INVESTMENT ACTIVITY

19. KCC holds significant invested funds, representing income received in advance of expenditure plus balances and reserves. During 2016-17 the Council's average investment balance was £330m. The year-end investment position and the year-on-year change are shown in the table below.

Investment Position

Investment Counterparty	01/04/2016 Balance £m	2016/17 Movement £m	31/03/2017 Balance £m	Average Rate % / Average Life (yrs)
Banks and building societies	119.0	-50.4	68.6	0.85% / 0.4
Marketable instruments (Covered Bonds)	88.4	5.0	93.4	1.16% / 1.4
Money Market Funds	59.7	-12.4	47.3	0.33% / overnight
Icelandic recoveries outstanding	0.5	0.0	0.5	
Icelandic deposits held in Escrow (incl interest)	3.3	1.2	4.5	
Total Internally Managed Investments	**270.9**	**-56.6**	**214.3**	**0.72% / 1.0**
Pooled property fund	25.7	-0.3	25.4	4.57% pa
Pooled absolute return fund	5.1	0.0	5.1	9.13% pa
Pooled multi asset fund		25.8	25.8	1.30% pa
Cashplus / short bond fund		10.0	10.0	
Equity	2.1		2.1	
Total Externally Managed Investments	**32.9**	**35.5**	**68.4**	**4.30% pa**
Total investments	**303.8**	**-21.1**	**282.7**	**1.62% pa**

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

21. The Council's objective has been maintained by following KCC's counterparty policy as set out in its Treasury Management Strategy Statement for 2016-17.

22. 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.

23. 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

24. Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

25. None of the banks on the Authority's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, although Royal Bank of Scotland was one of the weaker banks in both tests. The Council's treasury advisor Arlingclose regularly monitors the banks to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

26. During 2016-17 KCC continued to make use of money market funds to support short term liquidity requirements and reduced further the proportion of surplus cash invested in unsecured bank deposits. The total amount invested in covered bonds fell slightly due to maturities while that invested in pooled investment funds increased. KCC also invested in a cashplus fund.

27. At the end of March 2017 some 57% of KCC's cash was invested in covered bonds, investment funds and equity which are not subject to bail in risk.

FINANCIAL OUTTURN

28. The Council's total investment income for the year, including dividends received on the investment funds and equity, was £7.2m, 2.12% on funds held. The above benchmark return primarily reflects:

    a) Internally managed deposits made at an average of 0.77% compared to the average 7 day LIBID rate during 2016-17 of 0.20%. The higher return in particular reflects the investment in a diversified covered bond portfolio which earned £1.85m during 2016-17; and

    b) The Council maintained its investment in the CCLA Property Fund, Pyrford Absolute Return Fund and Kent PFI (Holdings) Ltd, and invested £25m in the Fidelity Multi asset Fund in December 2016. Total income received in the year from these investments was £2.76m.

    c) Interest earned and unrealised exchange gains on the ISK held in Escrow accounts with Icelandic banks totalling £1.2m.

    d) Dividends received on the equity held in Kent PFI Holding Co Ltd of £468,000

29. Of the original deposits (principal and interest) totalling £51.99m with Icelandic Banks in 2008 only £372,000 remains outstanding from Heritable. £4.5m was

held as ISK in escrow accounts with two banks in Iceland and this was paid to KCC in June 2017 following the temporary lifting of capital controls. The total amount recovered by KCC now totals £52.6m

30. Investments as at 31 March 2017 are shown in Appendix 2.

COMPLIANCE WITH PRUDENTIAL INDICATORS

31. The Council confirms that it has complied with its Prudential Indicators for 2016-17, which were set as part of the Council's Treasury Management Strategy Statement. Details can be found in Appendix 1.

TREASURY ADVISOR

32. Following a full tendering process for treasury advisory services Arlingclose were reappointed for a 3 year period from 1 August 2016.

RECOMMENDATION

33. 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

Appendix 1

2016-17 Prudential Indicators

1. Estimate of Capital Expenditure (excluding PFI)

	£m
Actuals 2015-16	234.911
Original estimate 2016-17	299.658
Actuals 2016-17	238.519

2. Estimate of capital financing requirement (underlying need to borrow for a capital purpose)

	2015-16 Actual £m	2016-17 Original Estimate £m	2016-17 Actual as at 31 March £m
Capital Financing Requirement	1,348.259	1,335.724	1,362.394
Annual increase/(decrease) in underlying need to borrow	-34.597	-17.266	14.135

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 2015-16	13.90%
Original estimate 2016-17	13.71%
Actual 2016-17	13.41%

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 2016-17

Operational boundary for debt relating to KCC assets and activities

	Prudential Indicator £m	Position as at 31 March 2017 Actual £m
Borrowing	975	927

Other Long Term Liabilities	248	271
Total	**1,223**	**1,198**

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 2017 £m
Borrowing	1,015	966
Other Long Term Liabilities	248	271
Total	**1,263**	**1,237**

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 Council.

Authorised limit for debt relating to KCC assets and activities

	Prudential Indicator £m	Position as at 31 March 2017 £m
Borrowing	1,015	927
Other long term liabilities	258	271
Total	**1,263**	**1,198**

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 2017 £m
Borrowing	1,055	966
Other long term liabilities	248	271
Total	**1,303**	**1,273**

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 2016-17

Fixed interest rate exposure	100%
Variable rate exposure	40%

These limits have been complied with in 2016-17.

8. Upper limits for maturity structure of borrowings

	Upper limit	Lower limit	As at 31 March 2017
	%	%	%
Under 12 months	10	0	3.51
12 months and within 24 months	10	0	2.35
24 months and within 5 years	15	0	6.64
5 years and within 10 years	15	0	10.30
10 years and within 20 years	20	5	9.18
20 years and within 30 years	20	5	20.19
30 years and within 40 years	25	10	16.64
40 years and within 50 years	30	10	24.41
50 years and within 60 years	30	10	6.78

9. Upper limit for principal sums invested for periods longer than 364 days

Prudential Indicator	Actual
£m	£m
230	163.4

Appendix 2

Investments as at 31 March 2017

1. Internally Managed Investments

1.1 Term deposits, Call accounts and Money Market Funds

Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate
Fixed Deposit	Lloyds Bank	£5,000,000	21/08/2017	1.00%
Fixed Deposit	Lloyds Bank	£5,000,000	29/09/2017	1.00%
Fixed Deposit	Lloyds Bank	£5,000,000	24/07/2017	1.05%
Fixed Deposit	Lloyds Bank	£5,000,000	08/08/2017	1.00%
Fixed Deposit	Lloyds Bank	£5,000,000	08/02/2018	0.90%
Fixed Deposit	Lloyds Bank	£5,000,000	05/09/2017	1.00%
	Total Lloyds Group	**£30,000,000**		
180 Day Call Notice Account	Santander UK	£25,000,000	n/a	0.90%
	Total Santander	**£25,000,000**		
Total UK Bank Deposits		**£55,000,000**		
Fixed Deposit	Nationwide Building Society	£3,600,000	19/04/2017	0.42%
Fixed Deposit	Nationwide Building Society	£10,000,000	24/04/2017	0.43%
	Total UK Building Society Deposits	**£13,600,000**		
Money Market Fund	Aberdeen Sterling Liquidity Fund	£9,991,290	n/a	0.23% (variable)
Money Market Fund	Deutsche Managed Sterling Fund	£4,727	n/a	0.21% (variable)
Money Market Fund	Federated (PR) Short-term GBP Prime Fund	£9,978,939	n/a	0.22% (variable)
Money Market Fund	HSBC Global Liquidity Fund	£8,289,048	n/a	0.22% (variable)
Money Market Fund	Insight Sterling Liquidity Fund	£9,548	n/a	0.21% (variable)
Money Market Fund	LGIM Liquidity Fund	£9,114,106	n/a	0.33% (variable)
Money Market Fund	SSgA GBP Liquidity Fund	£6,138	n/a	0.23% (variable)
Money Market Fund	Standard Life Sterling Liquidity Fund	£9,957,400	n/a	0.26% (variable)
	Total Money Market Funds	**£47,351,196**		

Instrument Type	Principal Amount
Total Icelandic Recoveries outstanding	£506,554
Total ISK held in Escrow (est GBP)	£4,482,933
Net Icelandic Recoveries outstanding	**£4,989,487**

1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal	Net Yield	Maturity Date
Floating Rate Covered Bond	Abbey National Treasury	£2,408,488	0.64%	05/04/2017
Floating Rate Covered Bond	Abbey National Treasury	£1,359,997	0.58%	05/04/2017
Floating Rate Covered Bond	Abbey National Treasury	£3,002,032	0.52%	29/05/2018
Fixed Rate Covered Bond	Bank Of Nova Scotia	£4,984,225	0.88%	14/09/2021
Floating Rate Covered Bond	Barclays Bank	£5,001,542	0.47%	15/09/2017
Floating Rate Covered Bond	Barclays Bank	£3,000,985	0.47%	15/09/2017
Floating Rate Covered Bond	Barclays Bank	£5,001,520	0.52%	12/02/2018
Floating Rate Covered Bond	Barclays Bank	£2,396,603	0.70%	12/02/2018
Fixed Rate Covered Bond	Coventry Building Society	£3,157,053	1.93%	19/04/2018
Fixed Rate Covered Bond	Coventry Building Society	£5,282,513	1.73%	19/04/2018
Fixed Rate Covered Bond	Coventry Building Society	£2,121,260	1.52%	19/04/2018
Floating Rate Covered Bond	Coventry Building Society	£3,006,231	0.57%	17/03/2020
Floating Rate Covered Bond	Leeds Building Society	£2,501,236	0.58%	09/02/2018
Floating Rate Covered Bond	Leeds Building Society	£2,501,255	0.58%	09/02/2018
Fixed Rate Covered Bond	Leeds Building Society	£2,085,960	2.03%	17/12/2018
Fixed Rate Covered Bond	Leeds Building Society	£1,558,096	1.19%	17/12/2018
Fixed Rate Covered Bond	Leeds Building Society	£5,771,641	0.63%	17/12/2018
Floating Rate Covered Bond	Leeds Building Society	£5,000,000	0.77%	01/10/2019
Floating Rate Covered Bond	Lloyds	£3,901,156	0.52%	19/01/2018
Floating Rate Covered Bond	Lloyds	£1,403,435	0.56%	18/07/2019
Fixed Rate Covered Bond	National Australia Bank	£3,003,113	1.10%	10/11/2021
Floating Rate Covered Bond	Nationwide Building Society	£1,899,999	0.56%	17/07/2017
Floating Rate Covered Bond	Nationwide Building Society	£1,000,245	0.51%	17/07/2017
Floating Rate Covered Bond	Nationwide Building Society	£2,100,617	0.50%	17/07/2017
Floating Rate Covered Bond	Nationwide Building Society	£3,429,266	0.53%	27/04/2018

Floating Rate Covered Bond	Nationwide Building Society	£2,147,740	0.64%	27/04/2018
Fixed Rate Covered Bond	Santander UK PLC	£3,615,957	0.65%	14/04/2021
Floating Rate Covered Bond	Toronto Dominion	£5,455,852	0.78%	01/02/2019
Fixed Rate Covered Bond	Yorkshire Building Society	£2,107,752	1.98%	12/04/2018
Fixed Rate Covered Bond	Yorkshire Building Society	£3,187,918	1.55%	12/04/2018
	Total Bonds	**£93,393,687**		

Total Internally managed investments	**£214,334,369**

2. Externally Managed Investments

Investment Fund / Equity	Market Value at 31 March 2017	12 months return to 31 March 2017	
		Income	**Total**
CCLA LAMIT Property Fund	£25,339,954	4.57%	3.01%
Pyrford Global Total Return Fund	£5,111,978	9.13%	8.91%
Fidelity Multi Asset Income Fund	£25,772,296	1.30%	4.39%
Aberdeen Ultra Short Duration Sterling Fund	£10,031,944	-	0.27%
Kent PFI (Holdings) Ltd	£2,135,741		

Total External Investments	**£68,391,913**

3. Total Investments

Total Investments	**£282,726,282**

CONFIDENTIAL

By: Cabinet Member for Finance – John Simmonds
Corporate Director of Finance – Andy Wood

To: Governance & Audit Committee – 19 July 2017

Subject: Debt

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

1 Introduction

1.1 The purpose of this report is to provide the Governance and Audit Committee with assurance on the Council's outstanding debt position.

1.2 This report concentrates mainly on debt over 6 months old.

2 Summary

2.1 The overall outstanding sundry debt as at 1 June 2017 as shown on Oracle Accounts Receivable (Business Intelligence) was £17,543,766.49, and the overall social care debt as at Client Billing run on 23 May 2017 was £18,270,638.63.

2.2 The debt relates to invoices raised via Accounts Receivable which is referred to as Sundry Debt and invoices raised via Client Billing which is purely related to Social Care Service User Debt. The total Sundry debt as at 1 June 2017 is split as follows in Table 1:

Table 1 – Total Sundry Debt as at 1 June 2017

	A	B	C	D	
	Not Yet Due	**AR Overdue 0-60 Amount**	**AR Overdue 61-181 Amount**	**AR Overdue 182+ Amount**	**Total AR Outstanding Amount**
Sundry Debt	£6,795,697.84	£7,291,188.00	£1,544,968.18	£1,911,912.47	**£17,543,766.49**

2.3 The total Social Care Service User Debt as at 23 May 2017, being the date of the most recent Client Billing run, is split as follows in Table 2:

Table 2 – Total Social Care Debt as at 23 May 2017

	A	B	C	D	E	
	0-28 Days (Not Yet Due)	**29-56 Days**	**57-182 Days**	**183-365 Days**	**365+ Days**	**Grand Total**
Social Care Debt	£4,748,094.36	£988,953.05	£2,758,586.96	£2,035,905.33	£7,739,098.93	**£18,270,638.63**

2.4 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 debt over 6 months old – less than 55%***
- ***Total outstanding debt over 6 months old which is secured – greater than 45%***

2.5 As at 1 June 2017 the KPI position was as follows:

Table 3 – Outstanding debt over 6 months using Tables 1 and 2

% of outstanding debt over 6 months	**48.2%**
Over 6 months (£k) (Table 1, Col D+ Table 2 Col D+E)	11,686
Total debt (£k) (Table 1 + Table 2 excl. Col A in both tables)	24,270

Table 4 – Outstanding debt over 6 months which is secured

% of outstanding debt over 6 months which is secured	**40.4%**
Over 6 months which is secured (£k)	4,716
Total debt over 6 months (£k)	11,686

The reasons for the second KPI not being met are as follows:

- One unsecured invoice for the sum of £650,000 was in dispute; the matter has since been resolved and payment is expected by the end of June. Had this been paid, the % would have been 42.7% which is still below the target.
- As a result of the Care Act we can only secure debts via a Deferred Payment agreement – previously we were able to secure debts on service user's properties without their consent. However, the debt recovery team continue to meet with Legal Services to explore potential ways to secure further debt

3 Background on Sundry Debt

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

4 Sundry Debt

4.1 Table 5 as follows is an analysis of the summary position of Sundry debt by Directorate as at 1 June 2017. The penultimate column shows the value of debt older than six months (182 days+):

Table 5 - Sundry Debt by Directorate as at 1 June 2017

Directorate	Not Yet Due (up to 30 days)	AR Overdue 0-60 Amount	AR Overdue 61-181 Amount	AR Overdue 182+ Amount	Total AR Outstanding Amount
ASCH & FSC	£1,118,271.31	£1,653,225.14	£265,029.58	£597,776.18	**£3,634,302.21**
CYPE & ELS	£329,252.12	£361,642.53	£203,858.01	£49,573.64	**£944,326.30**
GET, C&C & E&E	£3,941,199.46	£2,349,648.14	£568,400.38	£342,248.74	**£7,201,496.72**
ST & BSS	£638,846.11	£1,686,833.33	£362,346.28	£845,362.49	**£3,533,388.21**
EDUKENT	£273,035.43	£624,499.24	£4,864.32	£2,162.36	**£904,561.35**
GEN2 Property	£5,836.80	£0.00	£0.00	£0.00	**£5,836.80**
PENSION FUND	£0.00	£2,016.96	£0.00	£0.00	**£2,016.96**
Penalty Notices	£14,640.00	£10,020.00	£20,640.00	£9,960.00	**£55,260.00**
Property Rents	£474,616.61	£603,302.66	£119,829.61	£64,829.06	**£1,262,577.94**
Grand Total	**£6,795,697.84**	**£7,291,188.00**	**£1,544,968.18**	**£1,911,912.47**	**£17,543,766.49**

4.2 Table 6 shows an analysis of the summary position of Sundry debt by invoice tag status that is older than six months:

Table 6 – Analysis of Debt (Over Six Months Old) by Invoice Tag Status

Invoice Tag Status	Total Amount	Count of Invoices
EDUKENT	£2,162.36	4
GT DIRECTORATE INSURANCE	£44,703.01	7
INSTALMENTS	£87,208.81	65
LIQUIDATION/INSOLVENCY/RECEIVERSHIP	£15,403.61	13
PARKED	£3,276.14	5
PENALTY NOTICES - SCHOOLS	£9,960.00	83
REFERRED FOR WRITE OFF	£93,204.35	85
REFERRED TO DIRECTORATE	£895,311.23	130
REFERRED TO LEGAL	£168,891.23	7
UNSECURED	£591,791.73	802
Grand Total	**£1,911,912.47**	**1201**

4.3 130 invoices with a debt value of £895,311.23 are tagged “Referred to Directorate”. This means that the Debt Recovery team are waiting for information or a response from the Directorate in order to be able to further progress the debt.

4.4 Within Table 6, £781,384.68 is over one year old. Table 7 provides further analysis on the debt that is over one year old:

Table 7 – Analysis of Debt (Over One Year Old) by Invoice Tag Status

Invoice Tag Status	Total	Count of Invoices
EDUKENT	£1,300.00	2
GT DIRECTORATE INSURANCE	£3,970.01	4
INSTALMENTS	£64,474.65	51
LIQUIDATION/INSOLVENCY/RECEIVERSHIP	£4,223.99	6
PARKED	£3,276.14	5
PENALTY NOTICES - SCHOOLS	£1,440.00	12
REFERRED FOR WRITE OFF	£77,980.68	61
REFERRED TO DIRECTORATE	£187,307.11	88
REFERRED TO LEGAL	£151,615.81	5
UNSECURED	£285,796.29	269
Grand Total	**£781,384.68**	**503**

5 Sundry Health Debt

5.1 The Sundry Health Debt as at 1 June 2017 amounts to £4.2million comprising of 272 invoices.

5.2 Table 8 provides an analysis by debtor of Sundry Health debt as at 1 June 2017:

Table 8 – Analysis of Health Debt as at 1 June 2017

Customer Name	Not Yet Due	Overdue 0-60 Amount	Overdue 61-181 Amount	Overdue 182+ Amount	Total Outstanding Amount
CENTRAL AND NORTH WEST LONDON NHS FOUNDATION TRUST	0.00	0.00	900.00	0.00	900.00
EAST KENT HOSPITALS UNIVERSITY NHS FOUNDATION TRUST	9,742.94	43,145.13	68,009.87	0.00	120,897.94
KENT & MEDWAY NHS SOCIAL CARE PARTNERSHIP TRUST	1,539.52	21,333.28	20,921.90	1,948.73	45,743.43
KENT COMMUNITY HEALTH NHS FOUNDATION TRUST	4,194.30	475.00	4,810.47	10,368.00	19,847.77
MAIDSTONE & TUNBRIDGE WELLS NHS TRUST	507.00	2,189.84	2,308.20	0.00	5,005.04
NHS ASHFORD CCG	95,186.43	446,791.48	500.00	4,803.89	547,281.80
NHS BARKING & DAGENHAM	0.00	46,112.83	0.00	0.00	46,112.83
NHS CANTERBURY & COASTAL CCG	160,330.48	226,256.57	23,463.00	0.00	410,050.05
NHS DARTFORD, GRAVESHAM, AND SWANLEY CCG	0.00	104,249.87	101,339.10	50,652.82	256,241.79
NHS EASTERN AND COASTAL KENT COMMISSIONING	0.00	891.00	0.00	0.00	891.00
NHS ENGLAND	0.00	4,620.00	0.00	0.00	4,620.00
NHS ENGLAND SOUTH (SOUTH EAST)	0.00	2,100.00	0.00	0.00	2,100.00
NHS HERTS VALLEY CCG	0.00	0.00	72,273.34	0.00	72,273.34
NHS MEDWAY CLINICAL COMMISSIONING GROUP	0.00	9,842.00	0.00	133,246.90	143,088.90
NHS PROPERTY SERVICES LTD#RENT	0.00	0.00	0.00	1,415.23	1,415.23
NHS SOUTH CENTRAL AND WEST CSU	136.48	0.00	0.00	0.00	136.48
NHS SOUTH EAST CSU	0.00	579,439.43	0.00	0.00	579,439.43
NHS SOUTH KENT COASTAL CCG	142,604.65	118,279.73	63,495.90	28,915.83	353,296.11
NHS SWALE CCG	45,059.16	208,088.81	10,366.64	6,951.85	270,466.46
NHS THANET CCG	156,926.19	246,800.66	67,166.49	5,193.52	476,086.86
NHS THANET TRADESHIFT CCG	0.00	338,991.78	0.00	0.00	338,991.78
NHS WEST KENT CCG	223,658.23	39,350.53	0.00	0.00	263,008.76
NHSCHC	0.00	99.00	0.00	0.00	99.00
NORTHDOWN SURGERY	0.00	0.00	500.00	0.00	500.00
SOUTH LONDON & MAUDSLEY NHS FOUNDATION TRUST	0.00	29,052.03	0.00	0.00	29,052.03
SUSSEX PARTNERSHIP NHS FOUNDATION TRUST	102,101.00	0.00	102,101.00	0.00	204,202.00
THE WILLESBOROUGH HEALTH CENTRE	0.00	0.00	120.00	0.00	120.00
USE 82452 NHS SOUTH EAST CSU	0.00	3,837.03	0.00	0.00	3,837.03
WEST HERTS HOSPITAL NHS TRUST	0.00	264.00	0.00	0.00	264.00
WHITE CLIFFS MEDICAL CENTRE	0.00	0.00	40.00	0.00	40.00
Grand Total	**941,986.38**	**2,472,210.00**	**538,315.91**	**243,496.77**	**4,196,009.06**

6 Sundry Write Offs

6.1 Table 9 details the sum written off year on year:

Table 9 - Sundry Write Off Analysis by Year

Sundry Write Offs	
Year	**Amount**
2016 – 2017	£62,763.57
2015 – 2016	£55,211.69
2014 – 2015	£79,897.67
2013 – 2014	£302,928.97
2012 – 2013	£178,147.67
2011 – 2012	£129,753.76

7. Background on Charging for Adult Social Care

7.1 Service users are financially assessed to determine their contribution towards their care whether they are in receipt of residential or non-residential care.

7.2 The Care Act 2014 provides a single framework for local authorities to charge for care and support under sections 14 and 17. It enables a local authority to decide whether or not to charge a person when it is arranging to meet a person's care and support needs or a carer's support needs. The Act provides statutory guidance that the authority must adhere to. The overarching principle is that a person should only pay what they can afford.

7.3 In all cases, a local authority has the discretion to choose whether or not to charge under section 14 of the Care Act following a person's needs assessment. If a local authority decides to charge it must follow the Care and Support (Charging Assessment of Resources) regulations. Local authorities can introduce policies that are more generous than the minimum requirements set out in the regulations and statutory guidance. When an authority develops policies on charging and financial assessment, they must be transparent and ensure they comply with the regulations detailed as follows. This means that each council has discretion in how they charge individuals for certain services and how much an individual has to contribute towards the costs of their care.

7.4 The Care and Support (Deferred Payment) Regulations 2014 which states the rules on when a council is permitted to enter into a Deferred Payment Agreement with an individual, for deferring part of their ongoing care and support costs. The regulations also set out a council's power to charge interest and recoup the legal and administration costs of running the Deferred Payment Scheme.

7.5 When the property is sold the client is required to pay back the outstanding amount due to KCC from the proceeds of the sale. The client will then self-fund their placement and pay the home directly.

7.6 KCC has the power to charge a person for non-residential services based on a means test which ensures they are left with a “protected income level” which cannot be taken into account. This means that some service users are assessed to pay nothing towards their care.

7.7 Service users in permanent residential care will be assessed to pay something towards their care, with the exception of Section 117 ‘after care for mental health’ service users.

7.8 Irrespective of the size of the debt that a service user has accrued, Kent County Council (KCC) is unable by law to completely withdraw the care a service user is receiving if they have been proven as eligible for care services.

7.9 The Department of Work and Pensions (DWP) are responsible for paying benefits to KCC service users. These benefits are taken into account when KCC financially assess how much the client should contribute towards the cost of their care. Essentially the DWP pay the service user and KCC send an invoice in arrears to them (or their elected financial agent/representative) every 4 weeks.

7.10 The DWP have agreed that KCC can apply for third party deductions in cases where a client has built up a debt and fails to pay their ongoing care home fees, providing each case meets the criteria stipulated by the DWP. In practice the Council still receives minimal success in obtaining a third party deduction.

7.11 Where Arrears occur it is often because the benefits have been spent and the invoice is not paid. On occasions the service user has been subject to financial abuse by their relative or representative. In these cases the Debt Recovery team would alert the relevant case manager in order to raise an adult protection alert where appropriate. A referral to the Client Financial Affairs team may also be considered.

8. KCC’s Process for Charging for Adult Social Care

8.1 Each service user is recorded on the SWIFT social care system with details of their needs assessment and the package of care they are in receipt of. Upon completion of the needs assessment, a financial assessment is then conducted to determine what they are assessed to pay based on their ‘means’. It is at that point that charging will then commence.

8.2 In the financial year 2016/2017 the total amount of income charged to clients through the Client Billing system was £60,072,767.01. This was an average of £4,621k per billing run. This is an increase when compared to the previous year, when the average was £4,548k per billing run.

9. Analysis of Social Care Debt as at May 2017

9.1 Social care debt is reported at the end of each four weekly billing period, rather than monthly. The figures in this report relate to the billing run date on 23 May 2017. It should also be noted that the age of the debt is based on the time elapsed from the invoice date rather than the due date, as with Sundry Debt. Therefore the total debt as at 23 May 2017 stands at £18.27 million across 11,903 debtor accounts. This is broken down as follows:

	£'000s
• Total debt	18,270
• Total secured debt	6,040
• Not yet due unsecured (i.e. current debt)	4,540
• Unsecured and overdue	7,690

9.2 The £18.270k can be broken down by the type of care as follows:

	£'000s
• Total debt	18,270
• Residential Debt	15,076
• Non-Residential Debt	3,194

9.3 Table 10 shows the value for the element of each debt that is over six months' old and analyses it by age between six months' and over four years old.

Table 10 – Analysis of Over Six Months' Debt in Aged Category

Age of Debt	Total
6 Months	£355,072.59
7 Months	£384,090.45
8 Months	£353,163.47
9 Months	£298,656.44
10 Months	£323,787.16
11 Months	£321,135.22
18 Months	£1,204,208.35
1 Year	£1,938,994.19
2 Years	£1,621,899.89
3 Years	£1,080,449.06
Over 4 Years	£1,893,547.44
Grand Total	**£9,775,004.26**

9.4 As can be seen from Table 10, the value of the total debt over six months, excluding any younger debt values that are owed by the same debtor, is £9,775,004.26 with £1,893,547.44 of this debt over 4 years old.

9.5 There are currently 11,748 debtors with an unsecured debt or credit on their account; this includes 207 clients with credit balances totalling £81k. This figure includes both due and not yet due debts – which total £12,230k. Most credit balances occur when an ongoing Direct Debit is set to pay ongoing four weekly charges and then the account is retrospectively adjusted. A credit adjustment will be applied to an account when a service user has been in hospital, has not received care for any reason, or is deceased. The Direct Debit payment will already have been applied to the account; hence the credit balance

9.6 The following tables comment on unsecured overdue debt values and movements since March 2015. Unsecured and overdue debt is of the greatest risk to the council. The unsecured overdue debt over six months' old is also commented upon.

9.7 Table 11 shows the value of unsecured debt, in terms of overdue, not yet due and total debt. It also shows the value of unsecured debt that is over six months' old at each point in time:

Table 11 – Unsecured and Aged Unsecured Debt Values since March 2015

UNSECURED DEBT BREAKDOWN				
	Mar-15	**Mar-16**	**Mar-17**	**May-17**
Invoice Run Date	30/03/2015	29/03/2016	28/03/2016	23/05/2017
Overdue	£6,887,420	£6,891,251	£7,499,276	£7,690,303
Not Yet Due	£4,145,752	£4,280,119	£4,200,037	£4,540,051
Total Unsecured Debt	£11,033,172	£11,171,370	£11,699,313	£12,230,355
Over Six Months Element Only	£4,232,818	£4,275,692	£5,030,917	£5,058,604

9.8 Table 12 shows the movement in Unsecured Overdue debt between each period shown, as well as the cumulative movement since March 2015:

Table 12 – Unsecured and Aged Unsecured Debt Movement Since March 2015

TOTAL OVERDUE UNSECURED DEBT MOVEMENTS				
	Mar-15	**Mar-16**	**Mar-17**	**May-17**
Year to Year Movement	£615,004	£3,831	£608,025	£191,027
Cumulative Movement since Mar 2015	£615,004	£618,835	£1,226,860	£1,417,887

9.9 Table 12 above shows that the unsecured overdue debt has cumulatively increased by £1,417,887 in total since March 2015. Table 13 looks at the movement of the value of debt over six months' in age since March 2015, as well as the cumulative movement since this date.

Table 13 – Unsecured Over Six Months' Aged Debt Movement since March 2015

OVER SIX MONTHS ONLY UNSECURED DEBT MOVEMENTS				
	Mar-15	**Mar-16**	**Mar-17**	**May-17**
Year to Year Movement	£615,753	£42,874	£755,225	£27,687
Cumulative Movement since Mar 2014	£615,753	£658,627	£1,413,852	£1,441,539

9.10 It should be noted again that these debt values are purely the debt in excess of six months and do not include any younger debt values that may be owed by the same debtor. As can be seen the value of debt in the over six months' category has increased by £1,441,539 since March 2015.

10. Unsecured Debt Over 6 months Old

- Caution Restriction £42k
- Unsecured Debt - Deceased/Service Terminated: £1,361k
- Unsecured Debt - Ongoing: £3,656k
- Total Unsecured over 6 months' old: £5,059k

10.1 There are 1780 debtors with some/all of their debt over six months old, making up the total £5,059k unsecured over six months debts.

10.2 Table 14 shows the number and value of the 1780 debtors that fall into each category:

Table 14 – Categorised Analysis of Aged Unsecured Social Care Debt

Tag Status	Value of Debt Over Six Months	Total Debt	No of Clients
CAUTION RESTRICTION	£41,561.75	£41,612.35	5
CLIENT FINANCIAL AFFAIRS	£416,685.79	£516,983.77	84
COMPLEX CASE	£208,053.71	£213,465.87	25
DEFERRED PAY S69 - UNSECURED	£78,495.74	£114,265.23	3
ESTATE	£1,216,328.53	£1,294,769.5	468
INSTALMENTS	£296,595.09	£345,523.72	109
PARKED TERMINATED	£41,505.55	£41,927.5	32
REFERRED FOR WO	£93,635.34	£86,341.06	39
REFERRED TO LEGAL	£519,756.13	£558,072.18	16
THIRD PARTY DEBTOR	£23,243.68	£43,955.06	9
UNSECURED	£2,122,743.26	£3,082,304.89	990
Total	**£5,058,604.57**	**£6,339,221.13**	**1,780**

10.3 Of these 1780 cases, there are 958 cases (£2,389k) where the total debt is over six months old.

10.4 As at 1 June 2017, £38,403.14 in Social Care write offs had been processed in ORACLE since 1 April 2017. Write offs processed in previous years are as follows:

Table 15 - Social Care Write Off Analysis by Year

Social Care Write Offs	
Year	**Amount**
2016 - 2017	£388,328.70
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

11. Debt Recovery Action

11.1 As mentioned above, all of the 1780 cases within this report are in the process of debt recovery. A spreadsheet detailing each of these cases and their current status is available upon request.

11.2 One of the main reasons for the debt recovery process stalling is that the debt is legally that of the service user but a third party is managing their financial affairs. A further reason is that, where clients manage their own finances, incentives to pay, such as the removal of services, are not available owing to the Council's duty of care. Furthermore, there is little support received from the Department for Work and Pensions in redirecting the element of benefits that are not being used to pay for care charges to the Local Authority.

11.3 There are two main types of instances where the debt recovery process has been exhausted and the debt not cleared:

- **Estate:** the service user is deceased, the case has gone through probate and there is nothing left for KCC to reclaim against. In these cases the accounts should be processed as write offs.
- **Parked terminated:** the service user is still alive but the service has ended, KCC practice is to 'park' the debt as service may be resumed at a later date. These are reviewed periodically.

12. Recommendation

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

Andrea Hanson
Assessment & Income Operational Services Manager
Business Service Centre
Tel no: 03000 410784
Email: andrea.hanson@kent.gov.uk

This page is intentionally left blank

By:	Susan Carey, Cabinet Member for Customers, Communications and Performance David Cockburn, Corporate Director Strategic & Corporate Services and Head of Paid Service
To:	Governance and Audit Committee – 19th July 2017
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 contains the strategic risks that threaten achievement of the Council's objectives and is formally reviewed annually each autumn. It 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. Monitoring, Review and Reporting of the Corporate Risk Register

2.1 The Council has a Risk Management Policy & Strategy, which is reviewed by this Committee annually each January. This contains information about KCC's organisational Risk Management Framework, including the process for monitoring of key risks across the Authority and the hierarchy of risk registers. It is available on KCC's intranet site.

2.2 There is a small Corporate Risk Team supporting 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.

2.3 Corporate risks of relevance to each Cabinet Committee are reported in the spring round of Committees each year along with directorate risk registers, allowing for discussion and scrutiny of these risks with the relevant Risk Owners and responsible Cabinet Members at the time objectives are being outlined in business plans.

2.4 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 2017/18 have been requested from action owners and will be reported in the next Quarterly Performance Report presented to Cabinet on 25th September 2017.

2.4 The register informs the development of the Internal Audit plan each year, with audit activity mapped against corporate risks.

3. Corporate Risk Register

3.1 The Corporate Risk Register contains 16 risks, of which 10 areas of risk are currently rated as 'high' and 6 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; access to resources to aid economic growth and infrastructure; health and social care integration – delivery of the Sustainability and Transformation Plan (STP); cyber-attack threats and their implications; managing and working with the social care market; and delivery of new school places being constrained by capital budget pressures and dependency on the Education and Skills Funding Agency. All risks have mitigating actions in place that aim to achieve a target residual rating of 'medium' or 'low'.

3.2 Changes since the register was last reported to Governance & Audit Committee in January 2017 are summarised as follows:

3.2.1 A new risk has been added to the register related to the introduction of the General Data Protection Regulations (GDPR), which come into effect on 25th May 2018 and require a significant amount of work to ensure compliance. This includes the appointment of a designated Data Protection Officer; reviewing and updating of privacy notices etc. Serious breaches of the regulations can attract a fine of €20 million or 4 % of annual turnover.

3.2.2 The delivery of 2016/17 savings risk has been closed, with KCC once again achieving a balanced budget position; while the delivery of 2017/18 savings risk score has reduced from High (16) to Medium (12) on the basis of initial BRAG (Blue, Red, Amber, Green) ratings assigned to progress against savings.

3.2.3 Future Operating Environment for Local Government – the Section 151 Officer has advised that the score could reduce slightly from 20 to 16 (still 'High') due to the additional £51m funding from Government over the next three years;

3.2.4 Implications of high numbers of Unaccompanied Asylum seeking children. This risk score has been reduced from High to Medium as the number of new arrivals has remained low, although it is accepted that there are still financial pressures associated with the numbers of care leavers and a high number of legacy cases still exist.

3.2.5 'Target' levels of risks are being reviewed to ascertain whether they can realistically be achieved and within what timescales.

3.2.6 The Corporate Risk Register is due for its more comprehensive refresh during the autumn, involving consultation with all CMT and Cabinet Members. This includes asking questions such as:

a) Are the key risks still relevant?
b) Is the scope of the risk appropriate?
c) Have some risks become issues (i.e. have they materialised)?
d) Has anything occurred which could impact upon them?
e) Has the risk appetite or tolerance levels changed?
f) Are related performance / early warning indicators appropriate?
g) Are the controls in place effective?
h) Has the current risk level changed and if so is it decreasing or increasing?
i) Has the "target" level of risk been achieved?
j) If risk profiles are increasing what further actions might be needed?
k) If risk profiles are decreasing can controls be relaxed?
l) Are there risks that need to be discussed with or communicated to other functions across the Council or with other stakeholders?

3.2.7 Views from Governance and Audit Committee are welcome to feed into the review.

3.3 Further details of these risks, including controls and mitigating actions, are contained in appendix 1.

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:
Mark Scrivener
Corporate Risk & Assurance Manager
mark.scrivener@kent.gov.uk
Tel: 03000 416660

Relevant Director:
David Whittle, Director of Strategy, Policy, Relationships and Corporate Assurance
David.whittle@kent.gov.uk
Tel: 03000 416833

Appendix 1

KCC Corporate Risk Register

For Presentation to Governance & Audit Committee
19/07/17

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 January 2017
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	12	⇔
CRR 4	Civil Contingencies and Resilience	12	8	⇔
CRR 9	Health & Social Care Integration – delivery of Sustainability and Transformation plan	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	Potential implications associated with significant migration into Kent	12	9	⇔
CRR 17	Future financial and operating environment for local government	16	12	⇩
CRR 22	Implications of high numbers of Unaccompanied Asylum Seeking Children (UASC)	12	12	⇩
CRR 23	Evolution of KCC's strategic commissioning approach	12	6	⇔
CRR 25	Delivery of 2017/18 savings	12	6	⇩
CRR 26	Cyber-attack threats and their implications	16	12	⇔
CRR 27	Managing and working with the social care market	20	9	⇔
CRR 28	Delivery of new school places is constrained by capital budget pressures and dependency on the Education and Skills Funding Agency	20	9	⇔
CRR 29	Information Governance – Introduction of General Data Protection Regulations	12	8	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.

Risk ID	CRR2(a)	Risk Title	Safeguarding – protecting vulnerable children		
Source / Cause of risk The Council must fulfil its statutory obligations to effectively safeguard vulnerable children. 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.	**Risk Event** 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. Failure to recruit and retain suitably experienced and qualified permanent staff. Failure to meet the requirements of the new "Prevent Duty" placed on Local Authorities.	**Consequence** Serious impact on vulnerable people. Serious impact on ability to recruit the quality of staff critical to service delivery. Serious operational and financial consequences. Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities. Incident of serious harm or death of a vulnerable child.	**Risk Owner** On behalf of CMT: Andrew Ireland, Corporate Director Social Care Health and Wellbeing (SCHW) **Responsible Cabinet Member(s):** Roger Gough Children, Young People and Education Mike Hill (Lead Member for PREVENT)	**Current Likelihood** Likely (4) **Target Residual Likelihood** Possible (3)	**Current Impact** Major (5) **Target Residual Impact** Major (5)

Control Title	**Control Owner**
Consistent scrutiny and performance monitoring through Divisional Management Team, District 'Deep Dives' and audit activity	Andrew Ireland, Corporate Director 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 and retain 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, Prevent and Channel Strategic Manager
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, Prevent and Channel Strategic Manager
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 Children, Young People and Education (CYPE)
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	Graham Willett, Interim Director Education Quality & Standards
A revised Elective Home Education policy approved that includes interaction with children where there are welfare concerns and where other agencies have been involved with the family. Awareness raising taking	Keith Abbott, Director Education Planning & Access/ Scott Bagshaw, Head of

place with other practitioners	Admissions & Transport
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 review.	Philip Segurola, Director Specialist Children's Services
Multi-function officer group helping to define key steps and approach to aid any future inquiries or investigations that may arise relating to alleged historical abuse	Andrew Ireland, Corporate Director, SCHW
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)
Regular strategies and campaigns support the recruitment and retention of high calibre social workers and managers, with competent agency social workers and managers used on temporary basis to fill vacancies.	Andrew Ireland, Corporate Director SCHW / Amanda Beer, Corporate Director Engagement, Organisational Design and Development.

Action Title	**Action Owner**	**Planned Completion Date**
Implementation of any relevant actions arising from findings of recent Ofsted inspection.	Philip Segurola, Director Specialist Children's Services	October 2017 (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 2017 (review)
Awareness-raising 'Prevent' training for identified key staff and specific training for those working with people directly at risk	Nick Wilkinson, Prevent and Channel Strategic Manager	June 2017 (review)

Risk ID	CRR2(b)	Risk Title	Safeguarding – protecting vulnerable adults		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council must fulfil its statutory obligations to effectively safeguard vulnerable adults. In addition, the Government's "Prevent Duty" requires the Local Authority to act to prevent people from being drawn into terrorism.	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. Failure to meet the requirements of the new "Prevent Duty" placed on Local Authorities.	Serious impact on vulnerable people. Serious impact on ability to recruit the quality of staff critical to service delivery. Serious operational and financial consequences. Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities. Incident of serious harm or death of a vulnerable adult.	On behalf of CMT: Andrew Ireland, Corporate Director SCHW **Responsible Cabinet Member:** Graham Gibbens, Adult Social Care Mike Hill (Lead Member for PREVENT)	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Major (5)

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 / Annie Ho, Interim 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
Transforming Care Programme established to implement policy objectives of moving people into more	Penny Southern, Director

suitable care settings.	DCALDMH
Safeguarding improvement plans in place for Older People and Physical Disability and Disabled Children, Learning Disability and Mental Health services	Anne Tidmarsh, Director OPPD / Penny Southern, Director DCLDMH
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, Prevent and Channel Strategic Manager
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, Prevent and Channel Strategic Manager
Management Action Plan arising from recent internal audit – progress monitored regularly and reported to Countywide Adult Safeguarding Board	Annie Ho, Interim Head of Adult Safeguarding
Capability framework for safeguarding and the mental capacity act introduced	Mark Lobban, Director of Commissioning
Kent and Medway Safeguarding Adults Board Learning and Development Competence Framework is reviewed annually	Annie Ho, Interim Head of Adult Safeguarding

Action Title	**Action Owner**	**Planned Completion Date**
Awareness-raising ‘Prevent’ training for identified key staff and specific training for those working with people directly at risk	Nick Wilkinson, Prevent and Channel Strategic Manager	June 2017 (review)
Independent audit of case files commissioned across all client categories	Annie Ho, Interim Head of Adult Safeguarding	August 2017

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**
The Council seeks access to resources to develop the enabling infrastructure for economic growth, regeneration and health. 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. At the same time, Government funding for infrastructure is limited and competitive and increasingly linked with the delivery of housing and employment outputs. It is currently unknown what sources of funding there may be to replace EU funding streams in the longer term.	Inability to secure sufficient contributions from development to support growth. Insufficient return on investment from Regional Growth Fund schemes or significant level of default on loans. Funders do not recognise Kent priorities for investment.	Key opportunities for growth missed. The Council finds it increasingly difficult to fund KCC services across Kent (e.g. schools, waste services) and deal with the impact of growth on communities. Kent becomes a less attractive location for inward investment and business. Our ability to deliver an enabling infrastructure becomes constrained. Reputational risk.	On behalf of CMT: Barbara Cooper, Corporate Director Growth, Environment and Transport **Responsible Cabinet Member(s):** Mark Dance, Economic Development Matthew Balfour, Planning, Highways, Transport & Waste	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Serious (4)

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 (EPE)
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 EPE
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	Dave Hughes, Head of Business and Enterprise
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
KCC is actively engaged in preparation of local plans across Kent and Medway, responding to all consultations.	Tom Marchant, Head of Strategic Planning & Policy

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	July 2017
Growth & Infrastructure Framework – interim refresh being conducted including reviewing key actions arising from the framework	Tom Marchant, Head of Strategic Planning & Policy	December 2017 (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	Nigel Smith, Head of Development	November 2017

Council officer level.		
Contribute to refresh of Strategic Economic Plan	Barbara Cooper, Corporate Director Growth, Environment and Transport	November 2017

Risk ID	CRR4	Risk Title	Civil Contingencies and Resilience		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council, along with other Category 1 Responders in the County, has a legal duty to establish and deliver containment actions and contingency plans to reduce the likelihood, and impact, of high impact incidents and emergencies. This includes responses associated with the Counter-terrorism and Security Act 2015 (CONTEST). The Director of Public Health has a legal duty to gain assurance from the National Health Service and Public Health England that plans are in place to mitigate risks to the health of the public including outbreaks of communicable diseases e.g. Pandemic Influenza. Ensuring that the Council works effectively with partners to respond to, and recover from, emergencies and service interruption is becoming increasingly important in light of recent national and international security threats, severe weather incidents and the increasing threat of 'cyber attacks' (see risk CRR 26).	Failure to deliver suitable planning measures, respond to and manage these events when they occur. Critical services are unprepared or have ineffective emergency and business continuity plans and associated activities. Lack of resilience in the supply chain hampers effective response to incidents.	Potential increased harm or loss of life if response is not effective. Serious threat to delivery of critical services. Increased financial cost in terms of damage control and insurance costs. Adverse effect on local businesses and the Kent economy. Possible public unrest and significant reputational damage. Legal actions and intervention for failure to fulfill KCC's obligations under the Civil Contingencies Act or other associated legislation.	On behalf of CMT: Barbara Cooper, Corporate Director Growth, Environment & Transport **Responsible Cabinet Member(s):** Mike Hill, Community & Regulatory Services	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Control Title	**Control Owner**
Legally required multi-agency Kent Resilience Forum in place, with work driven by risk and impact based on Kent's Community Risk Register. Key roles of group include: • Intelligence gathering and forecasting; • Regular training exercises and tests; • Task & Finish groups addressing key issues. • Plan writing • Capability building	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
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 (EPE)
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 EPE
Exercises regularly conducted to test different elements of KCC emergency and business continuity arrangements with partners (e.g. Exercise 'Loki' and exercise 'Surge').	Tony Harwood, Resilience & Emergencies Manager
Senior Management on-call rota devised and agreed	Katie Stewart, Director EPE
Learning and potential improvements to business continuity plans in light of loss of ICT systems captured	Katie Stewart, Director EPE
Emergency Reservists have been recruited to aid emergency responses	Katie Stewart, Director EPE

KCC Business Continuity Plan in place	Katie Stewart, Director EPE
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, Prevent and Channel Strategic Manager
Reporting arrangements have been reviewed to include appropriate elected Member oversight of KCC Business Continuity arrangements.	Katie Stewart, Director EPE
IT security incidents are logged and reviewed from an IT and wider Information Governance perspective	Kathy Stevens, ICT Risk and Compliance Manager
Cabinet Office resilience training delivered	Katie Stewart, Director EPE
Steering Group established and work done to understand local implication of any potential increase in national security threat level in future	Katie Stewart, Director EPE
New Quality Assurance approach introduced for business continuity plans to emphasise service accountability. This includes the testing of interdependencies between KCC business continuity plans and those of 3rd parties.	Katie Stewart, Director EPE
Sufficiency of KCC and Kent Resilience Team emergency and resilience resource conducted	Katie Stewart, Director EPE / Mike Overbeke, Head of Public Protection
Local procedures have been established and are being continually reviewed and refined for when the national threat level increases to critical. This includes an update of the Corporate Business Continuity Plan.	Katie Stewart, Director EPE

Action Title	**Action Owner**	**Planned Completion Date**
Exercise the procedures for a move in national threat level	Katie Stewart, Director EPE	Sep 2017
Review the Corporate Business Continuity Plan to reflect new threats and risks, including Climate Change Risk Assessment	Katie Stewart, Director EPE	July 2017
Implementation of formalised KCC Tactical emergency call out rota	Katie Stewart, Director EPE / Rachel Chalmers-Stevens, Staff Officer to Head of Paid Service	July 2017

Risk ID	CRR9	Risk Title	Health & Social Care Integration – delivery of Sustainability and Transformation Plans		
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. A local Sustainability and Transformation Plan (STP) is being developed to outline a 'place-based' plan for the future of health and care services in Kent.	Failure to maximise opportunities presented for health & social care integration and ensure changes achieve maximum impact. Pressures within the acute health sector result in repercussions for social care and threaten successful implementation of the STP. Insufficient Better Care Fund monies to support preventative services, which means plans to reduce hospital admissions are destabilised. Lack of 'system' leadership. Insufficient Local Authority involvement.	Collapse of Health and Social Care system Gaps between services or in some instances duplication of services or inefficient use of the available joint resources. Additional budget pressures.	Andrew Ireland, Corporate Director SCHW **Responsible Cabinet Member(s):** Paul Carter Leader of the Council Graham Gibbens, Adult Social Care	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Control Title	Control Owner
KCC has designated Cabinet Portfolio Holders for Public Health and Health Reform, who have assumed central roles	Paul Carter, Leader of the Council
Health & Wellbeing Board and CCG-level Health & Wellbeing Board sub-committees established	Paul Carter, Leader of the Council
KCC Members and Officers are part of local Sustainability and Transformation governance arrangements	Paul Carter, Leader of the Council
Kent chosen as one of 25 pioneers of health & social care integration in the UK, which is giving renewed	Anne Tidmarsh, Director

impetus to the integration programme in Kent. An Integration Pioneer Implementation Group is in place with other 20 stakeholder members to provide strategic direction and oversee successful delivery of health & social care in Kent.	OPPD(KCC lead)
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
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 / Andrew Ireland, Corporate Director SCHW
Kent Integrated Dataset provides population level data from health and adult social care that is used to perform analysis to inform decisions about commissioning and management of health and care services across the county.	Gerrard Abi-Aad, Head of Health Intelligence
Joint working takes place with Health partners to ensure adherence to the Continuing Healthcare (CHC) framework	SCHW Directors

Action Title	**Action Owner**	**Planned Completion Date**
Contribute to the implementation of five-year, place-based Sustainability and Transformation Plans	Andrew Ireland, Corporate Director SCHW	June 2017 (review)
Revision of Joint Strategic Needs Assessment (JSNA) to support joint health & social care commissioning activity.	Andrew Scott-Clark, Director Public Health	September 2017 (review)
Revision of Health & Wellbeing Strategy	David Whittle, Director Strategy, Policy & Assurance	June 2017 (review)
Monitor implications associated with any changes to the Better Care Fund from 2018-19	Andy Wood, Corporate Director Finance	July 2017 (review)
'Your Life, Your Wellbeing' transformation programme aims to prepare KCC adult social care for integration	Andrew Ireland, Corporate Director SCHW	September 2017 (review)

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 and cost 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	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** 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
Implementation of Adults Transformation partnership programme progressing including: Care Pathways, Commissioning & Procurement and Optimisation	Mark Lobban, Director Commissioning /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

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 *Health & Social Care Integration agenda* – see Risk CRR9).	Mark Lobban, Director Commissioning / Anne Tidmarsh, Director OPPD
Continued drive to maximise the use of Telecare as part of the mainstream community care services	Anne Tidmarsh, Director OPPD/ 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
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
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
Continual review and monitoring of demand in relation to Deprivation of Liberty assessments (DoLs)	Mark Lobban, Director Commissioning
Systematic methodology for demand management agreed and delivered by Strategic Business Development and Intelligence (SBDI) division.	Vincent Godfrey, Director SBDI

Action Title	**Action Owner**	**Planned Completion Date**
Progression of Adults 'Your Life Your Wellbeing' programme – completion of Design phase	Andrew Ireland, Corporate Director SCHW	September 2017

Risk ID	CRR10(b)	Risk Title	Management of Demand – Early Help and Preventative Services and Specialist Children's Services		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Local Authorities continue to face increasing demand for specialist children's services due to a variety of factors, including consequences of highly publicised child protection incidents and serious case reviews, and policy/legislative changes. At a local level KCC is faced with additional demand challenges such as those associated with significant numbers of Unaccompanied Asylum Seeking Children (UASC). There are also particular 'pressure points' in several districts. These challenges need to be met as 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.	High volumes of work flow into early help and preventative services and specialist children's services leading to unsustainable pressure being exerted on them.	Children's services performance declines as demands become unmanageable. Failure to deliver statutory obligations and duties or achieve social value. Additional financial pressures placed on other parts of the Authority at a time of severely diminishing resources. Ultimately an impact on outcomes for children, young people and their families.	Andrew Ireland, Corporate Director SCHW Patrick Leeson, Corporate Director CYPE **Responsible Cabinet Member(s):** Roger Gough Children, Young People and Education	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Analysis and refreshing of forecasts to maintain the level of understanding which feeds into the relevant areas of the MTFP and the business planning process	Andrew Ireland, Corporate Director SCHW / Philip Segurola, Director Specialist Children's Services

The Early Help and Preventative Services Programme is working to ensure that vulnerable families can access the right support through open access services or through targeted casework.		Stuart Collins, Interim Director Early 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 CYPE / Andrew Ireland, Corporate Director 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		Philip Segurola, Director Specialist Children's Services / Mark Lobban, Director Commissioning
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		Stuart Collins, Interim Director Early Help & Preventative Services
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 by partners when making a referral and have been working with partners to promote aid appropriate application.		Mark Janaway, Programme and Performance Manager
Action Title	**Action Owner**	**Planned Completion Date**
Phase 2 of 0-25 Programme to define and implement a new way of delivering services to the children and young people of Kent to improve outcomes and reduce costs.	Patrick Leeson, Corporate Director CYPE	October 2017 (review)

Risk ID	CRR 12	Risk Title	Potential implications associated with significant migration into Kent		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Migration to Kent is not a new phenomenon and is an inevitable outcome of being a London-peripheral authority, symptomatic of differentials in housing markets across the country and the desirability of living in the county. Welfare reform policy changes combined with an overheating London housing market continues to drive London residents to more affordable temporary and permanent accommodation in Kent. Over the past year, a number of London Boroughs have procured large sites to place residents in temporary accommodation into Kent KCC needs to be prepared to manage the impact on local communities, and any significant additional pressure on KCC services.	Arrival of significant numbers of vulnerable households into the county, particularly if migration is into concentrated areas. London Boroughs, utilising higher per-capita funding and large capital/reserve budgets to procure sites in Kent to ease their overspend on housing/homelessness. Failure of KCC to plan with partners (Districts, Police, Health) to deal appropriately with potential consequences on Kent services. Failure of London Boroughs to provide information about incoming vulnerable households e.g. those known to children's social services in accordance with statutory requirements and agreed protocols.	Potential impact on community cohesion in parts of the county. Additional pressure on KCC services e.g. school admissions, demand for adults and children's social care, community safety, public health Impact on availability of accommodation for Kent residents, placing more pressure on services such as Kent Support and Assistance Service (KSAS), and/or displacing them outside of the county.	On behalf of CMT: Andrew Ireland, Corporate Director SCHW **Responsible Cabinet Member(s):** Graham Gibbens, Adult Social Care Mike Hill, Community & Regulatory Services Roger Gough, Children, Young People and Education	Possible (3) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Control Title	Control Owner
Welfare reform - 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, feeding into a multi-agency Welfare Reform Task & Finish Group (sub-group of the Joint Kent Chiefs) to direct any necessary co-ordinated action/response.	Vincent Godfrey, Strategic Commissioner/David Whittle, Director Strategy, Policy, Relationships and Corporate Assurance (SPRCA)

Policy & research updates produced periodically to aid monitoring of potential impacts		David Whittle, Director SPRCA / Vincent Godfrey, Strategic Commissioner
Kent Support and Assistance Service operating as the County's local welfare assistance scheme		Mark Lobban, Director of Commissioning
A Steering Group consisting of Council Leaders, senior officers and housing leads from across all tiers of Local Government in Kent and Medway has been established to coordinate activity in response to London Boroughs' procurement of large sites for significant placements, including submitting amendments to the Homelessness Reduction Bill, liaising with London Councils in aspiration of better collaboration, engaging with Kent MPs for them to take this issue forward at Government level, and exploring any potential for active market intervention / disruption.		Paul Carter, Leader of the Council (KCC Lead)
Meeting held with Steering Group and Kent MPs in Westminster		David Whittle, Director SPRCA
Action Title	**Action Owner**	**Planned Completion Date**
Identification of potential commercial properties, starting in two Districts (Maidstone and Swale) in Kent that may be in danger of being converted into residential status.	Rebecca Spore, Director of Infrastructure	June 2017
Meeting to take place with London Councils to improve relationships	David Whittle, Director SPRCA	June 2017

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**
The operating environment for local government is likely to continue to change during the coming years, presenting both opportunities and risks for the Council and its partners / service providers. Government funding is set to continue reducing over the medium term, especially in 2018/19 and 2019/20 in the final years of the current spending review and four year settlement. Thereafter there is more uncertainty and the 100% business rate retention scheme due to be implemented by 2020 may present opportunities but also threat to the Council. The Local Government, Cities and Devolution Act could have wide-ranging implications, including the potential for significant Local Government reorganisation. Limits on our ability to levy additional council tax without a referendum are also likely to remain for the foreseeable future. The EU referendum result in 2016 and June 2017 General Election result has added additional uncertainty to the environment.	Additional (unfunded) spending demands and continued public sector austerity measures threaten financial sustainability of KCC, its partners and service providers. In order to set a balanced budget the council is likely to have to continue to make significant year-on-year savings that will add to the unprecedented era of real terms spending reductions which councils have faced since 2010. Quality of KCC commissioned / delivered services suffers as financial situation continues to worsen.	Unsustainable financial situation. Potential for partner or provider failure – including sufficiency gaps in provision. Reduction in resident satisfaction and reputational damage.	On behalf of CMT: Andy Wood, Corporate Director Finance **Responsible Cabinet Member (s):** All Cabinet Members	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Robust budgeting and financial planning in place via Medium Term Financial Planning (MTFP) process, including stakeholder consultation.	Andy Wood, Corporate Director Finance
Processes in place for monitoring delivery of savings and budget as a whole.	Andy Wood, Corporate Director Finance
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 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, Business Partner (external funding)
Support being provided to the Leader of the County Council in his role as Chair of the County Councils Network.	David Whittle, Director SPRCA
Financial analysis conducted after each budget statement	Dave Shipton, Head of Financial Policy, Planning & Strategy

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 Policy, Planning & Strategy	July 2017 (review)
Continual engagement regarding devolution between KCC, District Councils, other partners and Government	David Whittle, Director SPRCA	July 2017
Engage with Government for a fair-funding needs formula for Grant distribution and tariffs/top-ups under business rate retention	Andy Wood, Corporate Director Finance	July 2017 (review)

Risk ID	CRR22	Risk Title	Implications of high 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. In addition, a significant number of these children will turn 18 in the coming months, requiring care leaver support.	There is a risk that there will be insufficient accommodation, social work assessment capacity and support for UASC. Shortfall in funding the full cost associated with fulfilling the Council's statutory duties. Risk that other Local Authorities do not voluntarily accept UASC that arrive in Kent in sufficient numbers.	Serious impact on vulnerable young people. The Council would be unable to fulfil its statutory duties effectively. Additional budget pressures on the Authority if UASC costs are not fully funded by Government.	Andrew Ireland, Corporate Director, SCHW **Responsible Cabinet Member(s):** Roger Gough Children, Young People and Education	Possible (3) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Serious (4)

Control Title	Control Owner
UASC multi-agency Partnership Board established to take a strategic overview of whole system of services contributing to and impacted upon in managing the needs of UASC in Kent and to provide opportunities for shared learning.	Philip Segurola, Director of Specialist Children's Services
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
Specialist Children's Services continue to work extremely closely with colleagues in the UASC arm of the UK Visas and Immigration service to ensure new arrivals, as well as children which arrived prior to the 1st July are transferred to the care of Other Local Authorities in the most timely and child-centred way	Philip Segurola, Director of Specialist Children's Services
A National Transfer Scheme has been launched to encourage all local authorities to volunteer to support unaccompanied asylum-seeking children (UASC) so there is a more even distribution of caring responsibilities across the country.	
The Leader, Members and senior officers continue to make representations to the Home Office regarding	Andrew Ireland, Corporate

funding.		Director, Social Care Health and Wellbeing
Action Title	**Action Owner**	**Planned Completion Date**
Continue to review staffing levels, increasing where required	Philip Segurola, Director of Specialist Children's Services	August 2017 (review)

Risk ID	CRR23	Risk Title	Evolution of KCC's Strategic Commissioning Approach		
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. 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 programme control on key change activity. 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.	Potential to fall short of achieving financial and non-financial benefits if changes introduced are not fully embedded. 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.	All Corporate Directors **Responsible Cabinet Member:** Paul Carter, Leader of the Council	Likely (4) **Target Residual Likelihood** Unlikely (2)	Significant (3) **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 sufficient.	Corporate Directors
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 mind-set. 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
Strategic Business Development & Intelligence function brings together activities which support effective commissioning and leads on the management of KCC's strategic contracts.	Vincent Godfrey, Strategic Commissioner
Commissioning network and toolkit in place to support development of key commissioning knowledge and skills and sharing of good practice	Steve Lusk, Commercial Manager

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	Vincent Godfrey, Strategic Commissioner
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**
Rolling programme of reviews of contract management arrangements for major contracts.	Vincent Godfrey, Strategic Commissioner	September 2017 (review)
Review Governance arrangements to clarify Member roles and responsibilities around the evolving strategic commissioning authority approach.	David Whittle, Director SPRCA	July 2017
Review of the Council’s Policy Framework to ensure consistency with, and support for, the strategic commissioning approach.	David Whittle, Director SPRCA	September 2017

Risk ID	CRR25	Risk Title	Delivery of 2017/18 savings		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The ongoing difficult public finances situation and economic uncertainty continue to mean significant reductions in funding to the public sector and Local Government in particular, at a time when spending pressures on councils are increasing. KCC has already made significant cost savings and still needs to make significant ongoing year-on-year savings in order to “balance its books”.	Robust plans to achieve the required savings are not developed in time to enable implementation and realisation of benefits in 2017/18. Plans are not aligned with Cabinet Member priorities.	Urgent alternative savings need to be found which could have an adverse impact on service users and/or residents of Kent. Potential adverse impact on council transformation plans. Reputational damage to the council.	On behalf of CMT: Andy Wood, Corporate Director Finance **Responsible Cabinet Member(s):** John Simmonds, Finance	Possible (3) **Target Residual Likelihood** Possible (3)	Serious (4) **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
Process for monitoring delivery of savings is in place, including a Budget & Programme Delivery Board to scrutinise progress.	Andy Wood, Corporate Director Finance
Robust monitoring and forecasting of arrangements in place relating to the KCC budget as a whole	Andy Wood, Corporate Director Finance
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
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
NOTE: Level of risk is expected to decrease during the year by effective operation of existing controls.		

Risk ID **CRR26**	**Risk Title**	**Cyber-attack threats and their implications**			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner(s)**	**Current Likelihood**	**Current Impact**
The Council has a duty to protect personal and other sensitive data that it holds on its staff, service users and residents of Kent. KCC repels a high number of cyber-attacks on a daily basis, although organisations across all sectors are experiencing an increasing threat in recent times and must ensure that all reasonable methods are employed to mitigate them (within resource constraints), both in terms of prevention and preparedness of response in the event of any successful attack. KCC's ICT Strategy will move the Authority's technology to cloud based services. It is important to harness these new capabilities in terms of both IT security and resilience, whilst emerging threats are understood and managed. In information terms the other factor is human. Technology can only provide a level of protection. Our staff must have a strong awareness of their responsibilities in terms of IT and information security.	Successful cyber-attack (e.g. 'phishing' scam) leading to loss or unauthorised access to sensitive business data. Significant business interruption caused by a successful attack.	Data Protection breach and consequent Information Commissioner's Office (ICO) sanction. Damages claims Reputational Damage Potential significant impact on business interruption if systems require shutdown until magnitude of issue is investigated.	On behalf of CMT: Ben Watts, General Counsel and Senior Information Risk Owner (SIRO) Amanda Beer, Corporate Director Engagement, Organisational Development & Design Rebecca Spore, Director Infrastructure **Responsible Cabinet Member(s):** Eric Hotson, Corporate & Democratic Services	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Systems are configured in line with best practice security controls proportionate to the business information being handled. Systems are risk assessed and reviewed to ensure compliance is maintained	Kathy Stevens, ICT Compliance and Risk Manager
Staff are required to abide by IT policies that set out the required behaviour of staff in the use of the technology provided. These policies are reviewed on an annual basis for appropriateness.	Kathy Stevens, ICT Compliance and Risk Manager
Continual awareness raising of key risks amongst the workforce and manager oversight	Michael Lloyd, Head of Technology Commissioning and Strategy / Internal Communications function / All Managers
Electronic Communications User Policy, Virus reporting procedure and social media guidelines in place	Michael Lloyd, Head of Technology Commissioning and Strategy
External reviews of the Authority's security compliance are carried out to maintain accreditation and confirm best practice is applied.	Kathy Stevens, ICT Compliance and Risk Manager
Persistent monitoring of threats, network behaviours and data transfers to seek out possible breaches and take necessary action	Kathy Stevens, ICT Compliance and Risk Manager
Mandatory Data Protection and Information Governance training	Ben Watts, General Counsel
Further training introduced relating to cyber-crime, cyber security and social engineering to raise staff awareness and knowledge	Michael Lloyd, Head of Technology Commissioning and Strategy

Action Title	Action Owner	Planned Completion Date
Implementation of ICT Transformation Programme includes actions to further strengthen ICT resilience, with systems and software compliance with various UK Standards.	Michael Lloyd, Head of Technology Commissioning and Strategy	March 2018
Messages to encourage increased awareness of information security amongst staff are to be communicated to align with key implementation milestones of the ICT Transformation Programme.	Diane Trollope, Head of Engagement and Consultation	September 2017 (review)

Risk ID	**CRR27**	**Risk Title**	**Managing and working with the social care market**		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
A significant proportion of adult social care is commissioned out to the private and voluntary sectors. This offers value for money but also means that KCC is dependent on a buoyant market to achieve best value and give service users optimal choice and control. Factors such as the introduction of the National Living Wage, potential inflationary pressures and uncertainty over care market workforce status in light of the vote to leave the EU mean that the care market is under pressure.	Care home and domiciliary care markets are not sustainable Inability to obtain provider supply at affordable prices Significant numbers of care home closures or service failures Providers choose not to tender for services at Local Authority funding levels or accept service users with complex needs.	Gaps in the care market for certain types of care or in geographical areas meaning difficulty in placing some service users.	Andrew Ireland, Corporate Director SCHW **Responsible Cabinet Member(s):** Graham Gibbens, Adult Social Care	Likely (4) **Target Residual Likelihood** Possible (3)	Major (5) **Target Residual Impact** Significant (3)

Control Title	**Control Owner**
Risk based approach is applied to monitoring providers	Andrew Ireland, Corporate Director SCHW / Mark Lobban, Director of Commissioning
Opportunities for joint commissioning in partnership with key agencies (i.e. Health) being regularly explored	Andrew Ireland, Corporate Director SCHW / Mark Lobban, Director of Commissioning
An Accommodation Strategy is in place, developed with partners and key stakeholders.	Mark Lobban, Director of Commissioning
Regular market mapping and price increase pressure tracking	Andrew Ireland, Corporate Director SCHW/ Mark Lobban, Director of Commissioning
Regular meetings with provider and trade organisations	Andrew Ireland, Corporate

		Director SCHW / Mark Lobban, Director of Commissioning
Placement data is regularly tracked through the County Placement Team		Mark Lobban, Director of Commissioning
Ongoing monitoring of Home Care market and market coverage following Home Care retender		Mark Lobban, Director of Commissioning
Commissioning and Access to Resources functions in place to ensure KCC gets value for money while maintaining productive relationships with providers		Andrew Ireland, Corporate Director SCHW / Mark Lobban, Director of Commissioning
Action Title	**Action Owner**	**Planned Completion Date**
Work to ensure there is sufficient local foster and residential care for disabled children to reduce the need for out of county placements.	Mark Lobban, Director of Commissioning	October 2017 (review)
Project to improve quality of care in independent sector, with further work to operationalise it.	Mark Lobban, Director of Commissioning	October 2017
Residential and nursing re-let: implementation phase following the tender.	Mark Lobban, Director of Commissioning	October2017
Implementation of key actions arising from the Accommodation Strategy	Mark Lobban, Director of Commissioning	March 2018 (review)

Risk ID	CRR28	Risk Title	Delivery of New School Places is constrained by capital budget pressures and dependency upon the Education and Skills Funding Agency (ESFA)		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
A significant expansion of schools is required to accommodate major population growth in the short term to medium term (primary age) and medium to long term (secondary age). The "Basic Need" capital grant from Dept of Education (DfE) will not fund the expansion in full. A funding gap to deliver the programme for schools will be created by cost pressures from higher than expected build costs, low contributions from developers and increases in pupil demand. Whilst the funding gap identified with the Kent Commissioning Plan has been closed, the delivery of the plan is highly dependent upon securing 15 Free Schools in Kent over the period and that the ESFA complete the Free School projects on time and to an appropriate standard.	The expansion required may not be delivered, meaning KCC is not able to provide appropriate school places.	The duty to provide sufficient school places is not met, which may lead to legal action against the council. Some children have to travel much further to attend a school, with a resulting impact on the transport budget.	Patrick Leeson, Corporate Director CYPE **Responsible Cabinet Member(s):** Roger Gough, Children, Young People and Education	Very Likely (5) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Control Title	**Control Owner**
The Kent Commissioning Plan contains the forecast expansion numbers and locations. A school expansion programme has been mapped, costed and kept under review.	Keith Abbott, Director Education Planning and Access
The school expansion programme is under member scrutiny and review by relevant Education and Property programme boards/forums/committees.	Keith Abbott, Director Education Planning and Access

CYPE capital monitoring mechanism with Member involvement now created	Keith Abbott, Director Education Planning and Access
Policy and operations to secure sufficient developer contributions are overseen by Growth and Infrastructure Group.	Keith Abbott, Director Education Planning and Access/Katie Stewart, Director Environment, Planning and Enforcement
A bid has been made for extra funding under the priority school building programme Phase 2	Keith Abbott, Director Education Planning and Access
Negotiations have taken place with District Councils regarding allocation of contributions	Area Education Officers
Close working with the ESFA and lobbying of the DfE/ESFA. This included raising the issue in the KCC response to the Education White Paper and the Leader raised this via the County Council's Network.	Keith Abbott, Director Education Planning and Access
Regular meetings with ESFA officials to monitor progress at individual project level and identify ways in which KCC can help progress these projects. First meeting held on 28/11/16	Keith Abbott, Director Education Planning and Access

Action Title	**Action Owner**	**Planned Completion Date**
To develop contingency plans for alternative interim accommodation for each Free School project	Keith Abbott, Director Education Planning and Access/ Area Education Officers	June 2017 (review)
Discussions with senior ESFA staff and Director Education Planning and Access /Director Infrastructure to follow in the coming months	Keith Abbott, Director Education Planning and Access	June 2017

Risk ID	CRR 29	Risk Title	Information Governance – Introduction of General Data Protection Regulations (GDPR)

Source / Cause of risk	Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact
The Council is required to maintain the confidentiality, integrity and proper use of data and has a number of controls already in place to manage this. In May 2018 General Data Protection Regulations (GDPR) come into effect that introduce significantly increased obligations on all data controllers, including the Council. This will require significant preparation.	Failure to prepare adequately for the introduction of the new regulations. Information security incidents resulting in loss of personal data or breach of privacy / confidentiality.	ICO sanction (e.g. undertaking, assessment, improvement, enforcement or monetary penalty notice issued against the Authority). Serious breaches under GDPR could attract a fine of €20m or 4% annual global turnover Increased risk of litigation Reputational damage	Ben Watts, General Counsel and Senior Information Risk Owner (SIRO) **Responsible Cabinet Member:** Eric Hotson, Corporate & Democratic Services	Possible (3) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Management Guide on Information Governance in place, highlighting key policies and procedures.	Caroline Dodge, Team Leader Information Resilience & Transparency
A number of policies and procedures are in place including KCC Information Governance Policy; Information Governance Management Framework; Information Security Policy; Data Protection Policy; Freedom of Information Policy; and Environmental Information Regulations Policy all in place.	Ben Watts, General Counsel and Senior Information Risk Owner (SIRO)
Staff are required to complete mandatory training on Information Governance and Data Protection and refresh their knowledge every two years as a minimum.	Ben Watts, General Counsel and Senior Information Risk Owner (SIRO) / Amanda Beer, Corporate Director Engagement, Organisational Design & Development.
Cross-directorate Information Governance Group in place to support the SIRO	Ben Watts, General Counsel and Senior Information Risk Owner

		(SIRO)
Information Resilience and Transparency team in place, providing business information governance support.		Caroline Dodge, Team Leader Information Resilience & Transparency
Action Title	**Action Owner**	**Planned Completion Date**
Finalise implementation of any outstanding actions arising from 2016 Information Commissioner's Office (ICO) audit.	Ben Watts, General Counsel and Senior Information Risk Owner (SIRO)	September 2017 (review)
Appoint a Data Protection Officer as a designated contact with the ICO.	David Cockburn, Head of Paid Service	May 2018
Review and update privacy notices to include legal basis (where applicable) and name/contact details of Data Protection Officer. Introduce new privacy notices as required for service areas where they don't currently exist	Caroline Dodge, Team Leader Information Resilience & Transparency	May 2018
Review and revise procedures to comply with new enhanced individual's rights / consider repercussions of Subject Access Requests free of charge and reduced timescales to deal	Caroline Dodge, Team Leader Information Resilience & Transparency	May 2018
Review and update procedures/protocols for investigating and reporting data breaches	Caroline Dodge, Team Leader Information Resilience & Transparency	May 2018

To: Governance & Audit Committee

From: Mike Hill, Cabinet Member, Community Services
Barbara Cooper, Corporate Director, Growth, Environment & Transport

Date: 19 July 2017

Subject: RIPA report on surveillance, covert human intelligence source and telecommunications data requests carried out by KCC between 1 April 2016 – 31 March 2017

Classification: Unrestricted

FOR ASSURANCE

Summary This report outlines work undertaken by KCC Officers on surveillance, the use of covert human intelligence sources (CHIS) and access to telecommunications data governed by the Regulation of Investigatory Powers Act 2000 (RIPA) during the 2016/17 business year.

Recommendations Members are asked to note for assurance the use of the powers under RIPA during the period and the RIPA policy.

---

1. Background

1.1 The document sets out the extent of Kent County Council's use of covert surveillance, covert human intelligence sources and access to telecommunications data. The County Council wishes to be as open and transparent as possible, to keep Members and senior officers informed and to assure the public these powers are used only in a 'lawful, necessary and proportionate' manner.

1.2 To achieve transparency and in accordance with the Codes of Practice, an annual report outlining the work carried out is submitted by the Senior Responsible Officer (SRO) to an appropriate Committee. The last report was submitted and approved by the Governance and Audit Committee on 27th April 2016.

2 What this report covers

2.1 Covert Surveillance – Surveillance which is intended to be carried out without the person knowing and in such a way that it is likely that private information may be obtained about a person (not necessarily the person under surveillance). Local authorities are only permitted to carry out certain types of covert surveillance and for example cannot carry out surveillance within or into private homes or vehicles (or similar "bugging" activity).

2.2 Covert Human Intelligence Source (CHIS) – the most common form is an officer developing a relationship with an individual without disclosing that it is being done on behalf of the County Council for the purpose of an investigation. In most cases this would be an officer acting as a potential customer and talking to a trader about the goods / services being offered for sale. Alternatively, a theoretical and rare occurrence would be the use of an 'informant' working on behalf of an officer of the Council. In such cases, due to the potential increased risks, KCC has agreed a memorandum of understanding with Kent Police.

2.3 Access to telecommunications data – Local authorities can have limited access to data held by telecommunications providers. Most commonly this will be the details of the person or business who is the registered subscriber to a telephone number. Local authorities are not able to access the content of communications and so cannot "bug" telephones or read text messages.

2.4 In each of the above scenarios an officer is required to obtain authorisation from a named senior officer before undertaking the activity. This decision is logged in detail, with the senior officer considering the lawfulness, necessity and proportionality of the activity proposed and then completing an authorisation document.

After authorisation has been granted (if it is) the officer seeking to use the powers applies for judicial approval and attends a Magistrates' Court to secure this.

For surveillance and CHIS the approval document is then held on a central file. There is one central file for KCC, held on behalf of the Corporate Director, Growth, Environment and Transport, which is available for inspection by the Office of the Surveillance Commissioners. For telecommunications authorisations KCC uses the services of the National Anti-Fraud Network (NAFN) to manage applications and keep our records. This was on the advice of the Interception of Communications Commissioner's Office (IoCCO). Any inspection of this type of approval carried out by IoCCO is conducted at the offices of NAFN.

3 RIPA work carried out between 1 April 2016 – 31 March 2017

Total number of authorisations granted for 2016/17 (figure for 2015/16 in brackets):

Surveillance – 5 (3)

Covert human intelligence source (CHIS) – 2 (1)

Access to telecommunications data – 7 (9)

4. Purposes for which RIPA powers used

Sale of counterfeit goods
3 Surveillance authorisations, 2 CHIS authorisations and 2 access to communications data authorisations were granted for the purpose of investigating the crime of selling counterfeit goods. One case has been concluded by means of a formal warning and destruction of the goods, another is currently before the courts.

Doorstep frauds
4 access to communications data authorisations were granted for the purpose of investigating crimes associated with fraud conducted at home owners' doorsteps. The crimes include fraud and money laundering.
A number of cases are currently before the courts or are still under investigation.

Sales of age restricted good to children
2 surveillance authorisations were granted for the purpose of investigating the crime of selling age restricted goods, including tobacco, alcohol and e-cigarette liquids to children. These offences are specifically defined as "serious offending" to permit the use of RIPA techniques.

Unsafe storage of fireworks
1 access to communications data authorisation was granted to investigate the unsafe and excessive storage of explosives in the form of fireworks. The defendants pleaded guilty in court and were fined a total of £12000 with a further £2600 in costs.

5. Results from previous authorisations

A repeat seller of counterfeit goods was convicted and sentenced to 120 days imprisonment (suspended) and £1000 contribution to prosecution costs.

6. Reportable errors

These are errors which are required, by law, to be reported to the oversight commissioners for either surveillance or communications data requests. The errors can include those made by KCC or those made by third parties including communications data providers.

No reportable errors have been made in relation to KCC authorisations this year.

7. Other errors

Two non-reportable errors have occurred during this period.

In the first case a surveillance authorisation was properly granted and approved by the court. The officer conducting the surveillance, however, acted outside of the authorisation due to an error in use of the covert recording equipment, meaning that activity was recorded when the officer believed the equipment was switched off. This was identified by the team manager who stopped the surveillance and destroyed the entire surveillance product recorded. The officer has been re-trained to prevent any recurrence.

In the second case an officer and the authorising manager were unaware of a change to the law which brought the sale of e-cigarette liquids containing nicotine to children within the scope of RIPA. The officer, with the manager's agreement, followed all of the RIPA procedures to prevent or reduce unwarranted intrusion but did not undertake the surveillance activity under the RIPA banner and protections. This would constitute a technical error which did not impact upon citizens’ rights to a private and family life. Both officer and manager are now fully aware of the change to the law and information has been provided to other officers updating them on the legal position with this relatively new offence.

8. KCC RIPA Policy

The statutory codes of practice which cover public authority use of RIPA techniques require that the elected members of a local authority should review the authority’s use of RIPA and set policy at least once per year.

Appendix 1 to this report is KCC’s RIPA policy which has not altered since last reported.

9. Recommendations

Members are asked to note for assurance the use of the powers under RIPA during the period and the RIPA policy.

Contact Officer
Mark Rolfe
Head of Kent Scientific Services
8 Abbey Wood Road
Kings Hill
West Malling ME19 4YT

Tel : 03000 410336
Email : mark.rolfe@kent.gov.uk

Kent County Council

Policy in relation to the Regulation of Investigatory Powers Act 2000

Contents

1. Introduction to Regulation of Investigatory Powers

This policy document is based on the requirements of the Regulation of Investigatory Powers Act 2000 (RIPA) as amended, The Protection of Freedoms Act 2012 and the Home Office's Code of Practices for Directed Surveillance, Covert Human Intelligence Sources (CHIS) and Acquisition and Disclosure of Communications data.

Links to the above documents can be found at:
http://www.legislation.gov.uk/ukpga/2000/23/contents
http://www.legislation.gov.uk/ukpga/2012/9/contents
https://www.gov.uk/government/collections/ripa-codes

1.1 Surveillance plays a necessary part in modern life and law enforcement. It is used not just in the targeting of criminals, but also as a means of preventing crime and disorder. The Regulation of Investigatory Powers Act 2000 (RIPA) introduced a system of authorisation and monitoring of activities, to ensure that the rights of the individual were not unnecessarily compromised, in the pursuance of regulatory compliance.

1.2 Within the County Council, Trading Standards Officers may need to covertly observe and then visit a shop, business premises, website, social media page or to follow a vehicle as part of their enforcement functions. During a visit or a test purchase situation it may be necessary to covertly video record a transaction, as it takes place. Environmental crime enforcement staff may also need to observe or record at places where illegal tipping or other similar crimes take place. Similarly, KCC's Internal Audit fraud investigators may need to carry out covert surveillance or acquire communications data when they are investigating a crime which they intend to prosecute using the criminal law. They need to use covert surveillance techniques as part of their official duties.

1.3 Only those officers designated as "authorising officers" from the specified units or services are permitted to authorise the use of techniques referred to in RIPA. Trading Standards may use Covert Directed Surveillance, Covert Human Intelligence Sources and acquisition of communications data. Environmental Crime enforcement team may use Covert Directed Surveillance and acquisition of communications data. Internal Audit fraud investigators may use Covert Directed Surveillance and acquisition of communications data. The Director of Governance and Law may also be designated as an "authorising officer".

1.4 Covert Directed Surveillance is undertaken in relation to a specific investigation or operation, where the person or persons subject to the surveillance are unaware that it is, or may be, taking place. The activity is also likely to result in obtaining private information about a person, whether or not it is specifically for the purpose of the investigation.

1.5 Our investigations may also require the use of Covert Human Intelligence Sources (CHIS). These may be under-cover officers, agents or informants. Such sources may be used by the County Council to obtain and pass on information about another person, without their knowledge, as a result of establishing or making use of an existing relationship. This clearly has implications as regards the invasion of a person's privacy and is an activity which the legislation regulates. A CHIS (other than our own staff) would be used only rarely and in exceptional circumstances.

1.6 The RIPA also requires a similar control and authorisation procedure to be in place in respect to the acquisition of telecommunications data. The County Council needs to comply with these requirements when obtaining telephone or internet subscriber, billing and account information.

1.7 In addition, the Act put in place an Office of Surveillance Commissioners, and the Interception of Communications Commissioner's Office, whose duties are, respectively, to inspect those public bodies undertaking covert surveillance and the acquisition of communications data, and introduced an Investigatory Powers tribunal to examine complaints that human rights may have been infringed.

2. Policy Statement

2.1 Kent County Council will not undertake any activity defined within the Regulation of Investigatory Powers Act 2000 without prior authorisation from a trained, senior officer who is empowered to grant such authorisations.

2.2 The Corporate Director of Growth, Environment and Transportation has been appointed as the Senior Responsible Officer (SRO) and, as such, has been given authority to appoint Authorising Officers (for surveillance activities) and Designated Persons (for the purposes of access to communications data) under the Act. The SRO is a member of the corporate leadership team currently called Corporate Management Team.

2.3 The Authorising Officer or Designated Person will not authorise the use of surveillance techniques, CHIS or access to communications data unless the authorisation can be shown to be necessary for the purpose of preventing or detecting crime or of preventing disorder.

2.4 In addition, the Authorising Officer or Designated Person must believe that the surveillance, use of CHIS or obtaining of communications data is lawful, necessary and proportionate to what it seeks to achieve. In making this judgment, the officer will consider whether the information can be obtained using other methods and whether efforts have been made to reduce the impact of the surveillance or intrusion on other people, who are not the subject of the operation.

2.5 Applications for authorisation of surveillance or the use of a CHIS will, except in an emergency where legislation permits, be made in writing on the appropriate form (see Annexes 1 or 2 for example forms).

2.6 Intrusive surveillance operations are defined as activities using covert surveillance techniques, on residential premises, or in any private vehicle, which involves the use of a surveillance device, or an individual, in such a vehicle or on such premises. Kent County Council officers are NOT legally entitled to authorise or undertake these types of operations. Operations must not be carried out where legal consultations take place, at the places of business of legal advisors or similar places such as courts, Police stations, prisons or other places of detention.

2.7 Public bodies are permitted to record telephone conversations, where one party consents to the recording being made and a directed surveillance authorisation has been granted. On occasions, officers of the Trading Standards Service do need to record telephone conversations, to secure evidence.

2.8 It is the policy of this authority to be open and transparent in the way that it works and delivers its services. To that end, a well-publicised KCC Complaints procedure is in place and information on how to make a complaint to the Investigatory Powers Tribunal will be provided on request being made to the SRO or Authorising Officer.

3. Internet and social media investigations

3.1 On-line communication has grown and developed significantly over recent years. The use of this type of communication in the commission of crime is a recognised aspect of routine investigations.

3.2 Observing an individual's lifestyle as shown in their social media pages or securing subscriber details for e-mail addresses is covered by the same considerations as off-line activity.

3.3 Staff using the internet for investigative purposes must not, under any circumstances, use their personal equipment or their personal social media or other accounts.

3.4 KCC will provide equipment not linked to its servers for this purpose and will maintain a number of "legends" (false on-line personalities) for use in investigations. A register of all such legends will be maintained by the Trading Standards Service.

3.5 Under no circumstances will a legend include personal details of any person known to be a real person, including their photograph, or a name known to be linked to the subject of the covert technique.

3.6 A log will be maintained by the Trading Standards Service of the use of each legend. The log will include details of the user, time, date and enforcement purpose for which the legend is used. The log will be updated each time a legend is used.

3.7 It is unlikely that the viewing of open source data will amount to obtaining private information and it is therefore unlikely that an authorisation will be required. If in doubt, the investigating officer should consult a RIPA Authorising Manager.

3.8 Where data has restricted access (e.g. where access is restricted to "friends" on a social networking site), an application for CHIS and, if appropriate, directed surveillance should be made before any attempt to circumvent those access controls is made.

4. Obtaining Authorisation

4.1 The SRO shall designate by name one or more Directors, Heads of Service, Service Managers or equivalent to fulfil the role of Authorising Officer (for the purposes of Surveillance and CHIS authorisation) and Designated Person (for the purposes of access to communications data). The SRO shall maintain a register of the names of such officers.

4.2 Where the CHIS is a juvenile or a vulnerable person, or there is the likelihood that the information acquired by covert surveillance will be Confidential Information (see Glossary), then the authorisation must be from the Head of Paid Service or, in his absence, a Corporate Director nominated by the Head of Paid Service to deputise for him. In the event of such circumstances, the Director of Governance and Law shall also be informed.

4.3 Authorisations from the Authorising Officer for directed surveillance or to use a CHIS shall be obtained using the appropriate application form (see annexes 1 and 2 for example forms). Also see Section 12 in relation to CHIS.

4.4 Applications for access to communications data shall be made to the Designated Person using the system provided by the National Anti-Fraud Network.

4.5 Guidance for completing and processing the application forms is attached (annexes 3 or 4). Guidance for use of the NAFN portal is published and updated on that website.

4.6 If authorisation is granted by the Authorising Officer, the applicant, or a suitably experienced officer nominated by the applicant, will make the necessary arrangements to secure judicial approval of the authorisation in compliance with the requirements of the Protection of Freedoms Act 2012. This requires the applicant, or their nominee, to attend a Magistrates' Court and seek an approval order.

5. Duration of authorisations

5.1 All records shall be kept for at least 3 years.

5.2 A written authorisation (unless renewed) will cease to have effect at the end of the following periods from when it took effect:

a) Directed Surveillance - 3 months
b) Conduct and use of CHIS - 12 months

6. Reviews

6.1 Regular review of authorisations and notices shall be undertaken by the relevant Authorising Officer to assess the need for the surveillance or notice to continue. The results of the review shall be recorded on the central record of authorisations (see annexes 1 or 2 for review forms). Where surveillance provides access to Confidential Information or involves collateral intrusion, particular attention shall be given to the review for the need for surveillance in such circumstances.

6.2 In each case, the Authorising Officer shall determine how often a review is to take place, and this should be as frequently as is considered necessary and practicable.

7. Renewals

7.1 If, at any time, an authorisation or notice ceases to have effect and the Authorising Officer considers it necessary for the authorisation or notice to continue for the purposes for which it was given, s/he may renew it, in writing, for a further period of:

- three months – directed surveillance
- twelve months – use of a CHIS
- one month – access to communications data
- (see annexes 1 or 2 for examples of renewal forms)

7.2 A renewal takes effect at the time at which the authorisation would have ceased to have effect but for the renewal. An application for renewal should not be made until shortly before the authorisation period is drawing to an end. Any person who would be entitled to grant a new authorisation can renew an authorisation. Authorisations may be renewed more than once provided they continue to meet the criteria for authorisation.

8. Cancellations

8.1 The Authorising Officer who granted or last renewed the authorisation or notice must cancel it if s/he is satisfied that the Directed Surveillance or the use or conduct of the Covert Human Intelligence Source no longer meets the criteria for which it was authorised (see annexes 1 or 2 for examples of cancellation forms). When the Authorising Officer is no longer available, this duty will fall on the person who has taken over the role of Authorising Officer or the person who is acting as Authorising Officer.

8.2 As soon as the decision is taken that Directed Surveillance should be discontinued or the use or conduct of the CHIS no longer meets the criteria for which it was authorised, the instruction must be given to those involved to stop all surveillance of the subject or use of the CHIS. The authorisation does not 'expire' when the activity has been carried out or is deemed no longer necessary. It must be either cancelled or renewed. The date and time when such an instruction was given should be recorded in the central register of authorisations and the notification of cancellation where relevant.

9. Central Register and Oversight by Senior Responsible Officer

9.1 A copy of any authorisation, any renewal or cancellation (together with any supporting information relevant to such authorisation or cancellation) shall be forwarded to the SRO within 5 working days of the date of the application, authorisation, notice, renewal or cancellation.

9.2 The SRO shall:

(a) keep a register of the documents referred to in paragraph 8.1 above;
(b) monitor the quality of the documents and information forwarded;
(c) monitor the integrity of the process in place within the Council for the management of CHIS;
(d) monitor compliance with Part II of the RIPA and with the Codes;
(e) oversee the reporting of errors to the relevant Oversight Commissioner and the identification of both the cause(s) of errors and the implementation of processes to minimise repetition of errors;
(f) engage with the OSC inspectors when they conduct their inspections, where applicable; and
(g) where necessary, oversee the implementation of post-inspection action plans approved by the relevant Oversight Commissioner.

10. Training

10.1 The Authorising Officers and Designated Persons shall be provided with training to ensure awareness of the legislative framework.

11. Planned and Directed Use of KCC CCTV Systems

11.1 KCC's CCTV systems shall not be used for Directed Surveillance, without the SRO or other senior legal officer confirming to the relevant operational staff that a valid authorisation is in place.

12. Special Arrangements

12.1 The use of a CHIS can present significant risk to the security and welfare of the person. Each authorisation will have a specific documented risk assessment and the CHIS (and all members of any support team) will be briefed on the details of the assessment. Kent County Council has a Memorandum of Understanding with Kent Police for circumstances where the CHIS are not an employee or other agent working for or on behalf of the authority. In other circumstances such as a member of public, "whistle-blower" or informant then Kent Police will handle the operation of the CHIS. Kent Police will ensure the compliance with the Regulations, codes of practice and all other risks such as the security and welfare of the CHIS (and associated persons). Any necessary and relevant information will be provided following best practise as to not risk identifying CHIS unless this is appropriate and approved by Kent Police. In such cases, Kent Police are responsible for all records and monitoring processes.

13. Oversight

13.1 The SRO shall ensure that this policy is reviewed on an annual basis by presenting a report of activity to the Governance and Audit Committee (or similar Committee). There shall also be brief details of all activity under this policy provided to the SRO and shared with the appropriate Cabinet Member on a quarterly basis.

13.2 Every two years the Director of Governance and Law will review the policy, and also contact a senior manager in all other units and services within Kent County Council to inform of any changes or alterations. The communication will also seek to highlight the details of the restrictions imposed by RIPA and Human Rights legislation. Should any unit or service (other than those permitted by this policy) consider that any actions it may have taken (or are considering taking) might infringe this policy, they must be raised with the Director of Governance and Law as soon as practicable.

Glossary

"Confidential information" consists of matters subject to legal privilege, confidential personal information, or confidential journalistic material.

"Directed Surveillance" is defined in section 26 (2) of RIPA as surveillance which is covert, but not intrusive (i.e. takes place on residential premises or in any private vehicle), and undertaken:

(a) for the purpose of specific investigation or specific operation;
(b) in such a manner is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation); and
(c) otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation under Part II of RIPA to be sought for the carrying out of the surveillance.

"A person is a Covert Human Intelligence Source" if:

- he establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything within paragraph (b) or (c);
- he covertly uses such a relationship to obtain information or to provide access to any information to another person; or
- he covertly discloses information obtained by the use of such a relationship, or as a consequence of the existence of such a relationship.

(See section 26 (8) of RIPA)

"Communications Data is:- (a) any traffic data comprised in or attached to a communication (whether by the sender or otherwise) for the purposes of any postal service or telecommunication system by means of which it is being or may be transmitted; (NOT AVAILABLE TO LOCAL AUTHORITIES)
(b) any information which includes none of the contents of a communication (apart from any information falling within paragraph (a)) and is about the use made by any person-
(i) of any postal service or telecommunications service; or
(ii) in connection with the provision to or use by any person of any telecommunications service, of any part of a telecommunication system;
(c) any information not falling within paragraph (a) or (b) that is held or obtained, in relation to persons to whom he provides the service, by a person providing a postal service or telecommunications service.

Annex 1 – Surveillance forms

Application for Authorisation to Carry Out Directed Surveillance

Review of Directed Surveillance Authorisation

Cancellation of a Directed Surveillance Authorisation

Application of Renewal of a Directed Surveillance Authorisation

(Forms available at http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/)

Annex 2 – Covert Human Intelligence forms

Application for Authorisation of the Use or Conduct of a Covert Human Intelligence Source

Review of a Covert Human Intelligence Source Authorisation

Cancellation of an Authorisation for the use of or Conduct of a Covert Human Intelligence Source

Application for renewal of a Covert Human Intelligence Source Authorisation

(Forms available at http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/)

Annex 3 - Guidance on completing surveillance forms

Details of Applicant

Details of requesting officer's work address and contact details should be entered.

Details of Application

1. **Give rank or position of authorising officer in accordance with the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2003; No. 3171**

   Fill in details of Authorising Officer (see paras 3.1 and 3.2 of Policy)

2. **Purpose of the specific operation or investigation**

   Outline what the operation is about and what is hoped to be achieved by the investigation. Indicate whether other methods have already been used to obtain this information. Give sufficient details so that the Authorising Officer has enough information to give the Authority e.g. "Surveillance at Oakwood House and Mr. X".

3. **Describe in detail the surveillance operation to be authorised and expected duration, including any premises, vehicles or equipment (e.g. camera, binoculars, recorder) that may be used**

   Give as much detail as possible of the action to be taken including which other officers may be employed in the surveillance and their roles. If appropriate append any investigation plan to the application and a map of the location at which the surveillance is to be carried out.

4. **The identities, where known, of those to be subject of the directed surveillance**

5. **Explain the information that it is desired to obtain as a result of the directed surveillance**

   This information should only be obtained if it furthers the investigation or informs any future actions

6. **Identify on which grounds the directed surveillance is necessary under section 28(3) of RIPA**

   The ONLY grounds for carrying out Directed Surveillance activity is for the purpose of preventing or detecting crime or of preventing disorder.

   This can be used in the context of local authority prosecutions, or where an employee is suspected of committing a criminal offence e.g. fraud.

7. **Explain why this directed surveillance is necessary on the grounds you have identified (code chapter 3)**

   Outline what other methods may have been attempted in an effort to obtain the information and why it is now necessary to use surveillance.

8. **Supply details of any potential collateral intrusion and why the intrusion is unavoidable (code chapter 3) Describe precautions you will take to minimise collateral intrusion**

   Who else will be affected by the surveillance, what steps have been done to avoid this, and why it is unavoidable?

9. **Explain why the directed surveillance is proportionate to what it seeks to achieve. How intrusive might it be on the subject of surveillance or on others? And why is this intrusion outweighed by the need for surveillance in operational terms or can the evidence be obtained by any other means? [Code chapter 3]**

   If the Directed Surveillance is necessary, is it proportionate to what is sought to be achieved by carrying it out? This involves balancing the intrusiveness of the activity on the target and others who may be affected by it against the need for the activity in operational terms. Reasons should be given why what is sought justifies the potential intrusion on the individual's personal life and his privacy. The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means.

10. **Confidential information (Code chapter 4)**

    Will information of a confidential nature be obtained (i.e. communications subject to legal privilege, or communications involving confidential personal information and confidential journalistic material) if so the appropriate level of authorisation must be obtained (see para 3.2 of the Policy).

12. **Authorising Officer's Statement**

13. **Authorising Officer's comments**

    Must be completed outlining why it is proportionate and why he/she is satisfied that it is necessary.

Annex 4 - Guidance on completing Covert Human Intelligence forms

<u>Details of Application</u>

1. **Authority Required**
   Fill in details of Authorising Officer (see paras 4.1 and 4.2 of the Policy)

   Where a vulnerable individual or juvenile source is to be used, the authorisation MUST be given by the Head of Paid Service or, in their absence, the Corporate Director deputising for them.

2. **Describe the purpose of the specific operation or investigation**

   Sufficient details so that the Authorising Officer has enough information to give Authority. Outline what the operation is about and the other methods used already to obtain this information.

3. **Describe in detail the purpose for which the source will be tasked or used**

   Give as much detail as possible as to what the use of the source is intended to achieve.

4. **Describe in detail the proposed covert conduct of the source or how the source is to be used**

   Describe in detail the role of the source and the circumstances in which the source will be used

5. **Identify on which grounds the conduct or the use of the source is necessary under Section 29(3) of RIPA**

   The ONLY grounds for carrying out Directed Surveillance activity is for the purpose of preventing or detecting crime or of preventing disorder

6. **Explain why this conduct or use of the source is necessary on the grounds you have identified (Code chapter 3)**

   Outline what other methods may have been attempted in an effort to obtain the information and why it is now necessary to use surveillance for the investigation.

7. **Supply details of any potential collateral intrusion and why the intrusion is unavoidable (Code chapter 3)**

   Who else will be affected, what steps have been done to avoid this, and why it is unavoidable?

8. **Are there any particular sensitivities in the local community where the source is to be used? Are similar activities being undertaken by other public authorities that could impact on the deployment of the source? (see Code chapter 3)**

   Ensure that other authorities such as the police or other council departments are not conducting a parallel investigation or other activity which might be disrupted.

9. Provide an assessment of the risk to the source in carrying out the proposed conduct (see Code chapter 6)

A risk assessment will have to be carried out to establish the risks to that particular source, taking into account their strengths and weaknesses. The person who has day to day responsibility for the source and their security (the 'Handler') and the person responsible for general oversight of the use made of the source (the 'Controller') should be involved in the risk assessment.

10. Explain why this conduct or use of the source is proportionate to what it seeks to achieve. How intrusive might it be on the subject(s) of surveillance or on others? How is this intrusion outweighed by the need for a source in operational terms, and could the evidence be obtained by any other means? [Code chapter 3]

If the use of a Covert Human Intelligence Source is necessary, is it proportionate to what is sought to be achieved by carrying it out? This involves balancing the intrusiveness of the activity on the target and others who may be affected by it against the need for the activity in operational terms. Reasons should be given why what is sought justifies the potential intrusion on the individual's personal life and his privacy. The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means.

11. Confidential information (Code chapter 4). Indicate the likelihood of acquiring any confidential information

Will information of a confidential nature be obtained (i.e. communications subject to legal privilege, or communications involving confidential personal information and confidential journalistic material) if so the appropriate level of authorisation must be obtained (see para 3.2 of the Policy).

13. Authorising Officer's comments

Must be completed outlining why it is proportionate and why he/she is satisfied that it is necessary to use the source and that a proper risk assessment has been carried out.